



CORPORATE TAX IN UAE

FREE ZONE PERSONS

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Preface

Welcome to the handbook on "Corporate Tax in UAE for Free Zone Persons." This comprehensive guide has been prepared to provide valuable insights and practical knowledge on the taxation regulations pertaining to free zone entities in the United Arab Emirates (UAE). The contents of this handbook are based on the recently enacted legislation on Corporate Tax (Federal Decree Law No. 47 of 2022) and Cabinet Decision No. 55 of 2023 - Determining Qualifying Income for the Qualifying Free Zone Person and Ministerial Decision No. 139 of 2023 - Qualifying Activities and Excluded Activities.

With the introduction of the new cabinet and ministerial decisions, the landscape of corporate taxation for free zone persons has undergone significant change. This handbook aims to demystify these changes and provide guidance to individuals and entities operating within the UAE's free zones.

Our team of experts has meticulously analyzed and distilled complex legal provisions into easily understandable language, ensuring that this handbook serves as a practical tool for professionals, entrepreneurs, and individuals engaged in free zone activities. The objective is to empower readers with the knowledge necessary to navigate the intricacies of corporate taxation in the UAE's free zones and make informed decisions regarding their business strategies and compliance obligations.

It is important to note that while this handbook provides a comprehensive overview of the relevant tax regulations, it should not be considered a substitute for professional advice. The rapidly evolving nature of tax legislation necessitates engaging with qualified tax consultants or legal professionals to address specific queries and circumstances.

We hope that this handbook proves to be an invaluable resource, equipping you with the necessary knowledge to navigate the intricacies of corporate tax in the UAE's free zones. We invite you to delve into its contents, absorb the information provided, and leverage it to optimize your business operations within the UAE.

Contents

- List of UAE Free Zones
- Qualifying FZ Persons
 - Who is a Qualifying FZ Person?
 - Maintaining Adequate Substance
- Qualifying Income
- Transaction with FZ Persons
- Transaction with Non - FZ Persons
- Income from Immovable Property
- Summary
- Key Takeaways
- Glossary

List of FZ in the UAE

Designated Zones

Abudhabi

- Free Trade Zone of Khalifa Port
- Abu Dhabi Airport Free Zone
- Khalifa Industrial Zone
- Al Ain International Airport Free Zone
- Al Butain International Airport Free Zone

Dubai

- Jebel Ali Free Zone (North & South)
- Dubai Cars and Automotive Zone (DUCAMZ)
- Dubai Textile City
- Free Zone Area in Al Quoz
- DAFZA Industrial Park Free Zone - Al Qusais
- Dubai Aviation City
- Dubai Airport Free Zone
- International Humanitarian City – Jebel Ali
- Dubai Commercial City

Sharjah

- Hamriyah Free Zone
- Sharjah Airport International Free Zone

Ajman

- Ajman Free Zone

Umm Al Quwain

- Umm Al Quwain Free Trade Zone in Ahmed Bin Rashid Port
- Umm Al Quwain Free Trade Zone on Sheikh Mohammed Bin Zayed Road

RAK

- RAK Port Free Zone
- RAK Maritime City Free Zone
- RAK Airport Free Zone
- Al Hamra Industrial Zone –Free Zone
- Al Ghail Industrial Zone – Free Zone
- Al Hulaila Industrial Zone – Free Zone

Fujairah

- Fujairah Free Zone
- FOIZ (Fujairah Oil Industry Zone)

Other Free Zones

International Free Zone Authority (IFZA)
 Dubai Multi Commodities Centre (DMCC)
 Dubai Silicon Oasis (DSO)
 Dubai International Financial Centre (DIFC)
 Dubai South Free Zone (formerly known as Dubai World Central)
 Ras Al Khaimah Economic Zone (RAKEZ)
 Ras Al Khaimah Free Trade Zone (RAK FTZ)
 Abu Dhabi Global Market (ADGM)
 Dubai World Trade Centre (DWTC) Free Zone
 Dubai Healthcare City (DHCC)
 Dubai Design District (d3)
 International Media Production Zone (IMPZ)
 Dubai Studio City
 Dubai Internet City (DIC)
 Dubai Knowledge Park
 Dubai Logistics City
 Dubai Science Park
 Dubai Techno Park
 Energy and Environmental Park (Enpark)
 Twofour54
 Masdar City Free Zone
 Sharjah Media City
 Sharjah Publishing City Free Zone (SPCFZ)
 Ajman Media City Free Zone (AMCFZ)
 Dubai International Academic City (DIAC)
 Dubai Auto Zone
 Dubai Maritime City
 Dubai Gold and Diamond Park
 Dubai Flower Centre
 Dubai Carpet Free Zone



