

UAE CORPORATE TAX SYNOPSIS - FREE ZONE PERSONS

Version 4.0

Released on 1st June 2024

Preface

This booklet provides a comprehensive summary of the recent legislative changes impacting Free Zone Persons within the United Arab Emirates Corporate Tax framework.

The new regulations, embodied in Cabinet Decision No. 100 of 2023 on Determining Qualifying Income for Qualifying Free Zone Persons and Ministerial Decision No. 265 of 2023 Regarding Qualifying Activities and Excluded Activities, replace the earlier Cabinet Decision No. 55 of 2023 and Ministerial Decision No. 139 of 2023. These changes were issued by the Ministry of Finance on 3rd November 2023, reflecting the UAE's ongoing efforts to refine and enhance its tax policies.

In addition to summarizing these critical decisions, this booklet also incorporates insights from the Federal Tax Authority's Guide [CTGFZP1] for Free Zone Persons, which was released in May 2024. The guide provides further clarifications and detailed guidelines on the implementation of the new Decisions, helping FZPs navigate the updated tax landscape.

Our goal is to offer a clear and concise resource that outlines the essential aspects of these changes, ensuring that Free Zone Persons can effectively understand and comply with the new requirements. Whether you are directly impacted by these regulations or seeking to stay informed about the evolving tax landscape, this booklet serves as a valuable tool for grasping the implications and operational details of the latest Corporate Tax developments in the UAE.



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01.

Who is a Free Zone Person?

A juridical person incorporated, established or otherwise registered in a Free Zone, **including branch of a non-resident person** registered in a Free Zone, shall be considered as a FZP.

Free Zone is a **designated and defined geographic area** within the UAE that is specified in the Decision issued by the Cabinet at the suggestion of the Minister.



Key Takeaways:

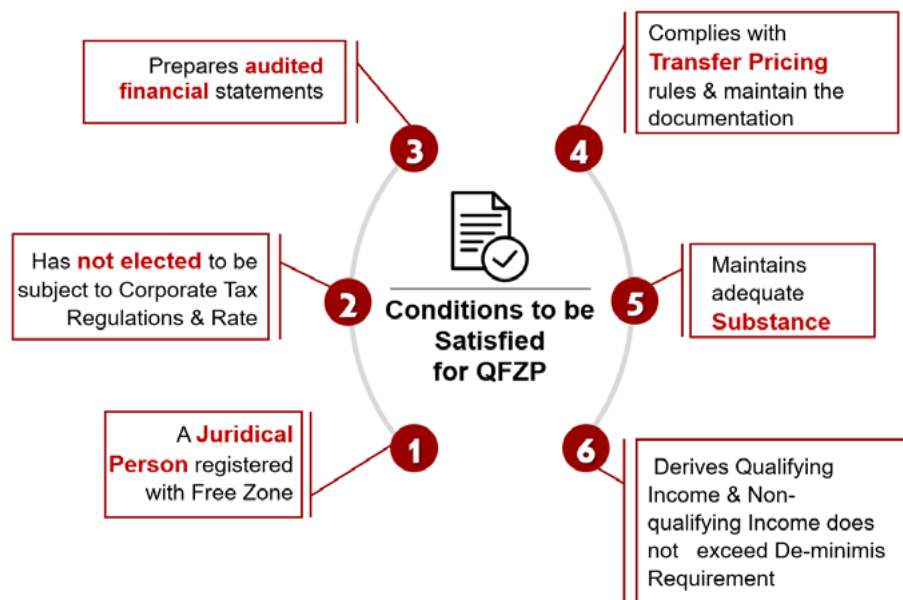
Every Free Zone person should **check with their respective Free Zone Authority** to confirm if they operate in a Free Zone or Designated Zone to avail the benefit of CT @0%.

Designated Free Zone for the purpose of CT is same as Designated Zone listed by the Cabinet Decision for the purpose of VAT.



02.

Requirements to be a Qualified Free Zone Person



FZP must meet **all of the** following conditions to qualify as a QFZP:

1. Entity to be based in a Free Zone

FZP includes Person:

- a. Incorporated/ established/ registered in a Free Zone.
- b. Branch of the UAE / Foreign entity registered in Free Zone.
- c. Free Zone Authorities.
- d. Government Controlled Entities established in Free Zone.

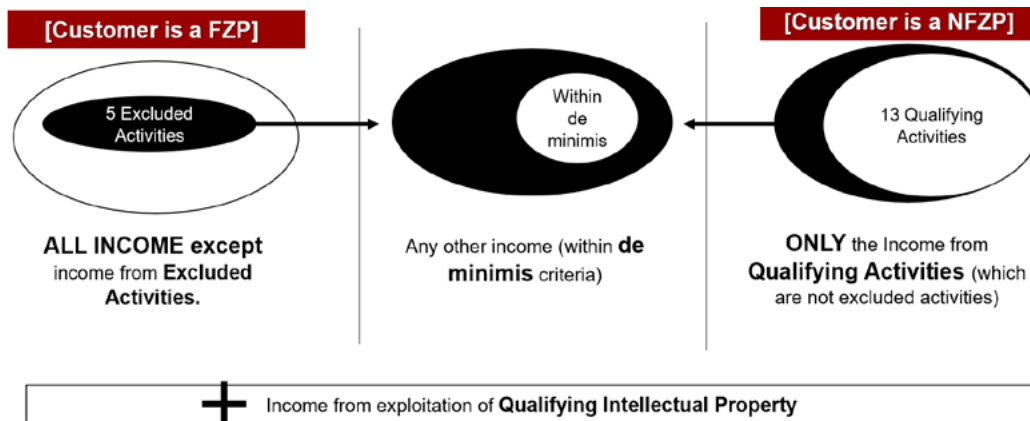
2. Maintain adequate substance in a Free Zone as per Article 8 of CD No. 100 of 2023

- a. Must undertake its core income-generating activities in a Free Zone.
- b. Must have adequate assets & qualified full-time employees.
- c. Incur an adequate amount of operating expenditures in the Free Zone

A FZP may **outsource** its core income-generating activities to other persons located in the same or in another **Free Zone**.

