



# Free Zone Persons

## Corporate Tax Guide | CTGFZP1

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## 1. Glossary

**Accounting Standards:** The accounting standards specified in Ministerial Decision No. 114 of 2023.

**Administrative Penalties:** Amounts imposed and collected under the Corporate Tax Law or the Tax Procedures Law.

**AED:** The United Arab Emirates dirham.

**Aircraft:** Any machine that can derive support in the atmosphere from the reactions of the air other than the reactions of the air against the surface of the earth.

**Beneficial Recipient:** For the purposes of Article 3 of Cabinet Decision No. 100 of 2023 in relation to determining if income is derived from transactions with a Free Zone Person, it shall mean a Person who has the right to use and enjoy the service or the Good and does not have a contractual or legal obligation to supply such service or Good to another person.

**Business:** Any activity conducted regularly, on an ongoing and independent basis by any Person and in any location, such as industrial, commercial, agricultural, vocational, professional, service or excavation activities or any other activity related to the use of tangible or intangible properties.

**Business Activity:** Any transaction or activity, or series of transactions or series of activities conducted by a Person in the course of its Business.

**Business Restructuring Relief:** A relief from Corporate Tax for Business restructuring transactions, available under Article 27 of the Corporate Tax Law and as specified under Ministerial Decision No. 133 of 2023.

**Cash Basis of Accounting:** An accounting method under which the Taxable Person recognises income and expenditure when cash payments are received and paid.

**Commercial Property:** 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.

**Competent Authority:** The Central Bank of the United Arab Emirates, the Dubai Financial Services Authority of the Dubai International Financial Centre (“DFSA”), the Financial Services Regulatory Authority of the Abu Dhabi Global Market (“FSRA”), and the Securities and Commodities Authority (“SCA”) as applicable.



**Connected Person:** Any Person affiliated with a Taxable Person as determined in Article 36(2) of the Corporate Tax Law.

**Controlled Transactions:** Transactions or arrangements between two parties that are Related Parties or Connected Persons.

**Copyrighted Software:** Any copyright subsisting in software granted under the law regulating copyrights in the UAE or granted under the relevant law of a foreign jurisdiction.

**Corporate Tax:** The tax imposed by the Corporate Tax Law on juridical persons and Business income.

**Corporate Tax Law:** Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments.

**Designated Zone:** A designated zone according to what is stated in Federal Decree-Law No. 8 of 2017, and which has been included as a Free Zone in accordance with the Corporate Tax Law. Reference to Free Zone comprises Designated Zone, as the context may require.

**Dividend:** Any payments or distributions that are declared or paid on or in respect of shares or other rights participating in the profits of the issuer of such shares or rights which do not constitute a return on capital or a return on debt claims, whether such payments or distributions are in cash, securities, or other properties, and whether payable out of profits or retained earnings or from any account or legal reserve or from capital reserve or revenue. This will include any payment or benefit which in substance or effect constitutes a distribution of profits made in connection with the acquisition or redemption or cancellation of shares or termination of other ownership interests or rights or any transaction or arrangement with a Related Party or Connected Person which does not comply with Article 34 of the Corporate Tax Law.

**Domestic Permanent Establishment:** A place of Business or other form of presence of a Qualifying Free Zone Person outside the Free Zone in the UAE.

**Double Taxation Agreement:** An international agreement signed by two or more countries for the avoidance of double taxation and the prevention of fiscal evasion on income and capital.

**Excluded Activities:** Any activities determined in accordance with Article 2 of Ministerial Decision No. 265 of 2023 and conducted by a Qualifying Free Zone Person from which non-Qualifying Income is derived.



**Exempt Income:** Any income exempt from Corporate Tax under the Corporate Tax Law.

**Exempt Person:** A Person exempt from Corporate Tax under Article 4 of the Corporate Tax Law.

**Extractive Business:** The Business or Business Activity of exploring, extracting, removing, or otherwise producing and exploiting the Natural Resources of the UAE, or any interest therein as determined by the Minister.

**Financial Statements:** A complete set of statements as specified under the Accounting Standards applied by the Taxable Person, which includes, but is not limited to, statement of income, statement of other comprehensive income, balance sheet, statement of changes in equity and cash flow statement.

**Financial Year:** The Gregorian calendar year, or the twelve-month period for which the Taxable Person prepares Financial Statements.

**Foreign Permanent Establishment:** A place of Business or other form of presence outside the UAE of a Resident Person that is determined in accordance with the criteria prescribed in Article 14 of the Corporate Tax Law.

**Free Zone:** 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.

**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.

**FTA:** Federal Tax Authority, being the Authority in charge of administration, collection and enforcement of federal taxes in the UAE.

**General Interest Deduction Limitation Rule:** The limitation provided under Article 30 of the Corporate Tax Law.

**Good:** For the purposes of assessing the Beneficial Recipient, it shall mean tangible or intangible property that has economic value in dealing including moveable and Immovable Property.

**Government Controlled Entity:** Any juridical person, directly or indirectly wholly owned and controlled by a Government Entity, as specified in a decision issued by the Cabinet at the suggestion of the Minister.





**IFRS:** International Financial Reporting Standards.

**IFRS for SMEs:** International Financial Reporting Standard for small and medium-sized entities.

**Immovable Property:** Means any of the following:

- a. Any area of land over which rights or interests or services can be created.
- b. Any building, structure or engineering work attached to the land permanently or attached to the seabed.
- c. Any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

**Interest:** Any amount accrued or paid for the use of money or credit, including discounts, premiums and profit paid in respect of an Islamic Financial Instrument and other payments economically equivalent to interest, and any other amounts incurred in connection with the raising of finance, excluding payments of the principal amount.

**Non-Free Zone Person:** Any Person who is not a Free Zone Person.

**Non-Resident Person:** The Taxable Person specified in Article 11(4) of the Corporate Tax Law.

**Overall Expenditures:** For the purposes of Article 4(1) of Ministerial Decision No. 265 of 2023, means total expenditures incurred to fund research and development activities, conducted either by the Qualifying Free Zone Person or outsourced to any Person, directly connected with the creation, invention or significant development of the Qualifying Intellectual Property, including acquisition costs of the Qualifying Intellectual Property.

**Overall Income:** For the purposes of Article 4(1) of Ministerial Decision No. 265 of 2023, means royalties or any other income derived from Qualifying Intellectual Property as determined according to the provisions of the Corporate Tax Law, including embedded intellectual property income derived from the sale of products and the use of processes directly related to the Qualifying Intellectual Property as determined in accordance with the arm's length principle under Article 34 of the Corporate Tax Law.

**Patents:** Any patent granted under the law regulating patents in the UAE or granted under the relevant law of a foreign jurisdiction.

**Permanent Establishment:** A place of Business or other form of presence in the UAE of a Non-Resident Person in accordance with Article 14 of the Corporate Tax Law.



**Person:** Any natural person or juridical person.

**Qualifying Activities:** Any activities determined in accordance with Article 2 of Ministerial Decision No. 265 of 2023 and conducted by a Qualifying Free Zone Person from which Qualifying Income is derived.

**Qualifying Commodities:** Metals, minerals, energy and agriculture commodities that are traded on a Recognised Commodities Exchange Market in raw form.

**Qualifying Expenditures:** For the purposes of Article 4(1) of Ministerial Decision No. 265 of 2023, means expenditures incurred to fund research and development activities, conducted either by the Qualifying Free Zone Person or outsourced to any Person in the UAE or any Person outside the UAE that is not a Related Party, directly connected with the creation, invention or significant development of the Qualifying Intellectual Property.

**Qualifying Free Zone Person (“QFZP”):** A Free Zone Person that meets the conditions of Article 18 of the Corporate Tax Law and is subject to Corporate Tax under Article 3(2) of the Corporate Tax Law.

**Qualifying Group:** Two or more Taxable Persons that meet the conditions of Article 26(2) of the Corporate Tax Law.

**Qualifying Group Relief:** A relief from Corporate Tax for transfers within a Qualifying Group, available under Article 26 of the Corporate Tax Law and as specified under Ministerial Decision No. 132 of 2023.

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

**Qualifying Intellectual Property:** Patents, Copyrighted Software and any right functionally equivalent to a Patent that is both legally protected and subject to a similar approval and registration process to a Patent, such as utility models, intellectual property assets that grant protection to plants and genetic material, orphan drug designations, and extensions of Patent protection, but not including any marketing related intellectual property assets, such as trademarks.

**Recognised Commodities Exchange Market:** Any commodities exchange market established in the UAE that is licensed and regulated by the relevant Competent Authority, or any commodities exchange market established and recognised outside the UAE of equal standing.



**Recognised Stock Exchange:** Any stock exchange established in the UAE that is licensed and regulated by the relevant competent authority, or any stock exchange established outside the UAE of equal standing.

**Related Party:** Any Person associated with a Taxable Person as determined in Article 35(1) of the Corporate Tax Law.

**Resident Person:** The Taxable Person specified in Article 11(3) of the Corporate Tax Law.

**Revenue:** The gross amount of income derived during a Tax Period.

**Ship:** Any structure normally operating, or set for operating in maritime navigation regardless of its power and tonnage.