Definitions

1. Free Zone:

A designated and defined geographic area within the State that is specified in a decision issued by the Cabinet at the suggestion of the Minister.

2. Free Zone Person :

A juridical person incorporated, established or otherwise registered in a Free Zone, including a branch of a Non-Resident Person registered in a Free Zone.

3. Qualifying Free Zone Person:

A Free Zone Person that meets the conditions of Article 18 of this Decree-Law and is subject to Corporate Tax under Clause 2 of Article 3 of the Decree-Law.

4. Qualifying Income:

Any income derived by a Qualifying Free Zone Person that is subject to Corporate Tax at the rate specified in paragraph (a) of Clause 2 of Article 3 of the Decree-Law.

5. Revenue:

The gross amount of income derived during a Tax Period.

6. Permanent Establishment:

A place of Business or other form of presence in the State of a Non-Resident Person in accordance with Article 14 of the Decree-Law.

7. Commercial Property:

Immovable property or part thereof:

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

8. Designated Zone:

A designated zone as defined in Federal Decree-Law No. 8 of 2017 on Value Added Tax and its amendments, which has been specified as a Free Zone for the purposes of the Corporate Tax Law.

Qualifying Free Zone Person

Qualifying Free Zone Person is a Free Zone Person that meets all of the following conditions:

- a. A juridical Person*
- b. Maintains adequate substance in the State.
 - i. Undertakes CIGA in free zone (supervised outsourcing in Free Zone permitted)
 - ii. Adequate assets, qualifying employees and operating expenditure
- c. Derives Qualifying Income.
- d. Has not elected to be subject to Corporate Tax [Article 19 of the CT Law]
- e. Complies with the requirements of TP Compliances as per article 34 (ALP) & 55 (Documentation) of the CT Law.
- f. Its Non-Qualifying revenue does not exceed the de minimis requirements [lower of AED 5 million or 5% of the total revenue]
- g. It Prepares audited financial statements

If any of the above condition is not met in any particular year, the FZP will not be considered as a QFZP for that year and subsequent 4 years.

** Juridical Person: An entity established or otherwise recognised under the laws and regulations of the UAE, or under the laws of a foreign jurisdiction, that has a legal personality separate from its founders, owners and directors. Separate legal personality means that the entity has its own rights, obligations and liabilities, and that the entity would normally continue to exist irrespective of changes in the Person or Persons owning it. As a consequence, the owners of a juridical person (including those involved in managing its affairs) would generally have no liability for the debts and obligations of the entity over and above their investment in the juridical person, with the exception of the cases that the UAE law states otherwise.*

Qualifying Free Zone Person

Adequate Substance

- Undertake CIGA in the Free Zone
- Having regard to the activities carried out entity has:
 - adequate assets
 - adequate number of qualified employees
 - adequate operating expenditure

Activities can be outsourced to a Related Party / Third Party in a Free Zone, however, adequate supervision is must.



Qualifying Income

Qualifying Income of the Qualifying Free Zone Person shall include the below categories of income :

- | | | |
|---|--|---|
| <p>a.</p> <p>Transactions with other Free Zone Persons, except income from Excluded Activities.</p> | <p>b.</p> <p>Transactions that are Qualifying Activities (which are not Excluded Activities) with a Non-Free Zone Person</p> | <p>c.</p> <p>Any other income (on satisfaction of de minimis requirement)</p> |
|---|--|---|

Qualifying Income of a QFZP does not include income attributable to:

1. Its Domestic PE
2. Its Foreign PE
3. Ownership or exploitation of immovable property:
 - a) Transactions with NFZP in respect of Commercial Property
 - b) Transactions with any persons with respect to Non - Commercial Property



Transactions with Free Zone Person

Transactions of QFZP with FZPs shall be eligible for 0% Tax benefit, if the income is derived from transactions other than **Excluded Activities**, provided the Free Zone Person is the Beneficial Recipient of the relevant services or goods.