R&D relating to development of Qualifying Intellectual Property can be outsourced to **any Persons in the UAE** or **non-Related Parties outside the UAE**, provided FZP has **adequate supervision** of the outsourced activities.

3. Derive Qualifying Income (Article 3(1) of CD No.100 of 2023)



Qualifying Income **includes** income derived from:

- a. transactions with other FZP, provided the FZPs are the Beneficial Recipient of the transactions and do not relate to excluded activities,
- b. transactions relating to Qualifying Activities that are not Excluded Activities,
- c. the ownership or exploitation of Qualifying Intellectual Property, or
- d. other source, provided the FZP meets the de minimis requirements.

Qualifying Income **excludes** the following:

- a. Income attributable to a Foreign PE,
 - b. Income attributable to a Domestic PE,
 - c. Income from Immovable Property (other than Commercial Property located in a FZ when the income arises from a transaction with a FZP), and
 - d. Income from the ownership or exploitation of intellectual property (other than QI from QIP).
4. **Must not have elected to be subject to the standard CT rules and rates**
A Free Zone Person must not have made an election to subject to standard Corporate Tax rules and rates.
5. **Must comply with the arm's length principle**
FZP must comply with the arm's length principle while transacting with:
- a. Related Parties
 - b. its Foreign Permanent Establishments and
 - c. Its Domestic Permanent Establishments
6. **Must maintain Transfer Pricing documentation**
It is mandatory for a FZP to maintain the TP documentation to demonstrate the arm's length nature of the transactions with its Related Parties and Connected Persons.
- However, requirement to prepare the Master file, Local file, and other Transfer Pricing documentation, considering relevant compliance thresholds (revenue exceeds AED 200 m or it is part of an MNE)
7. **Must maintain Audited Financial Statements**
FZP must prepare and maintain financial statements as per IFRS / IFRS for SMEs as the case applicable. Such financials are required to be audited regardless of the amount of revenue.
8. **Must meet the de minimis requirements**
FZP's **Non-Qualifying Revenue** should not exceed the de minimis requirements i.e., it should be lower of:
- a. AED 5,000,000, or
 - b. 5% of its total Revenue.

Calculation of Total Revenue and Non-Qualifying Revenue can be derived as under:

Calculation of Total Revenue		
	All Revenue as per P&L	XXX
	Less:	
1	Revenue Attributable to Foreign PE*	X
2	Revenue Attributable to Domestic PE*	X
3	Revenue from immovable property located in FZ (other than revenue from commercial property from FZP)	X
4	Revenue derived from ownership or exploitation of IP (other than income from QIP)	X
	Total Revenue	XX

**Determined based on Arm's Length Principle*

Calculation of Non - Qualifying Revenue		
1	Revenue from Excluded Activities	X
2	Revenue from non-qualifying activities	X
3	Revenue from immovable property located in FZ (other than revenue from commercial property from FZP)	X
4	Transaction with FZP where FZP is not beneficial recipient	X
	Non-Qualifying Revenue	XX



Important Concepts



03.a Substance in the Free Zone

A FZP must maintain adequate substance in a FZ (or DZ for distribution activities) throughout the Tax Period.

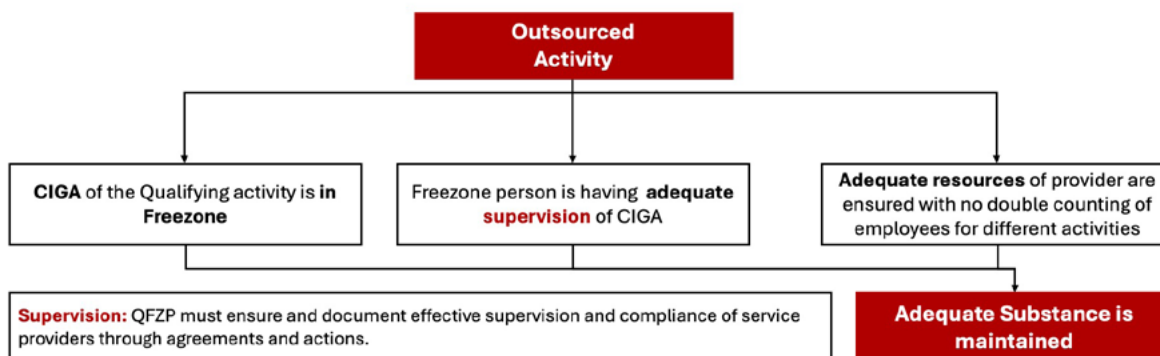
Conducting non-core activities outside Free Zone (activities that do not directly drive sales or are routine in nature) would not impact substance in FZ.

Assessment Criteria for substance:



Assessment Criteria for Outsourced Activities:

- Ensure CIGA is conducted in the Free Zone or Designated Zone, considering the activity undertaken.
- The Free Zone Person is able to monitor, control and demonstrate adequate supervision of the CIGA being undertaken.
- The employees, expenditures, and physical assets of the provider of the outsourced activity are adequate in relation to its activity ensuring no double counting of employees for different activities.