**Small Business Relief:** A Corporate Tax relief that allows eligible Taxable Persons to be treated as having no Taxable Income for the relevant Tax Period in accordance with Article 21 of the Corporate Tax Law and Ministerial Decision No. 73 of 2023.

**State:** United Arab Emirates.

**State Sourced Income:** Income accruing in, or derived from, the UAE as specified in Article 13 of the Corporate Tax Law.

**Tax Group:** Two or more Taxable Persons treated as a single Taxable Person according to the conditions of Article 40 of the Corporate Tax Law.

**Tax Loss:** Any negative Taxable Income as calculated under the Corporate Tax Law for a given Tax Period.

**Tax Period:** The period for which a Tax Return is required to be filed.

**Tax Registration:** A procedure under which a Person registers for Corporate Tax purposes with the FTA.

**Tax Return:** Information filed with the FTA for Corporate Tax purposes in the form and manner as prescribed by the FTA, including any schedule or attachment thereto, and any amendment thereof.

**Taxable Income:** The income that is subject to Corporate Tax under the Corporate Tax Law.



**Taxable Person:** A Person subject to Corporate Tax in the UAE under the Corporate Tax Law.

**Transfer Pricing:** Rules on setting of arm's length prices for Controlled Transactions, including but not limited to the provision or receipt of goods, services, loans and intangibles.

**UAE:** United Arab Emirates.

**Unincorporated Partnership:** A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the applicable legislation of the UAE.

**Uplift Expenditures:** For the purposes of Article 4(1) of Ministerial Decision No. 265 of 2023, means the Qualifying Expenditures increased by 30%, but only to the extent that Qualifying Expenditures, after being uplifted is less than or equal to Overall Expenditures.



## 2. Introduction

### 2.1. Overview

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (“Corporate Tax Law”) was issued on 3 October 2022 and was published in Issue #737 of the Official Gazette of the United Arab Emirates (“UAE”) on 10 October 2022.

The Corporate Tax Law provides the legislative basis for imposing a federal tax on corporations and Business profits (“Corporate Tax”) in the UAE.

The provisions of the Corporate Tax Law apply to Tax Periods commencing on or after 1 June 2023.

### 2.2. Purpose of this guide

This guide is designed to provide general guidance on the application of the Corporate Tax Law to Free Zones and Free Zone Persons. It provides readers with an overview of:

- the conditions required to be met for a Free Zone Person to be a Qualifying Free Zone Person (“QZFP”) and benefit from the 0% Corporate Tax rate, and
- the activities that are considered Qualifying Activities and Excluded Activities for a QZFP.

### 2.3. Who should read this guide?

This guide should be read by any Person that is carrying on a Business in a Free Zone in the UAE. It is intended to be read in conjunction with the Corporate Tax Law, the implementing decisions and other relevant guidance published by the FTA.

### 2.4. How to use this guide

The relevant articles of the Corporate Tax Law and the implementing decisions are indicated in each section of the guide.

It is recommended that the guide is read in its entirety to provide a complete understanding of the definitions and interactions of the different rules. Further guidance on some of the areas covered in this guide can be found in other topic-specific guides.

In some instances, examples have been used to illustrate how key elements of the Corporate Tax Law apply to Free Zone Persons. The examples in the guide:



- show how these elements operate in isolation and do not show all the possible interactions with other provisions of the Corporate Tax Law that may occur. They do not, and are not intended to, cover the full facts of the hypothetical scenarios used nor all aspects of the Corporate Tax regime, and should not be relied upon for legal or tax advice purposes, and
- are only meant for providing the readers with general information on the subject matter of this guide. They are exclusively intended to explain the rules related to the subject matter of this guide and do not relate at all to the tax or legal position of any specific juridical or natural persons.

## 2.5. Legislative references

In this guide, the following legislation will be referred to as follows:

- Federal Law No. 5 of 1985 on the Civil Transactions Law of the United Arab Emirates, and its amendments, is referred to as “Federal Law No. 5 of 1985”,
- Federal Law No. 6 of 2007 on the Organisation of Insurance Operations, and its amendments, is referred to as “Federal Law No. 6 of 2007”,
- Federal Decree-Law No. 8 of 2017 on Value Added Tax, and its amendments, is referred to as “Federal Decree-Law No. 8 of 2017”,
- Federal Decree-Law No. 14 of 2018 Regarding the Central Bank and Organisation of Financial Institutions and Activities, and its amendments, is referred to as “Federal Decree-Law No. 14 of 2018”,
- Federal Decree-Law No. 28 of 2022 on Tax Procedures is referred to as “Tax Procedures Law”,
- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments, is referred to as “Corporate Tax Law”,
- Cabinet Decision No. 59 of 2017 on Designated Zones for the Purposes of the Federal Decree-Law No. 8 of 2017 on Value Added Tax, and its amendments, is referred to as “Cabinet Decision No. 59 of 2017”,
- Cabinet Decision No. 56 of 2023 on Determination of a Non-Resident Person’s Nexus in the State for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 56 of 2023”,
- Cabinet Decision No. 75 of 2023 on the Administrative Penalties for Violations Related to the Application of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments, is referred to as “Cabinet Decision No. 75 of 2023”,
- Cabinet Decision No. 100 of 2023 on Determining Qualifying Income for the Qualifying Free Zone Person for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 100 of 2023”,
- Ministerial Decision No. 43 of 2023 Concerning Exception from Tax Registration for the Purpose of Federal Decree-Law No. 47 of 2022 on the Taxation of



Corporations and Businesses is referred to as “Ministerial Decision No. 43 of 2023”,

- Ministerial Decision No. 73 of 2023 on Small Business Relief for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, is referred to as “Ministerial Decision No. 73 of 2023”,
- Ministerial Decision No. 82 of 2023 on the Determination of Categories of Taxable Persons Required to Prepare and Maintain Audited Financial Statements for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 82 of 2023”,
- Ministerial Decision No. 97 of 2023 on Requirements for Maintaining Transfer Pricing Documentation for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 97 of 2023”,
- Ministerial Decision No. 114 of 2023 on the Accounting Standards and Methods for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 114 of 2023”,
- Ministerial Decision No. 132 of 2023 on Transfers Within a Qualifying Group for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 132 of 2023”,
- Ministerial Decision No. 133 of 2023 on Business Restructuring Relief for the Purposes of Federal Decree Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 133 of 2023”,
- Ministerial Decision No. 265 of 2023 Regarding Qualifying Activities and Excluded Activities for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 265 of 2023”, and
- Federal Tax Authority Decision No. 3 of 2024 on The Timeline specified for Registration of Taxable Persons for Corporate Tax for the purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses and its amendments, is referred to as “FTA Decision No. 3 of 2024”.

## 2.6. Status of this guide

This guidance is not a legally binding document, but is intended to provide assistance in understanding the tax implications of the Corporate Tax regime for Free Zone Persons. The information provided in this guide should not be interpreted as legal or tax advice. It is not meant to be comprehensive and does not provide a definitive answer in every case. It is based on the legislation as it stood when the guide was published. Each Person’s own specific circumstances should be considered.



The Corporate Tax Law, the implementing decisions and the guidance materials referred to in this document will set out the principles and rules that govern the application of Corporate Tax in the UAE. Nothing in this publication modifies or is intended to modify the requirements of any legislation.

This document is subject to change without notice.





### 3. Free Zone Corporate Tax rules: At a glance

#### 3.1. Scope of the Free Zone Corporate Tax rules

Free Zones are an integral part of the UAE economy and play a critical role in driving economic growth and transformation both in the UAE and internationally. Free Zones offer Businesses various benefits such as relaxed foreign ownership restrictions, streamlined administrative procedures, modern and sophisticated infrastructure, developed Business communities and the availability of additional legal entity forms and commercial activities.

To recognise the continued importance of Free Zones, the UAE Corporate Tax rules enable Free Zone companies and branches that meet certain conditions to benefit from a 0% Corporate Tax rate on certain Qualifying Activities and transactions.

Generally, the Corporate Tax rules for Free Zones are intended to provide a 0% Corporate Tax rate on Qualifying Income from:

- transactions between QFZPs and Free Zone Persons (where the Free Zone Person is the Beneficial Recipient of these transactions), and
- certain activities performed from within the prescribed geographical areas of a Free Zone (or a Designated Zone for distribution activities).

The list of Designated Zones for VAT purposes is provided by Cabinet Decision No. 59 of 2017. All taxpayers should check with their respective Free Zone Authority to confirm if they operate in a Free Zone or Designated Zone for Corporate Tax purposes.

#### 3.2. Conditions to be a QFZP

To be a QFZP, the Free Zone Person must meet all of the conditions required in the Corporate Tax Law and the implementing decisions, as set out in Sections [3.2.1](#) to [3.2.8](#). If a Free Zone Person does not meet all of the conditions, it will no longer be a QFZP and its income will be subject to the standard Corporate Tax rules and rates.

A Free Zone Person will be deemed to be a QFZP unless one of the conditions to be a QFZP is not met, or if the QFZP makes an election to be subject to tax.

##### 3.2.1. The regime is applicable to a Free Zone Person

A Free Zone Person is defined as a juridical person incorporated, established, or otherwise registered in a Free Zone including a branch of a Non-Resident Person or a UAE juridical person that is registered in a Free Zone. For clarity, this includes the relevant Free Zone authorities and other Government Controlled Entities that are established in a Free Zone.