Excluded Activities:

As per Ministerial Decision No. 139 of 2023, following activities shall be considered as Excluded Activities

a) Any transaction with natural persons, except transactions in relation to:

- Ownership, management, and operation of Ships
- Fund management services*
- Wealth and investment management services*
- Financing and leasing of Aircraft, including engines and rotatable components.

b) Banking activities*

c) Insurance activities* (except Reinsurance services)

d) Finance and leasing activities* except

- Treasury and financing services to Related Parties
- Financing and leasing of Aircraft, including engines and rotatable components

e) Ownership or exploitation of immovable property, except transaction in respect of Commercial Property located in FZ

f) Ownership or exploitation of intellectual property assets.

g) Ancillary activities to the above-mentioned activities

**subject to the regulatory oversight of the competent authority in the State*



Transactions with Non - Free Zone Person

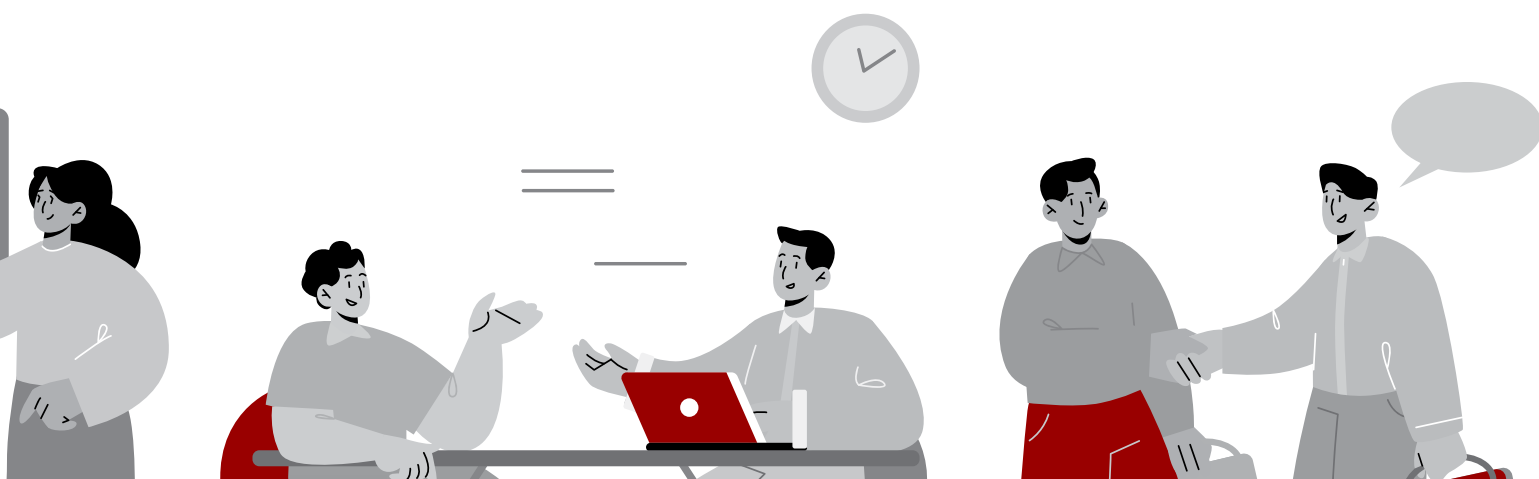
Transactions of QFZP with NFZPs shall be eligible for 0% Tax benefit, if the income is derived from Qualifying Activities that are not Excluded Activities.