Adequate Supervision:

- A QFZP must establish mechanisms to observe, oversee, assess, instruct, and guide service providers on quality, quantity, and timeliness.
- Adequate supervision should be demonstrated through documentation.
- Documentation includes contractual agreements detailing practical and operational supervision.
- Actual conduct of the parties should confirm the contractual arrangements.

Outsourced activities not adequately supervised will not be considered as performed by the Free Zone Person, impacting the requirement to maintain adequate substance.

Illustrations to determine adequate substance:

Sr. No.	Instances	CIGA	Adequate Substance ?
1	A Distributing Company registered in a FZ having a warehouse in a DZ.	FZ	No
2	Distribution activity with 20 employees (Directors and Managers) making strategic decisions in the DZ and 100 (Distributors) working outside the FZ.	DZ	Yes
3	A fund management Company in FZ merely executes the decisions taken by its foreign company.	Outside FZ	No
4	A FZP is the regional head quarter wherein senior employees operates from office in FZ and also visits various subsidiaries to provide strategic marketing direction.	FZ	Yes
5	FZP undertaking activity of holding of shares and other securities for investment purposes having registered office in FZ with no employees. BOD takes decision in the FZ office.	FZ	Yes
6	FZ having Domestic PE where the sales are through that PE and only day to day business is in FZ.	Outside FZ	No



Key Takeaways:

Adequate Substance to be maintained in FZ or DZ vis-à-vis the activity conducted by FZP ensuring the CIGA is conducted within the FZ or DZ. Maintain adequate assets, employees, and expenditures throughout the year.

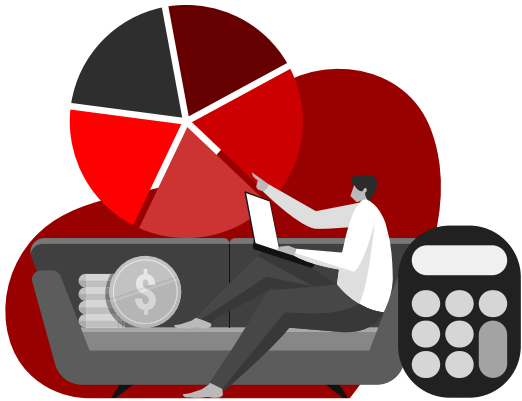
In case of outsourcing, adequate supervision is required to be undertaken from the FZ/DZ and necessary documents are required to be maintained to substantiate the same.



03.b

Concept of Beneficial Recipient

- Beneficial Recipient is a person who has
 - » right to use and enjoy the services or goods and
 - » is not bound by any contractual obligations to supply such services or goods to another person.
- Acting as a conduit or intermediary (for eg an agent or nominee) for a third party (including a Related Party or group entity) shall not constitute Beneficial Recipient.
- Seller or Service provider may rely on a written statement or undertaking from the purchaser (for eg, a contractual stipulation) confirming that the purchaser is the Beneficial Recipient and will use the services or goods for its Free Zone Business.



03.c

Ancillary Activities

Ancillary Activity shall be considered as Qualifying Activity when they are:

- Necessary for the performance of the main activity – support to main activity and seamlessly integrated
- The contribution to the main activity is minor – based on financial contribution compared to the total revenue and activity is closely related to main activity based on facts and circumstances



Key Takeaways:

If an ancillary activity is performed by the FZP without the execution of the main activity, it will not be treated as a Qualifying Activity.



03.d

Foreign / Domestic Permanent Establishment

A Permanent Establishment (PE) is a place of business or other form of presence of a QFZP outside of a FZ.

In accordance with **Article 3 of the Federal Decree Law No. 47 of 2022 read with Article 5 and Article 4 of CD No. 100 of 2023,**

- Income attributable to a Domestic PE or a Foreign PE of the QFZP shall be subject to 9% Corporate tax rate.
- Income generated by Domestic or Foreign PE is not taken into consideration when assessing the de minimis requirements.

Domestic PE

A place of Business or other form of presence of a QFZP outside the Free Zone in the UAE.

As per **Article 14 of Federal Decree Law No. 47 of 2022 read with Article 3 of the CD No. 100 of 2023,** a QFZP creates a Domestic PE when:

- It has a fixed place outside the UAE from where the business of FZP is conducted except for preparatory or auxiliary activities.
- Conducting business through a dependent agent.

Building site, a construction project, or place of assembly or installation shall be considered fixed place PE, if such sites, projects or activities lasts for atleast 6 months (even if not continuous), in consecutive 12 months period.

Other places, would be considered fixed/ permanent, if it is at the disposal of the QFZP for aggregate period of atleast 6 months.

Foreign PE

A place of Business or other form of presence outside the UAE of a QFZP.

As per Article 24 of Federal Decree Law No. 47 of 2022:

A QFZP can choose to exclude the income and related expenses of their Foreign PE in determining its taxable income only if:

- Foreign PE is subject to Corporate Tax or similar tax at a rate not less than 9% under relevant foreign jurisdiction's legislation.

If an option is exercised, the income from Foreign PE shall be exempt from Corporate Tax.

Points to be considered when QFZP had Foreign or Domestic PE:

- The Revenue attributable to the activities performed through the Domestic PE or Foreign PE would not be taken into consideration in determining QFZPs total revenue and non-qualifying revenue in applying the de minimis requirements.
- The income or profits attributable to the Free Zone parent, Foreign or Domestic Permanent Establishment should be consistent with the arm's length principle (follow TP Rules).
- The Free Zone parent would consider the revenue generated from its outputs used by Foreign or Domestic PE as if it had derived from a Non-FZP.
- In applying the Beneficial Recipient rule, a Foreign or Domestic Permanent Establishment would be treated as a Non-FZP.