The term “Free Zone Person” refers to the juridical person as a whole. This means that a Free Zone Person may:

- have its head office in a Free Zone and have a branch outside the Free Zone, or
- have a head office in the UAE (outside a Free Zone) or another country and have a branch within a Free Zone. In this situation the head office would be generally considered a Domestic Permanent Establishment or a Foreign Permanent Establishment, respectively.

In either scenario, the 0% Corporate Tax rate on Qualifying Income applies only to its Free Zone Business, (i.e. the portion of the Business that is registered in the Free Zone). For example, in the second scenario above, the head office (Domestic Permanent Establishment or Foreign Permanent Establishment) would not be eligible for the 0% Corporate Tax rate, but the branch in the Free Zone would. To reflect this, the term “Free Zone parent” is used in the guide to refer to the operations that a Free Zone Person has within a Free Zone, and when it has a taxable presence outside of the Free Zone the term “Domestic Permanent Establishment” or “Foreign Permanent Establishment” is used to reflect its non-Free Zone Business.

### **3.2.2. The Free Zone Person must maintain adequate substance in a Free Zone**

The Free Zone Person must undertake its core income-generating activities relating to transactions and activities benefiting from the 0% Corporate Tax rate on Qualifying Income in a Free Zone (for distribution activities, this needs to be a Designated Zone). The Free Zone Person must have adequate assets, full-time employees, and incur an adequate amount of operating expenditures in the Free Zone (or Designated Zone for distribution activities) to perform its core income-generating activities. The core income-generating activities are the essential and value-adding activities that a Free Zone Person performs to generate Revenue from its Free Zone Business.

A Free Zone Person may outsource its core income-generating activities to other Persons located in a Free Zone (or Designated Zone for distribution activities), provided it has adequate supervision of the outsourced activities. For research and development (R&D) relating to the development of Qualifying Intellectual Property, a Free Zone Person may also outsource its core income-generating activities to any Persons in the UAE or non-Related Parties outside the UAE, provided it has adequate supervision of the outsourced activities.



### **3.2.3. The Free Zone Person must derive Qualifying Income**

The Free Zone Person must derive Qualifying Income from one or more of 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, or
- other income, provided the Free Zone Person meets the de minimis requirements (see Section [3.2.8](#)).

However, income from the following sources (even if within the list above) will not give rise to Qualifying Income and will be taken into account in determining the 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).

### **3.2.4. The Free Zone Person must not have elected to be subject to the standard Corporate Tax rules and rates**

A Free Zone Person must not have made an election under Article 19 of the Corporate Tax Law to be subject to the standard Corporate Tax rules and rates.

### **3.2.5. The Free Zone Person must comply with the arm's length principle**

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. This means that the Free Zone parent must earn and record operating profits or losses at arm's length, determined in accordance with internationally accepted profit attribution methods such as the separate entity approach, taking into account the functions performed, assets used and risks assumed through the Free Zone parent and through its Foreign Permanent Establishments or Domestic Permanent Establishments.



### 3.2.6. The Free Zone Person must maintain Transfer Pricing documentation

The Free Zone Person must comply with the Transfer Pricing documentation requirements relating to transactions or arrangements with its Related Parties and Connected Persons. This requires the maintenance of documentation to demonstrate the arm's length nature of the relevant transactions and the preparation of a master file, local file, and disclosure form for the Free Zone Person as a whole if the relevant Transfer Pricing compliance thresholds are met.

In addition, where the Free Zone Person has income that is subject to the 9% Corporate Tax rate (for example, income attributable to its Foreign Permanent Establishment or Domestic Permanent Establishment), it should be able to demonstrate how the profits attributed to its Free Zone parent are commensurate with the functions performed, assets used, and risks assumed by the Free Zone parent and reflects an arm's length share of its overall operating profits.

### 3.2.7. The Free Zone Person must maintain audited Financial Statements

The Free Zone Person must prepare and maintain audited Financial Statements, regardless of the amount of Revenue it earns.

### 3.2.8. The non-qualifying Revenue must meet the de minimis requirements

The de minimis requirements are met if the Free Zone Person's **non-qualifying Revenue** does not exceed the lower of:

- AED 5,000,000, or
- 5% of its **total Revenue**.

The Free Zone Person's **non-qualifying Revenue** in a Tax Period is Revenue derived from:

- Excluded Activities,
- activities that are not Qualifying Activities where the other party to the transaction is a Non-Free Zone Person, and
- transactions with a Free Zone Person where such Free Zone Person is not the Beneficial Recipient of the relevant services or Goods.

When the Free Zone Person undertakes the de minimis calculation, Revenue from certain sources (as mentioned under Section [3.2.3](#)) that do not give rise to Qualifying Income is not taken into consideration as part of **total Revenue** or **non-qualifying Revenue**. For example:

- If the Free Zone Person derives Revenue of AED 10,000,000 of which AED 2,000,000 is attributable to a Domestic Permanent Establishment, its **total Revenue** for the purposes of de minimis calculation will be AED 8,000,000 and the AED 2,000,000 will not be considered as **non-qualifying Revenue**.



- If the Free Zone Person derives AED 5,000,000 from Excluded Activities (which normally gives rise to non-qualifying Revenue) but this Revenue is attributable to a Domestic Permanent Establishment (giving rise to income that is subject to the 9% rate of Corporate Tax per Section [3.2.3](#)), its **non-qualifying Revenue** for the purposes of the de minimis calculation would be zero.

### 3.3. Taxation of a QFZP

If the Free Zone Person meets all the conditions (including the de minimis requirements) to be a QFZP, it will be subject to Corporate Tax at the following rates:

- 0% on its Qualifying Income, and
- 9% on its Taxable Income that is not Qualifying Income.

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

To determine its Taxable Income that is not Qualifying Income, the Free Zone Person should apply the standard Corporate Tax rules in Article 20 of the Corporate Tax Law (for example, the Foreign Permanent Establishment exemption) to any income sources that do not give rise to Qualifying Income, but without the benefit of Small Business Relief, Qualifying Group Relief, Business Restructuring Relief, transfer of Tax Losses, or the Tax Group regime.

### 3.4. Losing status of a QFZP

A QFZP that elects to be subject to the standard Corporate Tax rules and rates or that fails to meet the criteria to be a QFZP for a certain Tax Period will cease to be a QFZP from the beginning of the Tax Period for which it elects to be subject to Corporate Tax or in which it fails to meet the criteria to be a QFZP, and the four subsequent Tax Periods.



## 4. Requirements to be a QFZP

### 4.1. Introduction

The Corporate Tax Law applies a 0% Corporate Tax rate to the Qualifying Income of a QFZP from transactions with Free Zone Persons and certain activities performed from within a Free Zone.<sup>1</sup>

Each Free Zone is regulated by a Free Zone authority and has its own local regulations. The Free Zone authority regulates the establishment of various businesses, including legal entities and branches within the Free Zone and the issuance and monitoring of trade licences for activities conducted in or from within the Free Zone.

The 0% Corporate Tax rate applies for the remainder of the tax incentive period stipulated in the legislation of the Free Zone in which the QFZP is registered.<sup>2</sup>

### 4.2. Being a Free Zone Person

A Free Zone Person is a juridical person that is incorporated, established, or otherwise registered in a Free Zone.<sup>3</sup> This also includes the relevant Free Zone authorities and other Government Controlled Entities that are established in a Free Zone.

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

A Person that is not a juridical person (i.e. an entity without a separate legal personality that is distinct from its owners or founders), such as an Unincorporated Partnership or a natural person, cannot be a Free Zone Person. A juridical person incorporated or established outside of a Free Zone also cannot be a Free Zone Person solely because the place of effective management and control of that juridical person is situated in a Free Zone.

A Free Zone Person will be deemed to be a QFZP unless one of the conditions to be a QFZP is not met, or if the QFZP makes an election to be subject to tax (see Sections [4.4](#) to [4.6](#)).

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<sup>1</sup> Article 3(2)(a) of the Corporate Tax Law.

<sup>2</sup> Article 18(4) of the Corporate Tax Law. The period may be extended by a Cabinet Decision.

<sup>3</sup> Article 1 of the Corporate Tax Law.



### 4.3. Scope of the Free Zone Corporate Tax rules

The 0% Corporate Tax rate under the Free Zone regime applies to transactions and activities performed from within the prescribed geographical areas of Free Zones (including Designated Zones) and is intended to benefit Qualifying Income derived from the following sources:

- Transactions with another Free Zone Person who is the Beneficial Recipient of the transaction, unless the transaction relates to:
  - Excluded Activities (see Section [11](#)),
  - Immovable Property located outside a Free Zone, or
  - non-Commercial Property located in a Free Zone.
- Transactions relating to Qualifying Activities (see Section [10](#)) that are not Excluded Activities.
- Income from Qualifying Intellectual Property that a Free Zone Person has developed (see Section [9](#)).
- Any other income where the de minimis requirements are met.

#### **Example 1: Transactions with a Free Zone Person**

Company A (a Free Zone Person) performs legal services solely for Free Zone Persons who are the Beneficial Recipients of those services.