Qualifying Activities:

As per Ministerial Decision No. 139 of 2023, following activities shall be considered as Qualifying Activities

- a) Manufacturing of goods or materials.
- b) Processing of goods or materials.
- c) Holding of shares and other securities.
- d) Ownership, management and operation of Ships.
- e) Reinsurance services*
- f) Fund management services*
- g) Wealth and investment management*
- h) Headquarter services to Related Parties.
- i) Treasury and financing services to Related Parties.
- j) Financing and leasing of Aircraft, including engines and rotatable components.
- k) Goods or materials imported through DZ and distributed to customer for the purpose of resale or processing and sale
- l) Logistics services
- m) Ancillary activities to the above-mentioned activities

**subject to the regulatory oversight of the competent authority in the State*



Other Income

Any Other Income shall be considered as Qualifying Income, if such income satisfies the de minimis requirements.

De Minimis - Definition and Calculation

De Minimis Requirement is satisfied if:

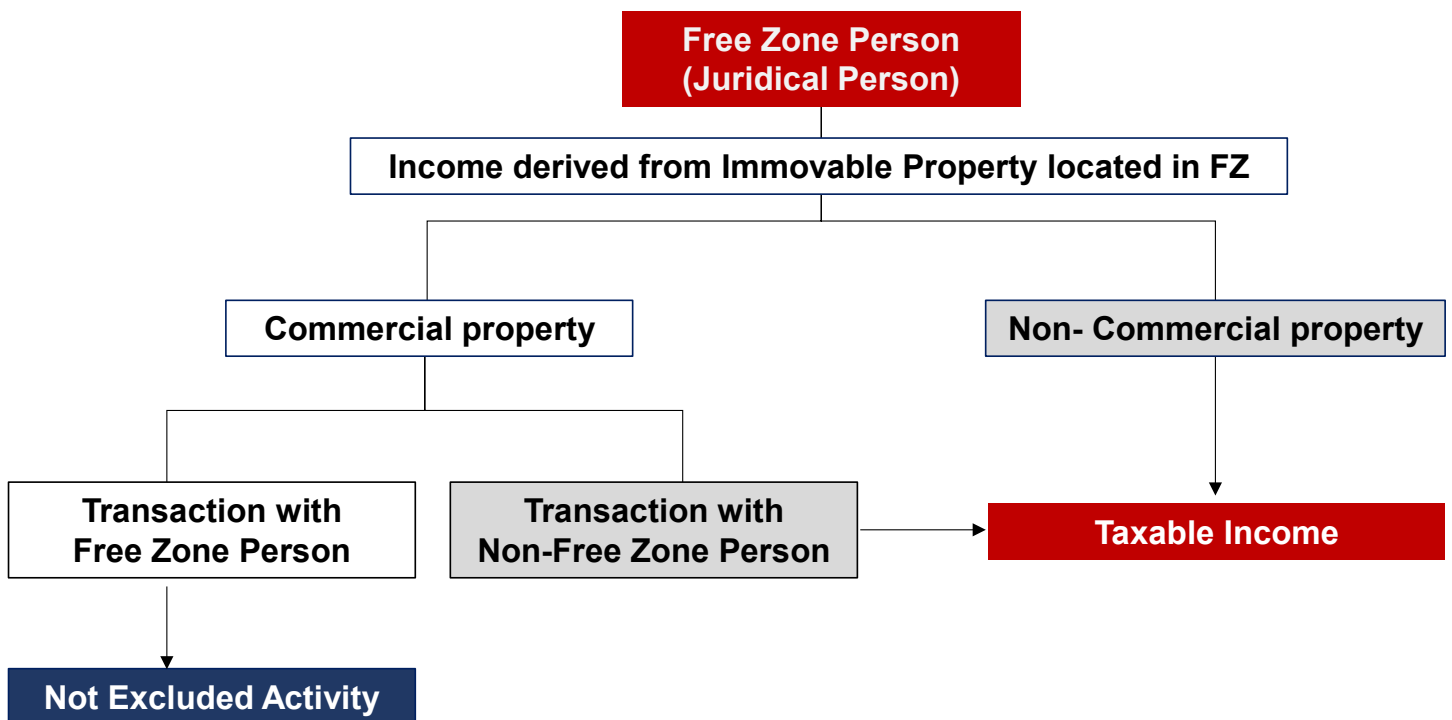
Non-Qualifying Revenue < **5% of total Revenue**
OR
AED 5 million
Whichever is lower

