



BASIC TAX INFORMATION BULLETIN



**FREE ZONE
PERSONS**

1. Who should read this information bulletin?

Any person who wants to understand the provisions related to Free Zone Persons under the UAE Corporate Tax Law.

2. What are the provisions related to Free Zone Persons under UAE Corporate Tax?

The Corporate Tax Law allows a Qualifying Free Zone Person to benefit from a 0% Corporate Tax rate on their Qualifying Income. The other income, which is not Qualifying Income, is subject to Corporate Tax at the standard rate of 9%.

A Qualifying Free Zone Person is not eligible to benefit from the 0% Corporate Tax rate applicable on Taxable Income up to the AED 375,000 threshold and is subject to the rate of 9% on its entire Taxable Income that is not Qualifying Income.

3. Who is a Free Zone Person?

A Free Zone Person is a juridical person that is incorporated, established, or otherwise registered in a Free Zone. This also includes the relevant Free Zone authorities and other Government Controlled Entities that are established in a Free Zone.

A non-resident juridical person's registered branch in a Free Zone will be considered a Free Zone Person (with the non-resident parent being considered as a Foreign Permanent Establishment). A UAE resident juridical person that has a branch registered in a Free Zone will be a Free Zone Person (with the UAE resident juridical person being considered as a Domestic Permanent Establishment) for the purposes of the Corporate Tax Law.

A Person that is not a juridical person, such as a natural person or an Unincorporated Partnership, cannot be a Free Zone Person.

4. What is a Free Zone for Corporate Tax purposes?

A Free Zone for Corporate Tax purposes is a designated and defined geographic area within the UAE that is specified in a decision issued by the Cabinet at the suggestion of the Minister.

A Designated Zone for Corporate Tax purposes is a designated zone according to what is stated in Federal Decree-Law No. 8 of 2017 on Valued Added Tax, and which has been included as a Free Zone in accordance with the Corporate Tax Law.

All Taxable Persons should check with their respective Free Zone Authority to confirm if they operate in a Free Zone or Designated Zone for Corporate Tax purposes.

5. What are the conditions for a Free Zone Person to be a Qualifying Free Zone Person?

A Free Zone Person will be deemed to be a Qualifying Free Zone Person unless the person:

- fails to meet one of the conditions to be a Qualifying Free Zone Person, or
- makes an election to be subject to the standard Corporate Tax rules and rates.

The conditions to be a Qualifying Free Zone Person are:

- the Free Zone Person must maintain adequate substance in a Free Zone,
- the Free Zone Person must derive Qualifying Income,
- the Free Zone Person must not have made an election to be subject to the standard Corporate Tax rate,
- the Free Zone Person must comply with the arm's length principle for transactions with Related Parties and for arrangements between the Free Zone parent and its Foreign Permanent Establishments or Domestic Permanent Establishments,
- the Free Zone Person must maintain Transfer Pricing documentation,
- the Free Zone Person must maintain audited Financial Statements, and
- the Free Zone Person's non-qualifying Revenue must not exceed the lower of AED 5 million or 5% of its total Revenue (de minimis requirement).



6. What is the consequence if a Qualifying Free Zone Person fails to meet any of the conditions to be a Qualifying Free Zone Person or if a Qualifying Free Zone Person elects to be subject to the standard Corporate Tax rules?

A Qualifying Free Zone Person that elects to be subject to the standard Corporate Tax rules and rates or that fails to meet any of the conditions to be a Qualifying Free Zone Person will cease to be a Qualifying Free Zone Person from the beginning of the Tax Period for which it elects to be subject to the standard Corporate Tax rules and rates or in which it fails to meet the conditions to be a Qualifying Free Zone Person, and the four subsequent Tax Periods.

7. What is Qualifying Income which can benefit from 0% Corporate Tax rate?

The 0% Corporate Tax rate under the provisions related to Free Zones applies to transactions and activities performed from within the prescribed geographical areas of Free Zones (including Designated Zones).

Qualifying Income of a Qualifying Free Zone Person which is subject to 0% Corporate Tax rate is income derived from the following sources:

- transactions with other Free Zone Persons, provided those Free Zone Persons are the Beneficial Recipient of the transactions and the transactions do not relate to Excluded Activities,
- transactions relating to Qualifying Activities that are not Excluded Activities,
- income derived from the ownership or exploitation of Qualifying Intellectual Property,
- any other income, provided the de minimis requirements are met.