Key Takeaways:

The UAE Corporate Tax Regime defines PE for QFZP based on maintaining a fixed place of business or conducting business through a dependent agent.

Income from Domestic or Foreign PEs is taxable at a 9% Corporate Tax rate, with exemptions available for Foreign PEs meeting specific conditions.

Where the profits of a Foreign PE are subject to Corporate Tax in the UAE and are also subject to tax in the relevant foreign country where the PE is located, the credit for the taxes paid in foreign jurisdiction can be availed.





04.

Transactions with Free Zone Person

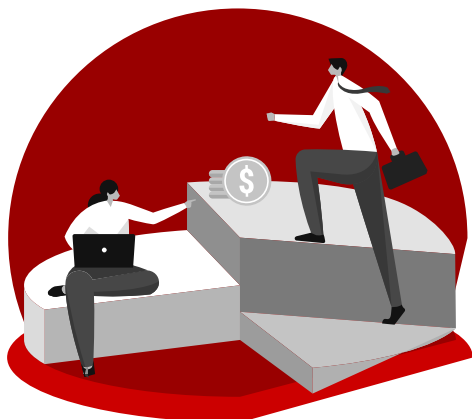
Transactions where FZP is a beneficial recipient of goods or service would be considered as Qualified transaction. However, certain transaction with FZP would not be considered as Qualifying Activities. They are called Excluded Activities.

Revenue from Excluded Activity is treated as Non-Qualifying Revenue.

The following activities are **Excluded Activities (Article 2(2) of MD No. 265 of 2023)**:

- a. Any transactions with natural persons, except transactions in relation to:
 - ownership, management and operation of Ships,
 - fund management services (subject to the UAE regulatory oversight),
 - wealth and investment management services (subject to the regulatory oversight),
 - financing and leasing of Aircraft

[Sale made by a restaurant in the Free Zone to a corporate customer in the Free Zone is not excluded activity.]
- b. Banking activities - activities specified under Article 65 of Federal Decree Law No. 14 of 2018
- c. Insurance activities (operations that are regulated under Federal Law No. 6 of 2007), other than:
 - reinsurance services, and
 - captive insurance related activities forming part of headquarter services to Related Parties.
- d. Finance and leasing activities (subject to regulatory oversight), other than:
 - ownership, management and operation of Ships,
 - treasury and financing services to Related Parties, and
 - financing and leasing of Aircrafts
- e. Ownership or exploitation of Immovable Property, **other than**
 - Commercial Property located in a FZ where the transaction in respect of such Commercial Property is conducted with other FZP.
- f. Ancillary activities that are integral or closely connected to each Excluded Activity



05.

Transactions with Non-Free Zone Person

As per **Article 3(1)(b) of CD No. 100 of 2023**, QFZPs can benefit from 0% Corporate Tax rate on income from transaction with Non-FZP, but only in respect of **Qualifying Activities** that are not **Excluded Activities**

List of **Qualifying Activities** as per **Article 2 of MD No. 265 of 2023**:

- a. Manufacturing of goods or materials,
- b. Processing of goods or materials,
- c. Trading of Qualifying Commodities,
- d. Holding of shares and other securities for investment purposes,
- e. Ownership, management, and operation of Ships,
- f. Reinsurance services,
- g. Fund management services,
- h. Wealth and investment management services,
- i. Headquarter services to Related Parties,
- j. Treasury and financing services to Related Parties,
- k. Financing and leasing of Aircraft,
- l. Distribution of goods or materials in or from a Designated Zone, and
- m. Logistics services.
- n. Any Activity that is ancillary to the Qualifying Activities

a. Manufacturing of goods or materials



Manufacturing is a process that includes activities like:

- Creation, Production, Improvement or assembly of products and materials from raw materials or components
- All activities from conception of the product to its end (eg. Production planning, quality control, business plan, capital investment, R&D, etc.)
- Post sale activities and Customer Support can be considered as ancillary activities, provided satisfying conditions of ancillary activity
 - » Repairs are typically classified as service; Manufacturing does not include repairs.
 - » Applicable to contract or toll manufacturing and full-fledged manufacturing.

Goods mean:

- Tangible items or products produced or manufactured for sale or use
- Physical items that serve particular purpose or satisfy want or need
- Intangible items that can be sold separately from a physical asset are not considered as goods, eg: creation of software, ERPs, automation tools, etc.
- Software embedded in hardware would be considered as goods.



Key Takeaways:

- Sale of manufactured material to juridical person in the UAE outside a FZ or to foreign juridical persons shall be considered as Qualifying Activity
- Post sale services done by the FZ company in the premises of end customer could be considered as Ancillary activity.

b. Processing of goods or materials



Processing includes:

- Preparation, treatment, transformation or conversion of goods or materials into another form of goods or materials for further commercial / industrial use or sale
- Post sale activities and customer support can be considered as ancillary activities



Key Takeaways:

Sale of waste created during conversion of raw materials can be considered as ancillary activity of Processing of Goods.



c. Trading of Qualifying Commodities:

Trading of Qualifying Commodities means the physical trading activities of Qualifying Commodities and associated derivative trading. Trading of Metals, minerals, energy, and agricultural commodities in raw form, on a Recognised Commodities Exchange Market (either established and recognised in the UAE or of equal standing outside the UAE).

Raw form:

Commodities in their natural and unprocessed state, with no value added after being grown, extracted, or mined.

