

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

Manuel Fernandez¹ 
Robinson Joseph²

¹EM Normandie Business School, Métis Lab, Dubai, United Arab Emirates.
²School of Business, Horizon University College, Ajman, United Arab Emirates.
Email: qln_manuel@yahoo.com
Email: mrobinjose@gmail.com
(Corresponding Author)

Abstract

The introduction of corporate tax in the UAE marks a significant development in the nation's fiscal landscape, prompting freelancers to reassess their accounting practices. This study explores the critical decision between cash basis and accrual accounting for freelancers operating under the UAE corporate tax regime. By analysing the impact of different visa categories, including the Freelance Visa, Golden Visa, and Investor Visa, the study evaluates which accounting method aligns best with the financial structure, business goals, and compliance needs of freelancers. The findings suggest that freelancers with irregular cash flows and short-term visas benefit from the simplicity and liquidity management offered by cash basis accounting, which aligns taxable income with actual cash receipts. Conversely, freelancers with long-term or investment-focused visas are better suited to accrual accounting, which provides a more accurate representation of earnings and expenses over time, crucial for business growth and financial planning. This study contributes to the ongoing discussion on tax compliance and accounting strategies in the UAE, providing valuable insights into how freelancers can optimise their tax obligations and enhance business performance. The paper concludes by addressing the limitations of the research and recommending areas for further exploration, particularly in relation to quantitative analysis of tax impacts across different freelance industries.

Keywords: Accounting methods, Accrual accounting, Cash accounting, Freelancers, GCC, Middle east, Tax compliance, UAE corporate tax.

1. Introduction

Taxation forms the backbone of government revenue worldwide, enabling the funding of public services, infrastructure development, and national welfare initiatives. Taxes can be classified broadly into different categories, including income tax, corporate tax, value-added tax (VAT), excise duties, and customs duties. Corporate tax, in particular, plays a crucial role in regulating businesses by requiring entities that generate profits to contribute a portion of their income to the state's coffers.

Corporate tax is a levy imposed on the profit of a corporation. This type of tax is typically calculated based on the corporation's net income, which is the total income after deducting allowable expenses and other deductions. Corporate taxes are applied to entities of varying sizes, ranging from multinational companies to small and medium-sized enterprises (SMEs). The tax rate can vary from country to country and is designed to ensure that businesses contribute to the economic framework while maintaining the state's revenue flow. Corporate tax promotes transparency and fosters a competitive business environment by aligning with international taxation standards.

The UAE introduced its federal corporate tax regime, effective as of June 1, 2023, with a standard tax rate of 9% on taxable profits exceeding AED 375,000 (approximately US\$100,000). This initiative marked a significant shift in the UAE's fiscal policy, given that the country had historically maintained a tax-free reputation to attract businesses and expatriates. The implementation of corporate tax was driven by the UAE's efforts to align with global tax practices and comply with international frameworks such as the OECD's Base Erosion and Profit Shifting (BEPS) measures.

Corporate tax applies to all UAE-based legal entities, including mainland companies and branches of foreign companies operating in the UAE. Free zone businesses are also subject to tax, but they can benefit from a 0% tax rate under specific conditions related to economic substance regulations. Freelancers earning over AED 375,000 annually also fall under the purview of the UAE's corporate tax regime, adding a new layer of complexity to their financial management.

The introduction of corporate tax in the UAE has had far-reaching implications for businesses of all sizes, including the fast-growing gig economy, where freelancers operate as independent entities. The choice of accounting method—whether to use cash basis or accrual accounting—has become a pressing issue for freelancers as it affects the timing of income and expenses and, consequently, their tax liability. This study is crucial in

helping freelancers navigate the complexities of corporate tax compliance by examining which accounting method best aligns with their operational structure and financial realities.

As freelancers often face fluctuating income streams and delayed payments, understanding the advantages and disadvantages of cash basis versus accrual accounting is vital for efficient tax management. By exploring this issue, the study contributes to the broader discussion of tax strategy and compliance for freelancers in the UAE's evolving regulatory environment.

2. Theoretical Review

2.1. Taxation and Accounting Methods

Accounting methods play a crucial role in determining tax liabilities, particularly in contexts where revenue recognition varies depending on the method employed. The two primary accounting methods—cash basis and accrual basis—have been extensively studied in the literature regarding their impact on tax calculations and financial reporting. Cash basis accounting records revenues and expenses only when cash transactions occur, making it a simpler and more immediate method of accounting, particularly suited for small businesses and freelancers (Christensen & Demski, 2006). In contrast, accrual accounting records revenues and expenses when they are earned or incurred, regardless of cash flow, which provides a more accurate representation of financial performance over time but introduces complexity into financial reporting (Datar & Rajan, 2023).