Transactions between Free Zone Persons are not required to be within the scope of Qualifying Activities to benefit from the 0% Corporate Tax rate on Qualifying Income. Consequently, income from Company A's transactions will constitute Qualifying Income as long as it does not arise from Excluded Activities (for example, transactions with natural persons are normally Excluded Activities).

As legal services are not Excluded Activities, Company A may still derive Qualifying Income from the services provided to juridical persons (who are Free Zone Persons and Beneficial Recipients of these services) and benefit from the 0% Corporate Tax rate on that income, even though legal services are not a Qualifying Activity.

#### **4.3.1. Beneficial Recipient**

The 0% Corporate Tax rate on Qualifying Income is intended to apply to transactions between Free Zone Persons, provided the transactions do not relate to an Excluded Activity. However, to preserve the integrity of the rules, the 0% Corporate Tax rate only applies to those transactions if the recipient (i.e. the Free Zone Person) is the Beneficial Recipient of the relevant services or Goods.<sup>4</sup>

<sup>4</sup> Article 3(3) of Cabinet Decision No. 100 of 2023.

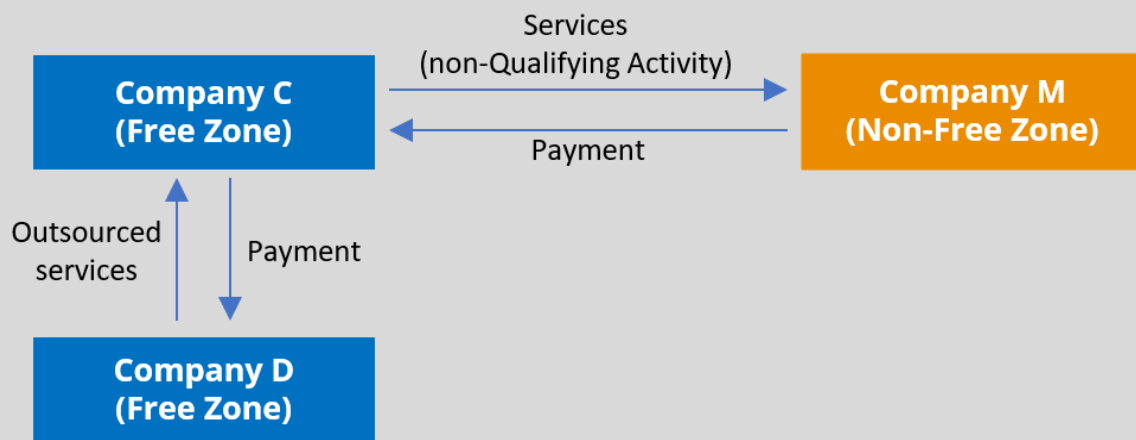


A Free Zone Person is considered to be the Beneficial Recipient of services or Goods if the Free Zone Person has the right to use and enjoy the services or Goods and is not bound by a contractual or legal obligation to supply such services or Goods to another person.<sup>5</sup> To be considered as the Beneficial Recipient, the services or Goods must be for use by the Free Zone parent and not by a Foreign Permanent Establishment or Domestic Permanent Establishment.

Where the recipient is acting as a conduit or intermediary (for example, an agent or nominee) for a third party (including a Related Party or group entity), the Beneficial Recipient of that transaction is the third party and not the conduit or intermediary.

### Example 2: Beneficial Recipient rule

Company C (a Free Zone Person) is engaged in the Business of providing legal services (i.e. not a Qualifying Activity). Company C enters into a contract with Company M (a Non-Free Zone Person) to provide legal advice in Mandarin to Company M. While Company C performs the legal analysis, Company C outsources the Mandarin and other translation work to Company D (a Free Zone Person). The arrangements are illustrated in the diagram below.



For Company D, Company C would be the Beneficial Recipient of its services. Although Company C provides the translation directly to Company M to meet its commitments to Company M, Company C has the right to use and enjoy the services as Company C does not have a contractual or legal obligation to supply the specific services from Company D to Company M (i.e. the services Company D is performing are not specific deliverables for Company M but are an input for Company C and this is not an instance where Company M could have contracted directly with Company D in order to obtain the legal services). Accordingly, subject to meeting all the other

<sup>5</sup> Article 3(3) of Cabinet Decision No. 100 of 2023.





relevant requirements, the income Company D derives from Company C will be considered to be derived from a transaction with a Free Zone Person that is the Beneficial Recipient of the services.

For Company C, the payment from Company M would be considered non-Qualifying Income as Company C is engaged in rendering non-Qualifying Activity to a Non-Free Zone Person (Company M).

When a Free Zone Person sells services or Goods to another Free Zone Person, it is required, in order to determine its own status as a QFZP, to consider if the purchaser is the Beneficial Recipient of such services or Goods. The seller or service provider may rely on a written statement or undertaking from the purchaser (for example, a contractual stipulation) confirming that the purchaser is the Beneficial Recipient and will use the services or Goods for its Free Zone Business, unless the seller has reason to believe that such representation may be incorrect (for example, because the Goods are to be delivered to a third party).

#### 4.4. De minimis requirements

To preserve the integrity of the 0% Corporate Tax rate on Qualifying Income, where a Free Zone Person derives income that is outside the intended scope of the rules (see Section 4.3), it will lose its status as a QFZP unless it satisfies the de minimis requirements.<sup>6</sup>

When assessing the de minimis requirements, Revenue derived from the following sources is not taken into consideration and will not affect a Free Zone Person's status as a QFZP:<sup>7</sup>

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

The income that arises from these Revenue sources will be subject to a 9% Corporate Tax rate (unless the income is Exempt Income) as applicable under the Corporate Tax Law.<sup>8</sup>

<sup>6</sup> Article 5(1)(a) of Ministerial Decision No. 265 of 2023.

<sup>7</sup> Article 3(1) of Cabinet Decision No. 100 of 2023.

<sup>8</sup> Article 3(2)(b) of the Corporate Tax Law.



For other Revenue sources, the de minimis requirements allow a Free Zone Person to derive an immaterial amount of income from Excluded Activities and non-qualifying sources without affecting its ability to be a QFZP provided the de minimis requirements are satisfied.<sup>9</sup>

#### 4.4.1. Applying the de minimis requirements

The de minimis requirements are satisfied where the non-qualifying Revenue derived by the QFZP in a Tax Period does not exceed the lower of:<sup>10</sup>

- 5% of the total Revenue of the QFZP in that Tax Period, or
- AED 5,000,000.

To determine the non-qualifying Revenue and total Revenue to apply the de minimis requirements, the Revenue of a Free Zone Person must be segregated into its components:

- **total Revenue** is all the Revenue that a Free Zone Person derives in Tax Period, less the amount of Revenue that is:<sup>11</sup>
  - attributable to a Foreign Permanent Establishment (see Section [7.2](#)),
  - attributable to a Domestic Permanent Establishment (see Section [7.3](#)),
  - derived from Immovable Property located in a Free Zone, other than Commercial Property transactions with Free Zone Persons (see Section [8](#) for more information on Immovable Property located in a Free Zone), and
  - derived from the ownership or exploitation of intellectual property, other than Revenue relating to Qualifying Income from Qualifying Intellectual Property (see Section [9](#) for information on Qualifying Intellectual Property).
- **non-qualifying Revenue** is the Free Zone Person's Revenue from the following activities/transactions once adjusted for the above exclusions:<sup>12</sup>
  - Excluded Activities,
  - activities that are not Qualifying Activities where the other party to the transaction is a Non-Free Zone Person, and
  - transactions with a Free Zone Person where such Free Zone Person is not the Beneficial Recipient of the relevant services or Goods.

The Revenue that is attributable to a Foreign Permanent Establishment or Domestic Permanent Establishment is determined by applying the arm's length principle.

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<sup>9</sup> Article 3(1)(d) of Cabinet Decision No. 100 of 2023.

<sup>10</sup> Article 3 of Ministerial Decision No. 265 of 2023.

<sup>11</sup> Articles 3(1) and 4(3) of Cabinet Decision No. 100 of 2023.

<sup>12</sup> Article 4(2)(a) of Cabinet Decision No. 100 of 2023.



### **Example 3: Revenue attributable to a Domestic Permanent Establishment**

Company B (a Free Zone Person) manufactures goods in a Free Zone and transfers those goods to its Domestic Permanent Establishment, which then sells those goods for AED 100,000. The arm's length price of the goods when they are transferred to the Domestic Permanent Establishment is AED 70,000.

The Revenue attributable to Company B's Domestic Permanent Establishment will be AED 30,000, which is the difference between the price for which the goods were sold and the arm's length price of the goods when they were transferred to the Domestic Permanent Establishment.