- Qualifying Activity will include Buying and selling
- Ancillary Activities will include Warehousing and/or Delivery



Key Takeaways:

- The trade itself does not need to be performed through an exchange.
- HSN code can serve as an indicator in verifying if a commodity still maintains its raw form.
- In certain cases, minimal processing may be necessary to ensure the commodity meets quality and uniformity standards required for trading. Eg. raw gold ore to gold bars.

d. Holding of shares and other securities for Investment purposes:



This activity includes the following:-

- Holding shares of any class in another juridical person or other equitable interests entitling the holder to profits and liquidation proceeds.
- Negotiable or non-negotiable financial instruments that can be traded in public or private markets, or are convertible or exchangeable into securities, or confer the right to purchase securities.
- **The investments in shares and other securities are deemed to be held for investment purposes when held for (or intention to hold for) an uninterrupted period of at least (12) twelve months.**
- Qualifying Activities include:
 - » Investment planning,
 - » Buying and selling of securities,
 - » Portfolio management,
- Any Ancillary Activities that naturally and integrally complement the main Qualifying Activity, provided that the conditions for Ancillary Activities are met.



Key Takeaways:

- Cryptocurrency investment shall also form part of Qualifying Activity.
- Compensation received in the process of litigation due to financial damage would be considered as Qualifying Activity of holding shares.
- Demonstration of intent to hold for an uninterrupted period of 12 months is required.
- Following activities shall not be considered as Qualifying Activity:
 - » Holding financial or investment instrument issued against receivables from non-financial asset
 - » Royalties or management fees received pursuant to shares held as major shareholder.
 - » Active trading of shares

e. Ownership, Management and Operation of Ships:



- **Ships** include tugboats, barges, etc. that are used for marine operation or transport of goods/passengers from vessels in international waters to domestic waters.
- **Qualifying Activity** includes:
 - Ownership of ships:
 - » Purchase,
 - » Ownership and
 - » Maintenance of various types of ships.
 - Management of ships:
 - » Managing crew
 - » Ensuring safety and health compliance.
 - Operations of ships:
 - » Navigation
 - » Cargo handling
 - » Routine checks
 - » Ship repairs.
- Transactions in relation to the above with Natural Persons are not considered as Excluded Activities and may benefit from 0% tax rate on Qualifying Income.
- **Ancillary Activities** may include:
 - » Ship broking,
 - » Organizing and overseeing voyages,
 - » Any other Ancillary Activities, provided that the conditions for Ancillary Activities are met.



Key Takeaways:

Qualifying Activity does not include,

- Ships used for:-
 - » local transportation
 - » leisure or recreational purposes
 - » as floating hotels, restaurants or casinos
- Leasing shipping containers, unless that activity is ancillary to a shipping business.
- Business consisting solely of maintenance, fit-out or repairing Ships will not be considered as a Qualifying Activity.

f. Reinsurance Services:



- **Qualifying Activity** includes:
 - » Underwriting premiums,
 - » Salvage and subrogation recoveries,
 - » Claim handling or management,
 - » Loss adjusting and claims management.
- **Ancillary Activities** include:
 - » Investing activities,
 - » Actuarial services,
 - » Risk management,
 - » Any other Ancillary Activities, provided that the conditions for Ancillary Activities are met.



Key Takeaways:

- Any insurance service offered as the primary insurer shall not be considered as Qualifying Activity.

g. Fund Management Services:



- Fund management services primarily involve managing portfolios for third-party investors, including mutual fund, hedge fund, or pension funds.
- **Qualifying Activities** include:
 - » Investment planning,
 - » Investment diversification,
 - » Asset allocation,
 - » Fund management,
 - » Performance monitoring.
- Such services shall be Qualifying Activities, if the person is appropriately regulated and subject to regulatory oversight of the relevant Competent Authority in the UAE.
- Fund Management service to **natural person is not considered as Excluded Activities** and may benefit from 0% tax rate on Qualifying Income.
- **Ancillary Activities** may include:
 - » Financial advisory,
 - » Training and education,
 - » Financial planning,
 - » Technological support,
 - » Any other Ancillary Activities, provided that the conditions for Ancillary Activities are met.

h. Wealth and Investment Management Services:



- **Qualifying Activities** involve:
 - » Providing discretionary and non-discretionary investment management,
 - » Advisory services,
 - » Portfolio management
 - » Wealth and investment advisory services.
- Such services shall be Qualifying Activities, if the person is appropriately regulated and subject to regulatory oversight of the relevant Competent Authority in the UAE.
- Wealth and investment management service to **natural person is not considered as Excluded Activity** and may benefit from 0% tax rate on Qualifying Income.
- **Ancillary Activities** may include:
 - » Risk management,
 - » Market research,
 - » Investment analysis,



Key Takeaways:

A FZP established as a Single Family Office, not regulated by relevant Competent Authority shall not form part of Qualifying Activity under Wealth and investment management services.

i. **Headquarter services to Related Parties:**



Headquarter company, takes responsibility of overall success of the group (strategic decision making, senior management, control of material risk), important aspect of group's performance and ensure corporate governance.

- **Qualifying Activities include:**
 - » Taking relevant management/strategic decisions,
 - » Incurring operating expenditures on behalf of group entities,
 - » Coordinating group activities financial management,
 - » Central procurement services,
 - » Human resource management,
 - » Technical support,
 - » Legal and compliance services
 - » Intellectual Property Management.
- **Ancillary Activities** may include:
 - » Training and development, and
 - » Any other Ancillary Activities, provided that the conditions for Ancillary Activities are met.