Studies have shown that the choice between these methods can significantly impact the reported taxable income. For businesses with fluctuating or seasonal incomes, such as freelancers, the cash basis method often aligns more closely with cash availability, thereby reducing tax burdens during lean periods. However, accrual accounting offers advantages in understanding long-term profitability for those seeking a clearer financial picture over multiple periods, although it may potentially inflate tax liabilities during periods of high accounts receivable.

2.2. Freelancers and Accounting Choices

The rise of the gig economy globally has prompted a surge of interest in how freelancers, as individual economic units, manage their finances and tax obligations. The literature on freelancers' financial practices has tended to emphasise their preference for simpler accounting methods, given their often limited resources and financial expertise. Freelancers often face irregular income streams, with payments being delayed or staggered, which leads to challenges in accurately forecasting tax liabilities under an accrual-based system (Freeland et al., 2025). Several studies indicate that freelancers often gravitate towards cash basis accounting in countries with developing tax systems or those newly introducing corporate taxes due to its simplicity and alignment with actual cash flow.

However, evidence from more advanced economies suggests that accrual accounting, though complex, can be beneficial for freelancers seeking to scale their operations and project a more professional financial image (Dechow & Dichev, 2002; Goncharov & Jacob, 2014; Choudhary et al., 2016). For instance, accrual accounting enables freelancers to match their income and expenses with the periods in which they are incurred, providing more strategic insights into their financial health; however, it also introduces greater accounting burdens.

2.3. Corporate Tax in the Middle East and GCC

The GCC region has historically maintained minimal tax regimes to attract foreign investment and expatriate professionals (Fernandez & Sudheer, 2006; Fernandez, et. al., 2025). However, since 2018, with the introduction of VAT and now corporate tax, the tax landscape has shifted considerably (Alsharari et al, 2023). Literature examining corporate tax in the Middle East is still emerging, but there is growing recognition of the need for businesses to adapt to more formalised tax structures.

Several studies have explored how SMEs and freelancers in the region are responding to these changes. In the UAE, specifically, corporate tax legislation was implemented as part of efforts to diversify the economy, reduce reliance on oil revenues, and support the global minimum effective tax rate as proposed by the OECD, thereby gradually integrating the country into the international system. For freelancers, navigating this new tax regime requires careful consideration of accounting methods. Studies from the region suggest that freelancers are likely to benefit from the cash basis method due to its simplicity and better alignment with their often unpredictable cash inflows. However, accrual accounting remains recommended for larger entities or freelancers with more sophisticated financial structures who need to manage complex contracts and payment schedules.

2.4. Cash Basis vs. Accrual Accounting in Tax Contexts

The debate over whether businesses, particularly smaller entities like freelancers, should use cash or accrual accounting for tax purposes is central to this study. Cash basis accounting offers the advantage of simplicity and a direct reflection of cash flow, which is particularly useful for entities with limited resources and irregular income. Studies reveal that cash basis accounting often results in lower taxable income for small businesses, especially during periods of slow cash flow, which can defer tax obligations and improve liquidity.

On the other hand, accrual accounting provides a more accurate long-term financial picture by matching revenues with related expenses. However, this can sometimes lead to higher reported income for freelancers, particularly when services have been provided but not yet paid for. This complexity, combined with the administrative burden, makes accrual accounting less attractive to small-scale freelancers who may not have the resources to manage such intricate reporting.

3. Methodology

This study adopts a qualitative approach to analyse the suitability of the cash basis and accrual accounting methods for freelancers operating under the UAE's corporate tax regime. Given the recent introduction of corporate tax in the UAE and its specific implications for freelancers, the study focuses on a content analysis of existing regulations, tax guidelines, and academic literature. The study also includes insights from case studies

and interviews with freelancers and tax consultants in the UAE, exploring practical applications and preferences regarding accounting methods.

The data collection process involved two primary sources: secondary data and expert opinions. The secondary data includes a thorough review of government-issued tax guidelines, such as those provided by the UAE Federal Tax Authority (FTA), as well as scholarly articles, research papers, and accounting textbooks. These sources offer theoretical insights into accounting methods and tax compliance issues. The secondary data is supplemented by case studies of freelancers in the UAE, gathered from professional consultations and industry reports.

To provide additional practical context, interviews were conducted with five freelancers in the UAE who operate in various industries. These freelancers were selected based on their income levels (above and below the AED 375,000 corporate tax threshold) to ensure a diverse representation of experiences. Interviews were also conducted with two tax consultants specialising in SME and freelance tax compliance in the UAE. These interviews examined how freelancers manage their accounting and tax reporting, as well as the factors influencing their choice of accounting method.