However, income from the following sources (even if it falls within the list above) will not be treated as Qualifying Income and will be taken into account in determining the Qualifying Free Zone Person's Taxable Income that is subject to the 9% Corporate Tax rate (unless the income is exempt from Corporate Tax under another provision):

- income attributable to a Foreign Permanent Establishment,
- income attributable to a Domestic Permanent Establishment,
- income from Immovable Property (other than Commercial Property located in a Free Zone when the income arises from a transaction with a Free Zone Person), and
- income from the ownership or exploitation of intellectual property (other than Qualifying Income from Qualifying Intellectual Property).

8. What are the Qualifying Activities under the provisions related to Free Zones for Corporate Tax purposes?

A Qualifying Free Zone Person can benefit from the 0% Corporate Tax rate if it derives Qualifying Income from transactions in respect of the following Qualifying Activities (even if such services or goods are sold to Non-Free Zone Persons):

- Manufacturing of goods or materials
- Processing of goods or materials
- Trading of Qualifying Commodities
- Holding of shares and other securities for investment purposes
- Ownership, management and operation of Ships
- Reinsurance services,
- Fund management services
- Wealth and investment management services
- Headquarter services to Related Parties
- Treasury and financing services to Related Parties
- Financing and leasing of Aircraft
- Distribution of goods or materials in or from a Designated Zone
- Logistics services.

Qualifying Activities also include ancillary activities, which are activities that are necessary for the performance of the main Qualifying Activity or that make a minor contribution to the main Qualifying Activity and are so closely related to the main Qualifying Activity that it should not be regarded as a separate activity.



9. What are the Excluded Activities under the provisions related to Free Zones for Corporate Tax purposes?

Income from Excluded Activities conducted by a Qualifying Free Zone Person is not eligible for the 0% Corporate Tax rate under the UAE Corporate Tax Law (even if transactions in respect of such Excluded Activities are conducted with other Free Zone Persons) and is subject to the 9% Corporate Tax rate. The following activities are Excluded Activities:

- any transactions with natural persons, except transactions in relation to:
 - ownership, management and operation of Ships
 - fund management services that are subject to the regulatory oversight of the Competent Authority in the UAE
 - wealth and investment management services that are subject to the regulatory oversight of the Competent Authority in the UAE
 - financing and leasing of Aircraft, including engines and rotatable components
- banking activities
- insurance activities, other than reinsurance activities, and captive insurance related activities forming part of headquarter services to Related Parties
- finance and leasing activities, other than transactions in relation to:
 - ownership, management and operation of Ships
 - treasury and financing services to Related Parties
 - financing and leasing of Aircraft, including engines and rotatable components
- ownership or exploitation of Immovable Property, other than Commercial Property located in a Free Zone where the transaction in respect of such Commercial Property is conducted with other Free Zone Persons

Excluded Activities also include ancillary activities. An activity is ancillary where it is necessary for the performance of the main Excluded Activity or it makes a minor contribution to the main Excluded Activity and is so closely related to the main Excluded Activity that it should not be seen as a separate activity.

10. What are the compliance requirements for a Free Zone Person under the Corporate Tax Law?

The compliance requirements for Corporate Tax purposes applicable to a Free Zone Person include, but are not limited to, the following:

- **Tax Registration:** A Free Zone Person, including a Qualifying Free Zone Person, should register for Corporate Tax with the Federal Tax Authority (FTA) in the form and manner and within the timelines prescribed by the FTA in the FTA Decision No. 3 of 2024. Failure to submit a Tax Registration application as per the prescribed timelines will result in Administrative Penalties.
- **Audited Financial Statements:** A Qualifying Free Zone Person must prepare and maintain audited Financial Statements even if its Revenue is below AED 50 million during the relevant Tax Period. A Qualifying Free Zone Person is not required to prepare separate Financial Statements for its Qualifying Income and its other income. However, it should have sufficient documentation to demonstrate how it calculated its Qualifying Income.
- **Tax Return and Corporate Tax payment:** A Free Zone Person, including a Qualifying Free Zone Person, is required to pay Corporate Tax (if any) and file their Tax Return to the FTA in the form and manner prescribed by the FTA within 9 months from the end of the relevant Tax Period.
- **Maintaining records and documents:** A Free Zone Person shall maintain all records and documents for a period of 7 years following the end of the Tax Period to which they relate.