Key Takeaways:

- All transactions with related parties should comply with Arm's Length Principle and be appropriately documented, following the relevant Transfer Pricing rules.
- Related Parties for the purpose of providing headquarter service also includes Foreign / Domestic PE.

j. Treasury and financing services to Related Parties:

- **Qualifying Activities** shall include:
 - » Cash and liquidity management,
 - » Financing
 - » Financial risk management and related advisory services
 - » Centralised payment and collection activities
 - » Cash pooling
- Reference to “Related Parties” for the purpose this section shall be limited to Juridical Persons, branches of Juridical Persons, Domestic Permanent Establishments, and **self-investments**.
- Any **Ancillary Activities** that naturally and integrally complement the main Qualifying Activity, provided that the conditions for Ancillary Activities are met.



Key Takeaways:

- All transactions with related parties should comply with Arm’s Length Principle and be appropriately documented, following the relevant Transfer Pricing rules.
- Shareholder Loans are considered as Qualifying Activity and no threshold limit is applicable.
- Interest on Bank Deposit will be treated as Qualifying Income
- Any payment (Interest or Service fee) received as part of conducting treasury and finance service is Qualifying Income.
- Income from investment of surplus funds such as Interest from bank deposits, will be treated under Qualifying Activity as it will be considered as Treasury and Financing services to oneself.

k. Financing and Leasing of Aircrafts:



- **Qualifying Activities** shall include:
 - » Agreeing funding terms/financing,
 - » Identifying and acquiring the aircraft, aircraft engines or rotatable component
 - » Setting the terms and duration of any financing or leasing,
 - » Lease management.
- **Ancillary Activities** may include:
 - » Credit analysis,
 - » Portfolio management,
 - » Disposal or sale of aircraft or any part thereof,
 - » Asset management,
 - » Any other Ancillary Activities, provided that the conditions for Ancillary Activities are met.
- Transactions in relation to above with natural persons are not Excluded Activities and may benefit from 0% tax rate on Qualifying Income.



Key Takeaways:

Definition of Aircraft includes drones but not hovercrafts and spacecraft.

I. Distribution of goods or materials in or from a DZ



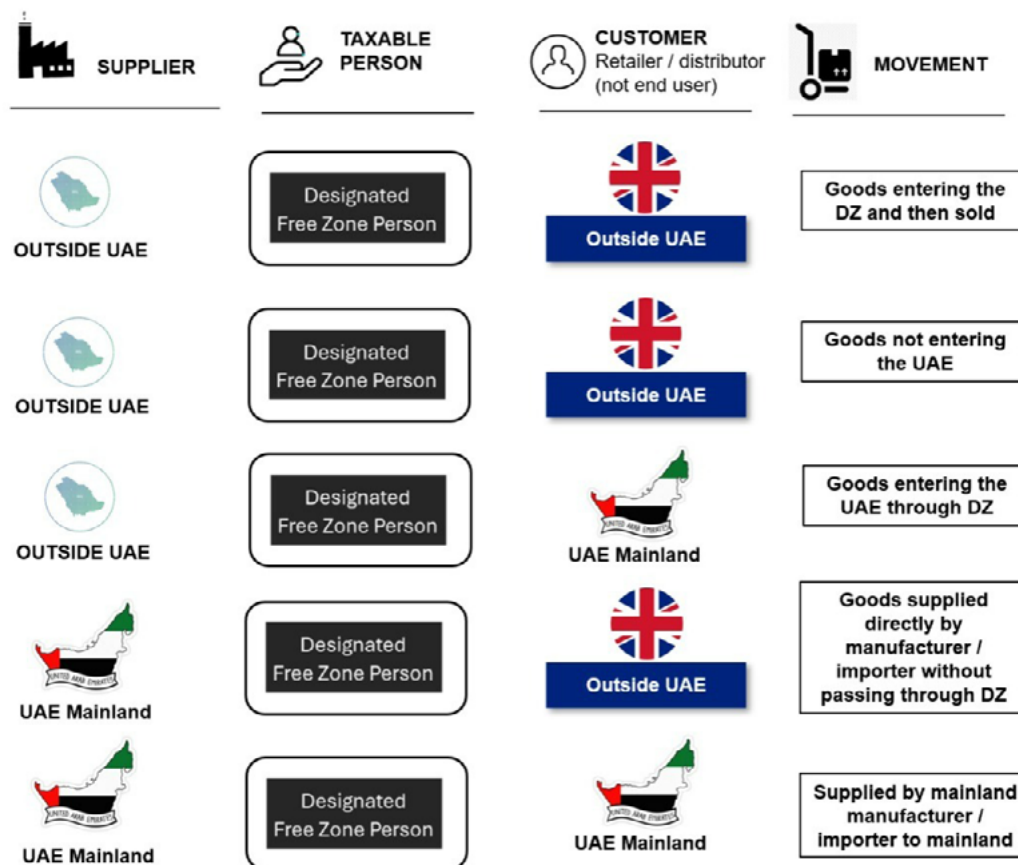
Distribution includes:

- Buying and selling of goods, materials, component parts or any tangible / movable item, holding title to the products
- Includes warehousing, transportation, delivery, logistics, inventory management, order processing, packaging and re-packing

Conditions to be fulfilled to be Qualifying Income:

1. Sold to a customer that resells such goods or materials or processes or alters for the purpose of resale.
2. Activity is conducted in or from a DZ
3. Goods enter the UAE through a DZ (only when goods are imported from foreign country and sold to customers in the UAE outside of a DZ)

Scenarios of Movement of goods satisfying Qualifying Status

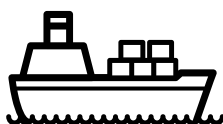




Key Takeaways:

- Marketing and advertising, and quality control and inspection before delivery can be considered as ancillary activity.
- Activities of Sales Agent or consultant, without taking title of goods, not considered as Distribution Activity
- Distributor to hold the title to the products.
- If product is embedded onto a hardware, income for which is not separately identifiable, it can still qualify for Distribution activity
- Seek confirmation from the customer by way of an undertaking or contract, to ensure customer is not end user
- A Taxable Person in a DZ is said to be conducting distribution activity in the following scenarios, subject to satisfaction of other conditions:

m. Logistics Services



- Transporting goods, warehousing, inventory management, documentation, freight forwarding services and packing functions, without taking title to the good or material.
- Supply chain management, customs brokerage and customer service can be considered as ancillary activity.