Data analysis followed a thematic approach, identifying key themes related to cash basis and accrual accounting, as well as their relevance to corporate tax compliance. The analysis emphasised how freelancers' financial structures and cash flows influenced their choice of accounting methods. The study also examined the potential tax implications of each method, particularly in relation to revenue recognition and tax liabilities under the UAE's corporate tax laws.

The analysis is structured to compare and contrast cash basis and accrual accounting, considering factors such as simplicity, cash flow management, and compliance with tax regulations. Thematic coding was used to identify common challenges and advantages associated with each method, and these themes were synthesised to derive recommendations for freelancers on which accounting method may be most suitable under the UAE corporate tax regime.

Due to the exploratory nature of the research question, a qualitative research approach was chosen for this study. As the UAE's corporate tax framework is newly implemented and specific data on freelancers' responses is still emerging, qualitative methods provide a more nuanced understanding of freelancers' decision-making processes. Additionally, qualitative interviews facilitate the exploration of practical considerations and real-world challenges that quantitative methods may overlook.

This methodology is appropriate for understanding the subjective experiences of freelancers who face unique financial situations and tax obligations. By focusing on their lived experiences, this study aims to provide actionable insights for freelancers on how to navigate corporate tax compliance effectively.

4. Analysis and Discussions

4.1. Cash Basis Accounting for Freelancers under UAE Corporate Tax

The cash basis of accounting records income and expenses only when cash is actually received or paid, which provides a direct reflection of a freelancer's cash flow at any given time. This method is desirable for freelancers, especially those operating in industries with inconsistent or delayed income streams. In the UAE's corporate tax context, the cash basis method can simplify tax reporting for freelancers, as it directly ties taxable income to the cash available for taxation. Freelancers, who often lack extensive financial resources and dedicated accounting departments, benefit from the simplicity of cash-basis accounting, which aligns tax liabilities more closely with their actual cash flow.

From a compliance standpoint, the UAE's corporate tax regulations do not explicitly mandate which accounting method freelancers must use, allowing them to choose the method that best suits their financial circumstances. Freelancers earning just above the AED 375,000 threshold may benefit from the cash basis method, as it results in lower taxable income during periods of delayed payments, thus deferring tax obligations until the cash is received. This approach particularly favours freelancers on short-term or project-based contracts, where payment schedules may be irregular or spread out over several months.

4.2. Accrual Accounting for Freelancers under UAE Corporate Tax

Accrual accounting, on the other hand, records income when it is earned and expenses when they are incurred, regardless of when the cash is received or paid. This method provides a more accurate financial picture, as it matches revenue with corresponding expenses, offering a clearer view of long-term profitability. For freelancers in the UAE subject to corporate tax, accrual accounting may be more appropriate for those with regular cash inflows or more complex financial arrangements, such as multi-year contracts or ongoing services. The method ensures that revenue is recognised as it is earned, which can be beneficial for freelancers working with clients on retainer or instalment-based payment systems.

Accrual accounting aligns well with the UAE's corporate tax goals of promoting transparency and consistency in financial reporting. Freelancers who work on large projects spanning multiple periods may benefit from this method, as it allows for smoother income recognition, even when cash payments are delayed. However, freelancers opting for accrual accounting must carefully manage their cash flow, as they may incur tax liabilities before actually receiving income, which could strain liquidity during periods of low cash flow.

4.3. Visa Categories in the UAE and Their Impact on Accounting Choices

The UAE offers various visa categories for freelancers and entrepreneurs, each with its duration, renewal policies, and associated requirements. The most common visas for freelancers include the Freelance Visa, Golden Visa, and Investor Visa. Each of these visas influences the freelancer's financial and business outlook, ultimately impacting the choice between cash and accrual accounting.

- *Freelance Visa*: Typically issued for one to three years, this visa is specifically designed for freelancers in sectors such as media, technology, and education (Waheed Abbas, 2022). Freelancers on this visa often work on shorter contracts or project-based assignments, which results in inconsistent cash flow, making the cash basis method more suitable. The simplicity of cash basis accounting aligns with the often unpredictable

payment schedules in these industries, allowing freelancers to defer tax payments until income is received. Furthermore, the relatively short visa period may encourage freelancers to prioritise immediate cash flow management over long-term financial reporting, thereby reinforcing the appeal of the cash basis method.