- **Non-Qualifying Revenue** = Revenue Derived from
 - o Excluded Activities
 - o Non-qualifying Activities (when transacting with NFZP)

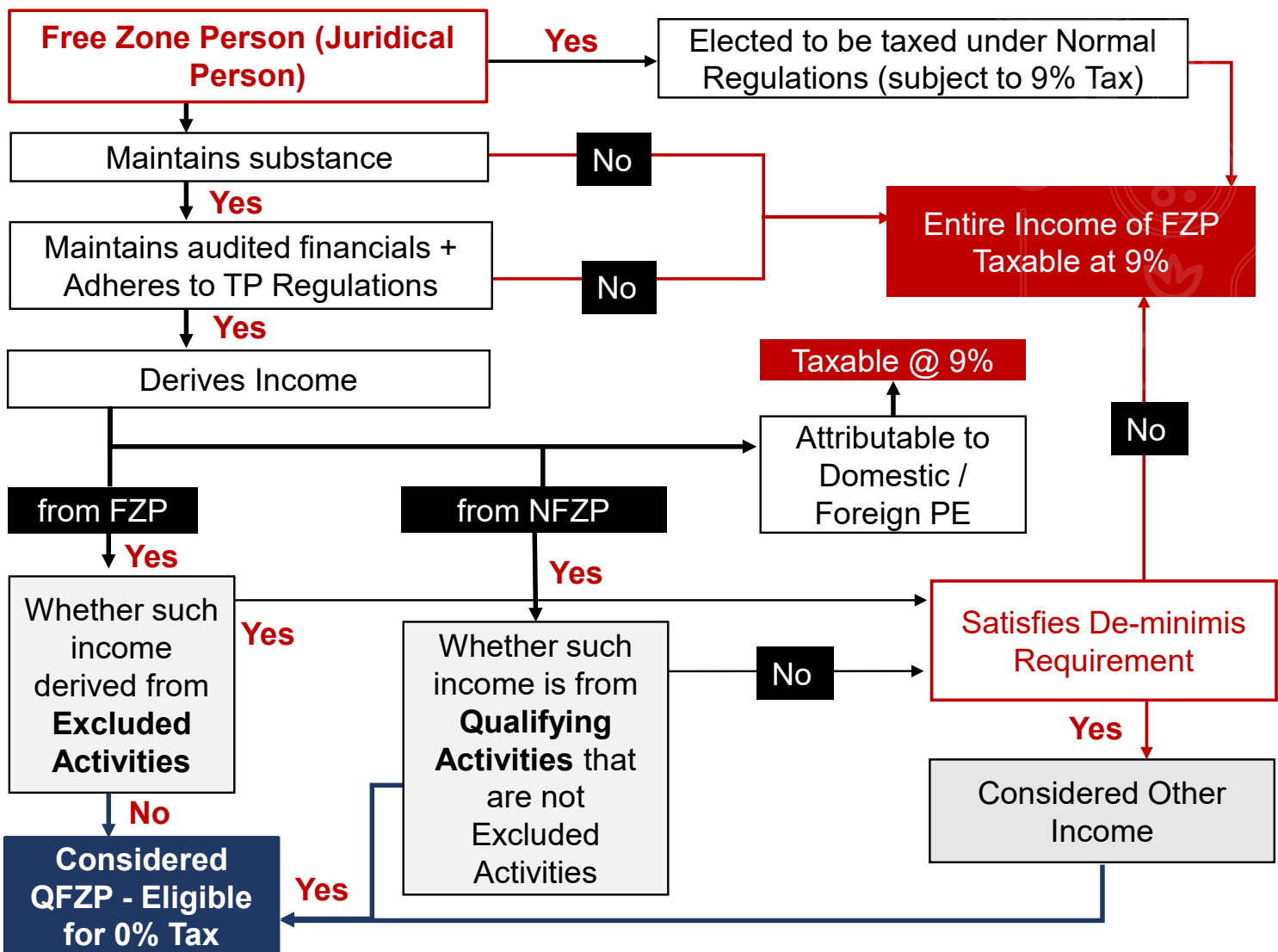
 - **Total Revenue** = All Revenue derived in the Tax Period
- Specific Exclusion from each of the above:**
1. Revenue from transactions attributable to immovable property
 - a. Commercial Property - with NFZP
 - b. Non-commercial property – with any Person
 2. Revenue attributable to Domestic / Foreign PE