Key Takeaways:

Last mile delivery services outside the Free Zone or in a foreign country will also form part of Qualifying Activity



06.

Immovable Property:

As per **Article 1 of CD No. 56 of 2023** in connection with Nexus, Immovable Property means any of the following:

- Any area of land over which right or interest or service can be created.
- Any building, structure or engineering work attached permanently to land or seabed.
- Any furniture or fixture which is a permanent part of land, building, structure, or engineering work.

Construction sites and temporary structures will not be considered as Immovable Property

Types of Immovable Property:

Commercial Property:



(As per Article 1 of Cabinet Decision No.100 of 2023)

Immovable property or part thereof used exclusively for a Business or Business Activity and not used as a place of residence or accommodation including hotels, motels, bed and breakfast establishments, serviced apartments and the like.

Non-Commercial Property:



(As per Article 1 of Cabinet Decision No.100 of 2023)

Immovable property other than commercial property

Taxability of Income Derived from the Immovable Property

Location of the Immovable Property	Type of Immovable Property	Transaction with	Type of Income	Comments
Free Zone	Commercial Property	Free Zone Person (Beneficial Recipient)	Qualified Income	Considered as Qualifying Income
Free Zone	Commercial Property	Free Zone Person (Non-Beneficial Recipient)	Taxable Income	Disregarded for De-minimis requirement
Free Zone	Non-commercial	Any Person	Taxable Income	<ul style="list-style-type: none"> Excluded Activity Disregarded for De-minimis requirement.
Mainland /Foreign	Any Immovable property	Any Person	Taxable Income	Subject to De-minimis requirement

Note:

Income derived from non-commercial property located in Free Zone and income derived from immovable property located outside the Free Zone is treated as Excluded Activity.

Income derived from immovable property located in mainland by foreign /domestic Permanent Establishment of a Qualifying Free Zone Person would be taxable at 9%.

Mixed-Use Property Located in Free Zone

Income derived from a mixed-use property located in a Free Zone shall be subject to Corporate Tax at 0% and 9%, based on the use of the respective components of the property.

Note: Allocation of revenue between the commercial and non-commercial property could be based on records of relevant land registry department or some alternative basis (rental or property value) which results in arm's length allocation and are reasonable.



07.

Qualifying Intellectual Property

As per [Article 7 of CD No.100 of 2023](#), Qualifying Intellectual Property includes:

- Patents granted under the relevant law the jurisdiction
- Copyrighted Software, registered or granted under the relevant law of the jurisdiction, and
- any right functionally equivalent to a protected patent (eg. utility models, intellectual property assets that grant protection to plants and genetic material, orphan drug designations) and extensions of Patent protection.

Does not include any marketing related intellectual property assets, such as trademarks.

Taxability:

Income derived from Non-QIP and QIP that exceeds the amount determined as specified shall be subject to 9% CT and shall be disregarded when applying De-minimis criteria.

Qualifying Income =

$$\left[\frac{\text{Qualifying Expenditure} + \text{Uplift Expenditure}}{\text{Overall Expenditure}} \right] \times \text{Overall Income}$$

Qualifying Expenditure:

- Expenditure incurred to fund R&D activities conducted by
 - a. the Qualifying Free Zone Person OR
 - b. outsourced to any person in UAE (including Related party) OR
 - c. outsourced to outside UAE other than a Related Party

<p>Qualifying Expenditure* directly connected to QIP:</p> <ul style="list-style-type: none"> • salary and wages, • direct costs, • directly associated, • cost of supplies. 	<p>Uplift Expenditures*:</p> <p>Qualifying Expenditure X 30%</p>	<p>Overall Expenditure:</p> <ul style="list-style-type: none"> • Total expenditure incurred to fund R&D activities. <p>Not included Expenditures for unsuccessful R&D</p>	<p>Overall Income:</p> <ul style="list-style-type: none"> • Royalties or any other income derived from QIP • Embedded IP on sale of products and the use of processes directly related to the QIP
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Non - Qualifying Expenditure: Interest payments, building cost and other non-separable capital cost, acquisition cost or any cost that cannot be directly linked.

** Sum of Qualifying expenditure and Uplift Expenditure maximum upto overall expenditure.*



Key Takeaways:

- Benefit is available to the QFZP that carry out R&D activities to create QIP.
- QFZP must be able to demonstrate direct nexus between Qualifying Expenditures and the income from QIP by product family or asset wise.
- Qualifying Income benefit would not be available for acquired IP.



08.

Compliance

A QFZP would be required to undertake following compliances:

- **Record Keeping**
A QFZP is a Taxable Person and therefore must maintain all records and documents for a period of 7 years following the end of the Tax Period to which they relate.
- **Tax Registration**
All FZP (whether or not QFZP) should register for Corporate Tax with the FTA within the prescribed time limit.
- **Exception**
Non-resident juridical person with a branch in a FZ that derives only State Sourced Income and does not have a PE in the UAE (eg. performs only preparatory or auxiliary activities in the UAE).
- **Financial Statements as per applicable Accounting Standards**
No requirement for maintenance of separate Financial Statements of a FZP relating to its activities that generate QI. However, sufficient documentation to demonstrate calculation of Qualifying Income is required. The threshold (AED 50 million) for financial statements to be as per IFRS / IFRS for SMEs apply.
- **Prepare and maintain Audited Financial Statements**
One of the condition for being qualified as a QFZP is to prepare and maintain Audited Financial Statements for Corporate Tax purposes (regardless of Revenue).

