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Cash VS. Accrual Accounting for Freelancers: An Analysis from the UAE Corporate Tax Perspective

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Research Background

- Introduction of corporate tax in the UAE (effective June 1, 2023) represents a major shift in the country's fiscal policy, particularly impacting freelancers.
- Freelancers earning more than AED 375,000 per year are now subject to corporate tax, making accounting method selection critical.
- Choice between cash and accrual accounting directly affects taxable income, cash flow management, and compliance.
- This study addresses the growing need for informed accounting decisions in the evolving tax environment.



Research Objectives

- Primary objective is to evaluate the suitability of cash basis and accrual accounting for freelancers under UAE corporate tax.
- Examine how different visa categories (Freelance, Golden, Investor) influence accounting preferences.
- Assess the impact of accounting methods on tax liability, financial reporting, and business planning.
- Provide recommendations for freelancers.

Theoretical Framework

- Study is grounded in accounting theory and taxation principles related to revenue recognition and financial reporting.
- Cash accounting records transactions based on actual cash flow, while accrual accounting recognizes income and expenses when earned or incurred.
- Existing studies highlight that cash accounting suits irregular income patterns, whereas accrual accounting provides a more accurate long-term financial picture.
- Studies also emphasizes the growing complexity of tax compliance in the GCC region.



Research Methodology

- Study adopts a qualitative research approach using content analysis of tax regulations, academic literature, and UAE Federal Tax Authority guidelines.
- Data is supplemented through case studies and interviews with five freelancers and two tax consultants in the UAE.
- Thematic analysis is used to identify patterns in accounting choices and their tax implications.



Key Findings

- Cash basis accounting is more suitable for freelancers with irregular income and short-term visas, as it is simpler and aligns with cash flow.
- Accrual accounting is preferred by freelancers with long-term or investment-oriented visas, as it offers better financial accuracy and supports business growth.
- Visa type significantly influences accounting choice by shaping financial stability and planning horizons.
- Each method presents trade-offs between simplicity, accuracy, and tax timing.



Academic Contribution

- Contributes to the limited literature on UAE corporate tax and its implications for freelancers.
- Introduces a novel perspective by linking accounting method selection with visa categories and financial behaviour.
- Provides practical guidance for freelancers to optimize tax compliance and financial management.
- Opens avenues for future research, particularly quantitative analysis of tax impacts across industries.