### **Example 4: Revenue attributable to a Domestic Permanent Establishment**

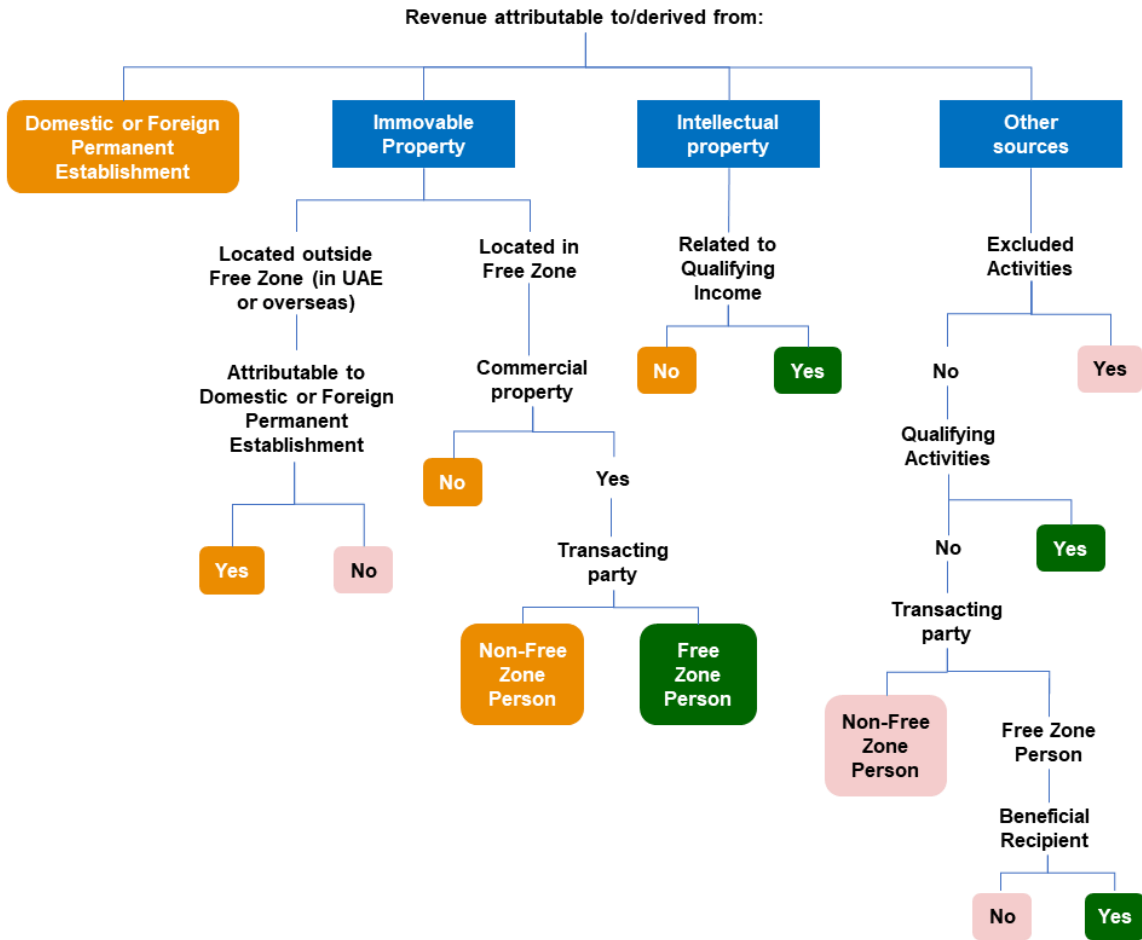
Company D (a Free Zone Person) conducts part of its Business through a Domestic Permanent Establishment and conducts Qualifying Activities through its Free Zone parent. Company D performs routine administrative activities (for example, payroll administration) for the whole entity through its Domestic Permanent Establishment. The arm's length value of the services that are received by the Free Zone parent is AED 100,000.

The arm's length value of those services will constitute Revenue attributable to the Domestic Permanent Establishment and will be excluded for the purposes of the de minimis requirement. The income attributable to those activities would also be taken into consideration when determining the Taxable Income of the Domestic Permanent Establishment.

The segregation of Revenue to determine what is considered "non-Qualifying Revenue" is illustrated in the flow chart below.



## Determining “total Revenue” and “non-qualifying Revenue”



This represents that the relevant component is excluded from “total Revenue” and “non-qualifying Revenue” while applying the de-minimis requirements

This represents that the relevant component is included in “total Revenue” and “non-qualifying Revenue” while applying the de-minimis requirements

This represents that the relevant component is included in “total Revenue” and excluded from “non-qualifying Revenue” while applying the de-minimis requirements

Income that an Exempt Person derives in its capacity as an Exempt Person (for example, income from an Extractive Business) is also excluded from the above calculations/steps on the basis that the provisions of the Corporate Tax Law do not apply to that Business.<sup>13</sup>

If the de minimis requirements are not met, the Free Zone Person will not be a QFZP and will be subject to the standard Corporate Tax rules and rates from the beginning of the relevant Tax Period and for the subsequent four Tax Periods.<sup>14</sup>

<sup>13</sup> Articles 5(1), 6(1), 7(1) and 8(1) of the Corporate Tax Law.

<sup>14</sup> Articles 5(1)(a) and (2) of Ministerial Decision No. 265 of 2023.



### Example 5: De minimis requirements to be treated as QFZP

Company E (a Free Zone Person) derives the following Revenue:

Revenue	Amounts in AED
From a Domestic Permanent Establishment	10,000,000
From rental of Immovable Property located in a Free Zone to Non-Free Zone Persons	2,500,000
From transactions with other Free Zone Persons (who are the Beneficial Recipients), of which AED 200,000 relates to Excluded Activities	5,000,000
From transactions with Non-Free Zone Persons, all of which arises from Qualifying Activities that are not Excluded Activities	2,000,000
From other transactions with Non-Free Zone Persons (that are not Qualifying Activities)	300,000

The Revenue from the Domestic Permanent Establishment (AED 10,000,000) and Immovable Property located in the Free Zone (AED 2,500,000) is disregarded in determining whether Company E has met the de minimis requirements to be considered as a QFZP.

Company E has non-qualifying Revenue of AED 500,000, arising from:

- AED 200,000 of Revenue from Excluded Activities from transactions with Free Zone Persons, and
- AED 300,000 of Revenue from other transactions with Non-Free Zone Persons (that are not Qualifying Activities).

For purposes of the de minimis requirement, the total Revenue of Company E is AED 7,300,000 arising from:

- AED 5,000,000 from transactions with other Free Zone Persons (who are the Beneficial Recipients). This includes the AED 200,000 that relates to Excluded Activities,
- AED 2,000,000 from transactions with Non-Free Zone Persons, all of which arises from Qualifying Activities that are not Excluded Activities, and
- AED 300,000 from other transactions with Non-Free Zone Persons (that are not Qualifying Activities).

As Company E's non-qualifying Revenue is 6.85% ( $500,000/7,300,000$ ) of total Revenue, which exceeds the 5% de minimis threshold, Company E does not meet



the requirements to be a QFZP and would, therefore, be subject to the standard Corporate Tax rules and rates on the entirety of its Taxable Income.

#### **Example 6: De minimis requirements to be treated as QFZP**

The facts are the same as in Example 5, except that the AED 300,000 from other transactions with Non-Free Zone Persons is attributable to Company E's Domestic Permanent Establishment.

Company E has non-qualifying Revenue of AED 200,000 arising from Revenue from Excluded Activities from transactions with Free Zone Persons. For purposes of the de minimis requirement, the total Revenue of Company E is AED 7,000,000. As the non-qualifying Revenue is 2.86% ( $200,000/7,000,000$ ) of total Revenue, which is within the 5% de minimis threshold, and does not exceed the AED 5,000,000 de minimis threshold, Company E meets the de minimis requirements to be a QFZP and may be able to benefit from the 0% Corporate Tax rate for QFZPs on its Qualifying Income, provided it meets the other relevant conditions.

#### **4.5. Other criteria to be a QFZP**

In addition to meeting the de minimis requirements, a Free Zone Person must meet all the following criteria to be a QFZP in a Tax Period:

1. The Free Zone Person must **have adequate substance** (see Section [6](#)).<sup>15</sup> This means that it must undertake, in a Free Zone, all of its core income-generating activities relating to transactions and activities that generate Qualifying Income (for distribution activities, these core income-generating activities need to be undertaken within a Designated Zone). It is also required that the Free Zone Person maintains adequate assets, full-time employees, and operating expenditures in the Free Zone (or Designated Zone) to perform the core income-generating activities. The only exception to this requirement, is in relation to Qualifying Intellectual Property where R&D activities may be outsourced to certain Persons outside the Free Zone.
2. The Free Zone Person must **derive Qualifying Income** (see Section [5.2](#)).<sup>16</sup> A Free Zone Person that does not earn any Qualifying Income in a Tax Period because it has not started to derive Revenue would be considered to meet this requirement (see Section [4.5.1](#)).

<sup>15</sup> Article 18(1)(a) of the Corporate Tax Law.

<sup>16</sup> Article 18(1)(b) of the Corporate Tax Law.



3. The Free Zone Person must **not have elected to** be subject to **the standard Corporate Tax rules and rates** (see Section [4.6](#)).<sup>17</sup>
4. The Free Zone Person must **comply with the arm's length principle** for transactions with Related Parties (see Section [4.5.2](#)) and maintain appropriate Transfer Pricing documentation for its overall UAE operations (see Section [4.5.3](#)).<sup>18</sup>
5. The Free Zone Person must **prepare and maintain audited Financial Statements** for the purposes of the Corporate Tax Law, regardless of the amount of Revenue that it earns (see Section [12.4](#)).<sup>19</sup>

#### 4.5.1. Deriving Qualifying Income

A Free Zone Person 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 and complies with all other requirements prescribed by the Corporate Tax Law. An example of this would be a Free Zone Person that conducts activities in a Free Zone that may give rise to Qualifying Income but is yet to derive Revenue from those activities.