A QFZP is not required to prepare separate Financial Statements for its Qualifying Income and its other income. However it must have sufficient documentation to demonstrate the calculation of Qualifying Income.

A QFZP is not required to prepare separate Financial Statements for any of its branches.

- **Filing of Tax Return and Corporate Tax payment**

Filing of Tax Return and payment of Corporate Tax (if any) within 9 months from the end of the relevant Tax Period is required for all FZP (qualified or non-qualified).

- **Election for QFZP**

All FZP deemed to be a QFZP unless they fail to meet one of the QFZP conditions or elect to be subject to tax.

The election to be taxed under the normal regulations can be made at any point during the Tax Period in question or in the subsequent Tax Return after the Tax Period ends. This election cannot be made after the tax return filing deadline for the concerned tax period.

- **Provision for Startups**

A FZP that does not earn any Qualifying Income in a Tax Period because it has not started to derive Revenue will not be disqualified from being a QFZP, provided it does not derive any Non - Qualifying Revenue.

- **Interest income**

Interest income can be treated as arising from the Qualifying Activity of treasury and financing services to Related Parties.

- **Non - Qualifying Income**

A small act of earning Non - Qualifying Income (eg: sale of a furniture to an employee for AED 100) may lose the status of QFZP if there is no Qualifying Income for that particular period.

- **Tax Loss on Taxable Income of QFZP**

Tax Losses incurred by a QFZP on their Taxable Income can be carried forward to offset against future Taxable Income, except for income from IP.

Losses related to Qualifying Income cannot be used to offset Taxable income (transferred, or carried forward). Also, QFZPs cannot transfer or receive Tax Losses from other Taxable Persons.

- **Consequences if not QFZP**

A QFZP that elects to be subject to standard CT Regulations (i.e. 9% tax), or fails to meet the QFZP criteria for a specific Tax Period, will lose its QFZP status

- » From - beginning of the Tax Period in which it elects to pay CT or fails to meet the criteria,
- » Upto - following four Tax Periods.

After this period, a new election can be made if the entity wishes to continue not being treated as a QFZP unless it no longer meets the criteria of QFZP in a particular tax period.

However, non-compliance with the rules during these five Tax Periods does not affect the future eligibility beyond the end of those Tax Periods.



Key Takeaways:

It is essential that the FZP adheres to be compliance requirements while fulfilling the condition of deriving Qualifying Income.



09.

Abbreviations

CD	Cabinet Decision
CIGA	Core Income Generating Activity
CT	Corporate Tax
DZ	Designated Zone
FZ	Free Zone
FZP	Free Zone Person
MD	Ministerial Decision
NFZP	Non-Free Zone Person
PE	Permanent Establishment
QFZP	Qualifying Free Zone Person
QI	Qualifying Income
QIP	Qualifying Intellectual Property
R & D	Research and Development
TP	Transfer Pricing
UAE	United Arab Emirates
VAT	Value Added Tax

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- Accounting Outsourcing
- Updating of Backlog Accounts
- Fixed Asset Management
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TAX

Direct Tax

- UAE Corporate Tax
 - » First Time Adoption
 - » Tax Compliance
 - » Tax Advisory
 - » Tax Training
- Transfer Pricing [TP]
 - » Country by Country Reporting [CbCR]
 - » TP Local File and Master File
 - » TP Advisory
- International Tax
 - » Review of International Transaction
 - » Economic Substance Regulation
 - » Tax Residency Certificate
 - » Ultimate Beneficial Owner Regulation [UBO]

Indirect Tax

- Value Added Tax [VAT]
 - » Advisory
 - » Tax Agency Service
 - » Pre- Tax Audit
 - » VAT Return Filing & Refund
 - » Registration/De-registration
 - » Representation to FTA
- Excise Tax
- Customs Tax

Company Incorporation

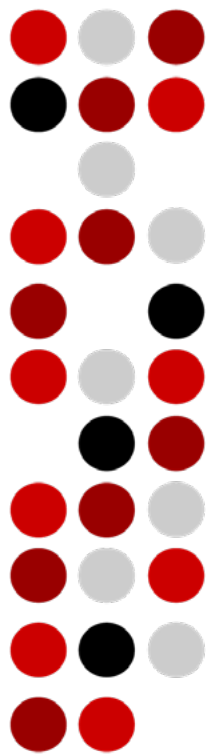
- Company Formation
 - » Mainland
 - » Free Zone
 - » Offshore
- Local | Corporate Sponsorship
- Company Liquidation
- Offshore Registered Agent –JAFZA
- PRO Service



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The handbook on "UAE Corporate Tax: Synopsis - Free Zone Persons" has been prepared based on the provisions outlined in Cabinet Decision No. 100 of 2023 - Determining Qualifying Income for the Qualifying Free Zone Person, Ministerial Decision No. 265 of 2023 - Qualifying Activities and Excluded Activities and Free Zone Persons Guide in addition to the relevant applicable provisions as per the Federal Decree Law no. 47 of 2022 on UAE Corporate Tax. While every effort has been made to ensure the accuracy and reliability of the information presented, this handbook is intended for general guidance and educational purposes only. It should not be considered as professional advice or relied upon as a substitute for specific legal, tax, or financial advice.

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