Income Derived From Immovable Properties

Taxability of Income derived by the Free Zone Person from immovable property shall be as under:



Summary



Key Takeaways

- If the entity ceases to be a QFZP due to failure to meet any of the requisite conditions during a Tax Period it shall cease to be a QFZP from the beginning of that Tax Period and for subsequent four Tax Periods.
- Detailed analysis and clarity on entity's Excluded Activities and Qualifying Activities would be required to determine Qualification.
- Industry specific exclusions to be taken care of.
- Special attention to determine qualification of income from export of Goods / Services, as not all exports would be eligible for 0% Tax.
- Arm's Length Price to be adhered to in case of transactions with Domestic PE / Foreign PE. Essential to maintain separate accounts of such PE.
- Most of the transactions with Natural Persons may not be eligible as Qualified Income.
- Transactions in respect of immovable properties to be reviewed to examine the taxability.

Glossary

ALP	Arm's Length Principle
CIGA	Core Income Generating Activities
CT	Corporate Tax
CT Law	Federal Decree-Law No. 47 of 2022
DZ	Designated Zone
FZ	Free Zone
FZP	Free Zone Person
NFZP	Non-Free Zone Person
Non-QI	Non – Qualifying Income
PE	Permanent Establishment
QI	Qualifying Income
QFZP	Qualifying Free Zone Person
TP	Transfer Pricing

Meet Our Team



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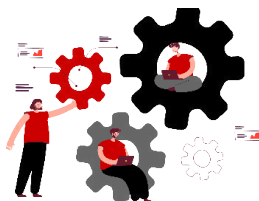


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Our Services



Audit & Assurance

- External Audit
- Internal Audit
- Due Diligence Review
- Investigation
- IFRS Advisory Services
- Business Valuation
- Project Cost Audit
- Forensic Audit & Fraud Investigation
- Anti-Money Laundering (AML) Compliance

Business Advisory & Consulting

- CFO Services
- Trade Finance
- Working Capital Finance
- Project Finance
- Financial Feasibility Study
- Business Feasibility Study
- Market Research & Business Plan
- Mergers & Acquisition

Accounting & MIS Reporting

- Accounting & Financial Reporting
- Accounting Outsourcing
- Updating of Backlog Accounts
- Fixed Asset Management
- Standard Operating Procedures.
- Inventory Verification

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

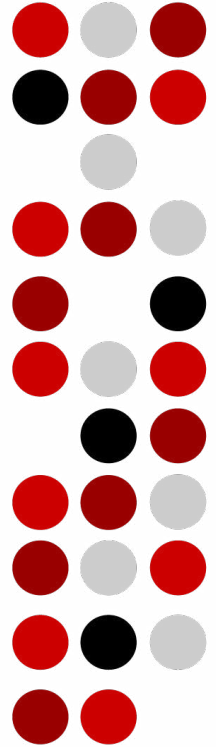
- Value Added Tax [VAT]
 - » Advisory
 - » Tax Agency Service
 - » Pre- Tax Audit
 - » VAT Return Filing & Refund
 - » Registration/De-registration
 - » Representation to FTA
- Excise Tax
- Customs Tax

Company Incorporation

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



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Disclaimer:

The handbook on "Corporate Tax in UAE for Free Zone Persons" has been prepared based on the provisions outlined in Cabinet Decision No. 55 of 2023 - Determining Qualifying Income for the Qualifying Free Zone Person and Ministerial Decision No. 139 of 2023 - Qualifying Activities and Excluded Activities 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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