##### **Example 7: Free Zone Person with no Revenue in start-up phase**

Company F (a QFZP) is incorporated on 1 January 2024 in a Free Zone to manufacture environmentally friendly products (a Qualifying Activity). It follows the Gregorian calendar year as its Tax Period.

Throughout the 2024 and 2025 Tax Periods, Company F remains in the preparatory phase, purchasing equipment, hiring staff, and finalising its product development. The company does not earn any Qualifying Income as its Qualifying Activity of manufacturing is not yet fully operational. No Revenue arises during the 2024 and 2025 Tax Periods, even though the company has incurred expenditure.

In this case, having no Qualifying Income for the 2024 and 2025 Tax Periods will not automatically disqualify Company F from being a QFZP as there is no Revenue and Business operations have not commenced.

Therefore, Company F can retain its QFZP status for the 2024 and 2025 Tax Periods, anticipating its potential to generate Qualifying Income in the successive periods when its Qualifying Activity of manufacturing begins and it generates Revenue. In this case, Company F can file its Tax Returns as a QFZP for the 2024 and 2025 Tax

<sup>17</sup> Article 18(1)(c) of the Corporate Tax Law.

<sup>18</sup> Article 18(1)(d) of the Corporate Tax Law.

<sup>19</sup> Articles 5(1)(b) of Ministerial Decision No. 265 of 2023.



Periods. However, there will be no Qualifying Income to benefit from the 0% Corporate Tax rate.

#### **Example 8: Free Zone Person with Interest income in start-up phase**

The facts are the same as in Example 7, except that Company F deposits its working capital in an Interest-bearing bank account and derives AED 100 of Interest income in the 2024 Tax Period.

The investment of surplus funds cannot be considered as an ancillary activity (see Section [10.2.3](#)). However, such Interest income can be treated as arising from the Qualifying Activity of treasury and financing services to Related Parties (see Section [10.12](#)). The relevant core income-generating activities for treasury and financing services and associated level of substance for this activity will still need to be met.

For the purpose of assessing whether Company F has adequate employees, it will need to be ensured that there is no double counting of employees (i.e. the employee that oversees the treasury activity cannot also be counted for the purpose of the manufacturing activity substance test).

#### **Example 9: Free Zone Person with non-qualifying Revenue in start-up phase**

The facts are the same as in Example 7, except that Company F sells an office chair to an employee for AED 100 in the 2024 Tax Period.

The sale of the office chair to the employee is an Excluded Activity (transactions with natural persons) and would be treated as non-qualifying Revenue. As the non-qualifying Revenue (i.e. AED 100) exceeds 5% of the total Revenue (i.e. AED 100), Company F will not meet the de minimis requirements in 2024 and will not qualify to be a QFZP for the 2024 Tax Period and the four subsequent Tax Periods.

### **4.5.2. Arm's length principle**

One of the conditions to be a QFZP is that a Free Zone Person must comply with the arm's length principle.<sup>20</sup> When determining Taxable Income, income and expenses relating to transactions and arrangements between Related Parties must be consistent with the results that would have been realised if Persons who were not Related Parties had engaged in similar transactions or arrangements under similar circumstances.<sup>21</sup>

<sup>20</sup> Article 18(1)(d) of the Corporate Tax Law read with Article 34 of the Corporate Tax Law.

<sup>21</sup> Article 34(2) of the Corporate Tax Law.





In other words, the Related Parties must earn arm's length income and record operating profits or losses in line with their respective functions, assets, and risks and contributions to the value chain across the group.

Section [5.4](#) discusses the practical application of the arm's length principle to the attribution of profits of a Free Zone Person between the Free Zone parent and its Foreign Permanent Establishments or Domestic Permanent Establishments.

#### **4.5.3. Transfer Pricing documentation**

Another condition to be a QFZP is that a Free Zone Person must comply with the Transfer Pricing documentation requirements relating to transactions and arrangements with its Related Parties and Connected Persons.<sup>22</sup> This would require the maintenance of documentation to demonstrate the arm's length nature of the relevant transactions and the preparation of a master file, local file, and other Transfer Pricing documentation requirements for the Free Zone Person as a whole if the relevant Transfer Pricing compliance thresholds are met.<sup>23</sup>

In addition, a QFZP should maintain sufficient documentation to be able to demonstrate how the profits attributed to the Free Zone parent and its Foreign Permanent Establishments or Domestic Permanent Establishments are commensurate with their relative functions performed, assets deployed, and risks assumed.

#### **4.6. Election not to be a QFZP**

Being a beneficiary to the 0% Corporate Tax rate, a QFZP will not be eligible for some of the standard features of the Corporate Tax regime. For instance, a QFZP does not qualify for the 0% Corporate Tax rate on Taxable Income up to AED 375,000 that is available to a Person that is not a QFZP. A QFZP also does not qualify for Tax Grouping and specific relief provisions available under the Corporate Tax Law such as Small Business Relief, Qualifying Group Relief, Business Restructuring Relief and transfer of Tax Losses.

The Corporate Tax regime does, however, provide flexibility to allow a Free Zone Person to elect not to be treated as a QFZP, and to be subject to Corporate Tax in the same manner as other Taxable Persons in general.<sup>24</sup> A Free Zone Person would, in those instances, be able to qualify for the specific provisions listed above, subject to meeting the necessary conditions.

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<sup>22</sup> Article 18(1)(d) of the Corporate Tax Law read with Article 55 of the Corporate Tax Law.

<sup>23</sup> Article 2(1) of Ministerial Decision No. 97 of 2023.

<sup>24</sup> Article 19(1) of the Corporate Tax Law.



The Free Zone Person has the option to make the election effective from either of:<sup>25</sup>

- the commencement of the Tax Period in which the election is made, or
- the commencement of the Tax Period following the Tax Period in which the election was made.

The above election can be made by the Free Zone Person in relation to the relevant Tax Period at any time during such Tax Period and after the end of such Tax Period in the related Tax Return. The election cannot be made after the due date for filing the relevant Tax Return has lapsed.

#### **Example 10: Election not to be a QFZP**

Company G (a Free Zone Person) has determined that it does not want to be a QFZP for the Tax Period 1 January 2024 to 31 December 2024.

For the election to apply to the Tax Period ending 31 December 2024, Company G would need to make this election up to the due date of filing of the Tax Return for 2024. Where such an election has been made by 30 September 2025 (i.e. within 9 months from the end of the Tax Period ending 31 December 2024), it would mean that Company G is not a QFZP for the Tax Period ending 31 December 2024 and the four subsequent Tax Periods.

#### **4.6.1. Effect of an election to be subject to standard Corporate Tax rules and rates**

An election not to be a QFZP will apply for the Tax Period from which it is effective and for the following four Tax Periods. After that, it would need to make a new election to not be treated as a QFZP (i.e. to be subject to standard Corporate Tax rules and rates), unless it otherwise fails to meet the criteria to be a QFZP for that Tax Period.<sup>26</sup>

#### **4.7. Losing status as a QFZP**

If a QFZP fails to meet the criteria to be a QFZP for a Tax Period, the QFZP will cease to be a QFZP from the beginning of that Tax Period and for the four subsequent Tax Periods.<sup>27</sup>

<sup>25</sup> Article 19(2) of the Corporate Tax Law.

<sup>26</sup> Article 19(1) of the Corporate Tax Law and Article 5(2) of Ministerial Decision No. 265 of 2023.

<sup>27</sup> Article 5(2) of Ministerial Decision No. 265 of 2023.



### **Example 11: Not meeting criteria to be a QFZP**

Company H (a QFZP) consistently follows the Gregorian calendar year as its Tax Period. During the 2024 Tax Period, if Company H fails to meet the de minimis requirements it would be treated as a QFZP that has failed to meet the criteria to be a QFZP. Accordingly, Company H would cease to be treated as a QFZP from 1 January 2024, and for the four subsequent Tax Periods. As it consistently follows the Gregorian calendar year as its Tax Period, it would not be eligible to be treated as a QFZP until the end of the 2028 Tax Period (31 December 2028).

### **Example 12: Failing to qualify as a QFZP in the previous five Tax Periods**

Company I (a QFZP) consistently follows the Gregorian calendar year as its Tax Period. During the 2024 Tax Period, if Company I elects not to be a QFZP, or if it fails to meet the de minimis requirements then Company I would fail to meet the criteria to be a QFZP. Accordingly, Company I would not be a QFZP for the 2024 Tax Period and the four subsequent Tax Periods, even if the conditions to be a QFZP during any of these four subsequent years are met. As it consistently follows the Gregorian calendar year as its Tax Period, it would not be eligible to be treated as a QFZP until the end of the 2028 Tax Period (31 December 2028).

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

For the 2029 Tax Period starting on 1 January 2029, Company I would test again whether it qualifies to be a QFZP. If Company I fails to meet the criteria to be a QFZP, it would not be a QFZP for the 2029 Tax Period and the four subsequent Tax Periods through to the end of the 2033 Tax Period, and it would review its status again for the 2034 Tax Period.