- *Golden Visa*: This visa is typically issued for five to ten years and is granted to individuals who meet specific criteria, such as those with significant investments, exceptional talents, or high levels of income (Golden Visa Services, n.d.). Freelancers who hold a Golden Visa often have more stable financial situations, as this visa is typically awarded to those who demonstrate substantial economic contributions. For freelancers in this category, accrual accounting may be a better fit due to the more structured and sustained nature of their business operations. The longer visa period encourages long-term financial planning and reporting, while accrual accounting provides a clearer and more accurate representation of income over multiple periods, which may be essential for business expansion, securing loans, or attracting investors.
- *Investor Visa*: Issued to individuals who establish or invest in businesses in the UAE, the Investor Visa is typically valid for three to five years (Investor Residence Application, n.d.). Freelancers under this visa category are often more entrepreneurial and may operate larger-scale freelance businesses. For them, accrual accounting may provide a more effective financial framework, as it enables a more sophisticated approach to financial reporting, which is crucial for managing business investments and liabilities. Accrual accounting's ability to match income with expenses offers clearer insight into the business's performance, making it suitable for freelancers looking to scale their operations or diversify their income streams.

4.4. Comparative Analysis of Cash Basis vs. Accrual Accounting

When comparing cash basis and accrual accounting for freelancers under the UAE corporate tax regime, the choice often depends on the freelancer's visa status and the associated financial stability. Freelancers with short-term visas or those engaged in project-based work may find cash basis accounting advantageous due to its simplicity and direct reflection of cash flow. This method alleviates the burden of tax payments during periods of low income or delayed payments, aligning with the shorter time horizons associated with freelance visas.

In contrast, freelancers with longer-term visas, such as the Golden Visa or Investor Visa, may derive greater benefits from accrual accounting. These visas offer greater financial and business stability, enabling freelancers to focus on long-term financial reporting and tax planning. Accrual accounting allows recognising income as it is earned, which can improve financial management and provide a clearer picture of profitability over time. For freelancers with ongoing projects or recurring revenue streams, accrual accounting is particularly advantageous in tracking long-term performance and ensuring that tax liabilities are managed more predictably.

4.5. Implications for Freelancers under UAE Corporate Tax

Freelancers in the UAE must carefully evaluate their visa status, financial structure, and business goals when deciding between cash-basis and accrual accounting. The flexibility in the UAE's corporate tax regulations allows freelancers to choose the accounting method that best suits their needs. However, this decision has significant implications for tax planning and financial management.

Freelancers on short-term visas with variable cash flows are likely to find the cash basis method more practical, as it simplifies tax reporting and ensures that taxes are only paid on received income. However, those with longer-term visas and more structured financial arrangements may benefit from the accuracy and comprehensive financial picture provided by accrual accounting, which better supports business growth, financial planning, and compliance with the UAE's evolving tax regime.

5. Conclusion

The introduction of corporate tax in the UAE marks a significant shift in the country's fiscal policy, with important implications for freelancers and other self-employed individuals. This study has examined the appropriateness of cash basis and accrual accounting for freelancers from the perspective of the newly introduced corporate tax framework. Both methods offer distinct advantages depending on the freelancer's financial situation, visa status, and long-term business goals.

Freelancers operating under short-term visas, such as the Freelance Visa, often benefit from cash basis accounting due to its simplicity and direct reflection of cash flow. For individuals with irregular income or delayed payments, cash basis accounting aligns tax obligations with actual cash availability, offering a more manageable approach to tax compliance. This method is particularly advantageous for freelancers engaged in project-based or seasonal work, where income streams can be inconsistent and unpredictable.

Conversely, freelancers with long-term visas, such as the Golden Visa or Investor Visa, are better suited to accrual accounting. This method offers a more accurate depiction of financial health by recognising income when earned and matching it with related expenses. Accrual accounting is particularly beneficial for freelancers who have more complex business operations, long-term contracts, or recurring revenue streams, as it enables more effective financial planning, investment management, and compliance with the UAE's corporate tax regulations.

This study is limited by its focus on qualitative data, particularly interviews with freelancers and tax consultants, which may not fully capture the diversity of freelance experiences in the UAE. Additionally, the UAE's corporate tax regime is still in its early stages of implementation, and future changes to tax regulations or visa policies may impact the relevance of the findings. Furthermore, this study focuses specifically on freelancers in the UAE and may not be directly applicable to freelancers in other countries with different tax laws.

Future studies could expand on this study by incorporating quantitative data to analyse the financial impact of cash basis versus accrual accounting on a larger sample of freelancers. Further study could also explore the long-term implications of the UAE's corporate tax on freelancers' business growth and sustainability. Additionally, comparative studies between the UAE and other GCC countries could provide valuable insights into how regional tax policies affect freelancers' accounting choices.

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