## 5. Calculating Corporate Tax for a Free Zone Person

### 5.1. Corporate Tax rate for a QFZP

If a Free Zone Person meets all the conditions (including the de minimis requirements) to be a QFZP, it will be subject to:<sup>28</sup>

- 0% Corporate Tax rate on its Qualifying Income, and
- 9% Corporate Tax rate on its Taxable Income that is not Qualifying Income.

A QFZP is not entitled to a 0% Corporate Tax rate on its first AED 375,000 of Taxable Income.

### 5.2. Qualifying Income

Qualifying Income is defined in relation to the following categories of income:<sup>29</sup>

- transactions with a Free Zone Person who is the Beneficial Recipient of the transaction (except Revenue from Excluded Activities),
- transactions in respect of Qualifying Activities (except Revenue from Excluded Activities),
- Qualifying Income from Qualifying Intellectual Property, and
- other sources (including Revenue from Excluded Activities) if the QFZP satisfies the de minimis requirements.

However, Revenue from the following sources will not give rise to Qualifying Income, even if it falls within the items listed above:<sup>30</sup>

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

### 5.3. Taxable Income that is not Qualifying Income

To determine the amount of Taxable Income that is not Qualifying Income, which will be subject to the 9% Corporate Tax rate, a QFZP will need to:

- separate the Revenue in its Financial Statements into Revenue pertaining to the Qualifying Income component and to the Taxable Income component,

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<sup>28</sup> Article 3(2) of the Corporate Tax Law.

<sup>29</sup> Article 3(1) of Cabinet Decision No. 100 of 2023.

<sup>30</sup> Article 3(1) of Cabinet Decision No. 100 of 2023.



- allocate the expenses in its Financial Statements against those components in a reasonable manner, consistent with the arm's length principle (see Section [5.4](#)), and
- apply Article 20 of the Corporate Tax Law (i.e. the general rules for determining Taxable Income) to determine the Taxable Income that is not Qualifying Income (see Section [5.5](#)).

### **Example 13: Corporate Tax on QFZP with a Domestic Permanent Establishment**

Company J (a QFZP) derives the following Revenue for the Tax Period ending 31 December 2024:

- AED 1,000,000 attributable to Qualifying Activities that are not Excluded Activities performed in a Free Zone.
- AED 2,000,000 attributable to activities conducted through a Domestic Permanent Establishment.

Company J incurs the following operating expenses during the Tax Period:

- AED 600,000 by the Free Zone parent.
- AED 1,400,000 by its Domestic Permanent Establishment.
- AED 300,000 in the Domestic Permanent Establishment relating to HR administrative activities that support both the Free Zone parent and Domestic Permanent Establishment. Applying an appropriate allocation key (for example, relative headcount), Company J determines that 50% of these expenses should be attributed to its Free Zone parent.

Based on the arm's length principle, Company J determines that the Revenue and expenses in its Financial Statements for the Tax Period ending 31 December 2024 can be allocated between Qualifying Income and Taxable Income, as follows (amounts in AED):

<b>Items</b>	<b>Total</b>	<b>Domestic Permanent Establishment (Taxable Income)</b>	<b>Free Zone parent (Qualifying Income)</b>
Revenue	3,000,000	2,000,000	1,000,000
Less: Direct expenses	2,000,000	1,400,000	600,000
Less: Allocated expenses	300,000	150,000	150,000
Profit	700,000	450,000	250,000



Company J will be subject to Corporate Tax on its Qualifying Income (of AED 250,000) at 0%. Company J will be subject to Corporate Tax of AED 40,500 (i.e. 9% Corporate Tax rate on the AED 450,000 profit attributable to its Domestic Permanent Establishment). This is based on the assumption that there are no further adjustments as per Article 20 of the Corporate Tax Law.

#### 5.4. Allocating expenses

Where a QFZP derives both Qualifying Income and Taxable Income that is not Qualifying Income, it will need to allocate its expenses between the two components to determine the Taxable Income component. This should be done by applying the arm's length principle.<sup>31</sup> For income attributable to a Foreign Permanent Establishment or Domestic Permanent Establishment, this requires the Foreign Permanent Establishment or Domestic Permanent Establishment to be treated as if it were a separate and independent Person transacting at arm's length ("separate entity approach"). In relation to income that is not connected with a Foreign Permanent Establishment or Domestic Permanent Establishment, the Free Zone Person should make a reasonable allocation between the components to determine the arm's length value of profits attributable to each activity.

To attribute the profit between a Free Zone parent and its Foreign Permanent Establishment or Domestic Permanent Establishment, a two-step approach is required:

- **Step one:** Conduct a functional analysis to identify the functions performed by the Foreign Permanent Establishment or Domestic Permanent Establishment on one side, and the Free Zone parent on the other side, treating each as separate to the other. This analysis should also take into account the assets used and the risks assumed by the Foreign Permanent Establishment or Domestic Permanent Establishment and the Free Zone parent.
- **Step two:** Determine the compensation relating to arrangements or dealings between the Foreign Permanent Establishment or Domestic Permanent Establishment and the Free Zone parent, commensurate with their respective functions performed, assets deployed, and risks assumed.

For further information on the two-step approach, see the FTA Corporate Tax Guide on Transfer Pricing. Free Zone Persons can also refer to the 2010 report<sup>32</sup> and the 2018 report<sup>33</sup> on the attribution of profits to permanent establishments issued by the OECD for further guidance.

<sup>31</sup> Article 34 of the Corporate Tax Law.

<sup>32</sup> Available at: <https://www.oecd.org/ctp/transfer-pricing/45689524.pdf>.

<sup>33</sup> Available at: <https://www.oecd.org/tax/transfer-pricing/additional-guidance-attribution-of-profits-to-permanent-establishments-BEPS-action-7.pdf>.



The approach adopted should be pragmatic, taking into consideration cost-benefit considerations and should be fact and circumstance specific.

Where expenses are incurred specifically for a determined income component, those expenses should be allocated directly to that category of income. However, if the QFZP incurs deductible expenses that cannot be directly attributed to the Qualifying Income or Taxable Income component (for example, Interest, centralised general and administration expenses), the QFZP will need to allocate those expenses between the Qualifying Income and Taxable Income components on an arm's length basis using appropriate allocation keys. This allocation should be consistent with the arm's length principle.

Allocation keys are criteria used to determine how costs can be assigned or distributed across different departments, products, services, or divisions within a Business. These keys can be applied to factors such as headcount, floor space, usage, time spent, or any other measurable and reasonable basis. The primary goal of allocation keys is to provide a fair and accurate distribution of costs, allowing for more accurate determination of the income arising from each income component.

The appropriate allocation key will depend on the nature of the expense and the contribution that it makes to each income component. In many cases, an allocation that pro rates expenses based on Revenue will be considered as a reasonable allocation. However, this will not always be the case and the following principles should be considered to determine whether Revenue or some other basis would be appropriate to allocate each expense item. For example:

**Cause and effect:** An allocation should be consistent with identifiable cause-and-effect relationships (for example, machinery running hours may be an appropriate allocation key to allocate maintenance costs).

**Benefits derived:** An allocation should be commensurate with the benefits received.

The allocation key chosen must be logical and must fairly represent the benefit that the expense generates for each income component. The allocation key should also be used consistently for each Tax Period unless there is a change in fact pattern which may justify a change in allocation or methodology.

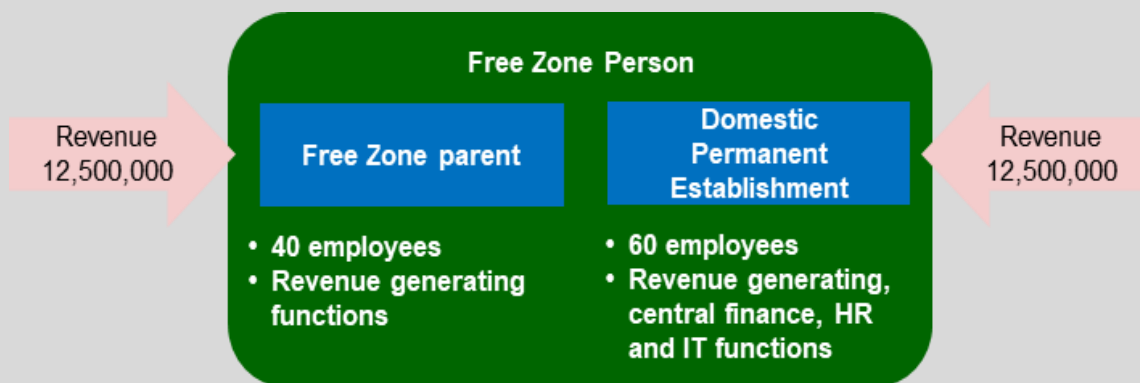
#### **Example 14: Allocation key for independent operations**

Company K (a QFZP) has a Free Zone parent and a Domestic Permanent Establishment, each of which performs an independent Business and derives



Revenue from sales to third parties. There is no flow of goods between the Free Zone parent and the Domestic Permanent Establishment. However, Company K's HR, finance, and IT departments in the Domestic Permanent Establishment support both the Free Zone parent and the Domestic Permanent Establishment.

Company K has 60 employees in its Domestic Permanent Establishment and 40 employees in its Free Zone parent. Company K generates AED 25,000,000 in Revenue for the Tax Period ending 31 December 2024, of which AED 12,500,000 relates to sales by the Free Zone parent and AED 12,500,000 relates to sales by the Domestic Permanent Establishment. The structure is reflected in the following diagram.



Company K derives 50% of its Revenue from its Qualifying Income component. However, based on an analysis of the benefits derived by the Free Zone parent and the Domestic Permanent Establishment:

- It may be more reasonable for Company K to allocate 40% of the costs of its HR and finance department to its Qualifying Income component based on headcount and Revenue respectively, as the cost of those functions tends to be correlated to the number of employees and Revenue (this would be subject to a full Transfer Pricing analysis).
- It may be appropriate to allocate IT costs based on the number of IT support tickets raised by the Free Zone parent and the Domestic Permanent Establishment, as this may provide a reasonable indication of the intensity of IT related activity for each income component (this would be subject to a full Transfer Pricing analysis).

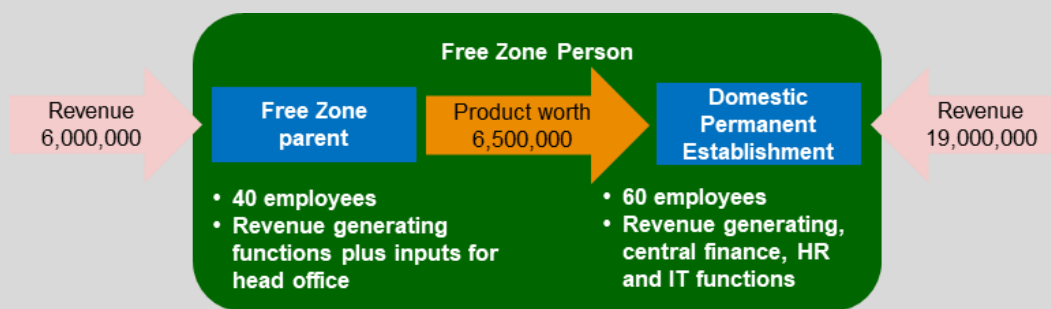
Other allocation keys may also be appropriate depending on the facts and circumstances and suitable Transfer Pricing analysis. Company K should adopt an allocation key for each expense that fairly represents the benefit that the expense generates for each income component.





### Example 15: Allocation key for interdependent operations

The facts are the same as in Example 14, except that the Domestic Permanent Establishment and Free Zone parent are integrated and interdependent. The market value of the output of the Free Zone parent is AED 12,500,000, of which AED 6,000,000 is realised through sales to third party and AED 6,500,000 represents the arm's length value of output transferred to the Domestic Permanent Establishment. The Domestic Permanent Establishment further processes and sells the output from the Free Zone parent, and this forms part of the AED 19,000,000 of Revenue that the Domestic Permanent Establishment receives from sales to third parties. The structure is reflected in the following diagram.



Company K would allocate indirect costs between its Free Zone parent and Domestic Permanent Establishment applying similar principles to Example 14.

## 5.5. Taxable Income subject to the 9% rate of Corporate Tax

To determine the amount of Taxable Income that is not Qualifying Income and is subject to the 9% rate of Corporate Tax, the QFZP should start from the income and expenses that do not pertain to Qualifying Income. Then the QFZP should determine its Taxable Income under the standard rules of the Corporate Tax Law, subject to the removal of Exempt Income, and the unavailability of reliefs under the Corporate Tax Law that a QFZP is not eligible to benefit from. A QFZP will not be able to benefit from:

- Small Business Relief,<sup>34</sup>
- Qualifying Group Relief,<sup>35</sup>
- Business Restructuring Relief,<sup>36</sup>
- the ability to transfer or receive a Tax Loss,<sup>37</sup> or
- the ability to be a member of a Tax Group.<sup>38</sup>

<sup>34</sup> Article 3(2) of Ministerial Decision No. 73 of 2023.

<sup>35</sup> Article 26(2)(d) of the Corporate Tax Law.

<sup>36</sup> Article 27(2)(d) of the Corporate Tax Law.

<sup>37</sup> Article 38(1)(f) of the Corporate Tax Law.

<sup>38</sup> Article 40(1)(f) of the Corporate Tax Law.



### Example 16: Application of Corporate Tax rate

Company L (a QFZP) conducts Business through its Free Zone parent and multiple Foreign Permanent Establishments and Domestic Permanent Establishments and derives income (after arm's length expense allocations) as follows:

Source	Amount	Observation
Free Zone parent	AED 1,000,000	All Qualifying Income
Domestic Permanent Establishments	AED 500,000	
Foreign Permanent Establishments	AED 5,000,000	

Company L elects not to take into account the income and associated expenditure of its Foreign Permanent Establishments,<sup>39</sup> so the income of the Foreign Permanent Establishments is Exempt Income.<sup>40</sup>

Company L derives Qualifying Income of AED 1,000,000 in relation to its Free Zone parent and Taxable Income of AED 500,000 through its Domestic Permanent Establishments. Company L will be subject to Corporate Tax as follows:

- 0% rate on the AED 1,000,000 of Qualifying Income, and
- 9% rate on the AED 500,000 of Taxable Income that is not Qualifying Income, amounting to AED 45,000 of Corporate Tax due. This is because the 375,000 AED threshold (subject to 0%) does not apply to a QFZP.

### Example 17: Non-deductible Interest expense

Company M (a QFZP) conducts Business through its Free Zone parent and through a Domestic Permanent Establishment. Company M derives no Interest income and incurs Interest expense of AED 36,000,000. The Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA), and the Net Interest Expenditure attributable to its Taxable Income and Qualifying Income components are reflected in the table below.

Note that the adjusted EBITDA in relation to Qualifying Income is provided for illustrative purposes only.

<sup>39</sup> Article 24(1) of the Corporate Tax Law.

<sup>40</sup> Article 22(4) of the Corporate Tax Law.



Items	Total	Domestic Permanent Establishment (Taxable Income)	Free Zone parent (Qualifying Income)
Adjusted EBITDA	72,000,000	42,000,000	30,000,000
Net Interest Expenditure	36,000,000	27,000,000	9,000,000

Thus, Company M's Interest deduction under the General Interest Deduction Limitation Rule is restricted to the greater of:

- 30% of adjusted EBITDA related to Taxable Income (i.e. AED 42,000,000 x 30% = AED 12,600,000), or
- AED 12,000,000.<sup>41</sup>

Company M may deduct the Net Interest Expenditure of AED 12,600,000 in determining its Taxable Income that is not Qualifying Income. In applying this test, income and expenses relating to Qualifying Income are disregarded.

#### Example 18: Non-deductible Interest expense

The facts are the same as in Example 17, except that the adjusted EBITDA and Net Interest Expenditure attributable to Company M's Taxable Income and Qualifying Income components are reflected in the table below. Note that the adjusted EBITDA in relation to Qualifying Income is provided for illustrative purposes only.

Items	Total	Domestic Permanent Establishment (Taxable Income)	Free Zone parent (Qualifying Income)
Adjusted EBITDA	36,000,000	20,000,000	16,000,000
Net Interest Expenditure	18,000,000	9,000,000	9,000,000

As the Net Interest Expenditure attributable to Taxable Income is less than the AED 12,000,000 threshold, the General Interest Deduction Limitation Rule will not be applicable. Company M may deduct the Net Interest Expenditure of AED 9,000,000 in determining its Taxable Income that is not Qualifying Income.

<sup>41</sup> Article 30 of the Corporate Tax Law.



### 5.5.1. Tax Losses

If a QFZP incurs Tax Losses on the Taxable Income component after applying Article 20 of the Corporate Tax Law, those Tax Losses may be carried forward and offset against the QFZP's Taxable Income in subsequent Tax Periods except for income from intellectual property (i.e. other than Qualifying Income from Qualifying Intellectual Property), provided the conditions in relation to Tax Loss relief and carry forward of Tax Losses are met.<sup>42</sup> Income from intellectual property (i.e. other than Qualifying Income from Qualifying Intellectual Property) can only be offset against Tax Losses from such intellectual property.

A QFZP cannot utilise any losses incurred prior to the commencement of Corporate Tax or prior to becoming a Taxable Person.<sup>43</sup>

If a QFZP incurs losses in relation to the Qualifying Income component of its income, those losses may not be applied against the QFZP's Taxable Income, transferred, or carried forward. A QFZP cannot transfer Tax Losses to, or receive Tax Losses from, another Taxable Person.<sup>44</sup>

#### **Example 19: Tax Loss incurred by QFZP**

Company N (a QFZP) has a Free Zone parent and a Domestic Permanent Establishment.

Company N renders contract manufacturing services (a Qualifying Activity) through its Free Zone parent that generates Qualifying Income. Company N also renders tech consulting services from its Domestic Permanent Establishment that generates Taxable Income that is not Qualifying Income.

For the Tax Period 2024, Company N reported the following financial results:

- Manufacturing segment (Qualifying Income): Incurred a loss of AED 2,000,000.
- Tech consulting segment (Taxable Income): Generated Taxable Income of AED 5,000,000 as per Article 20 of the Corporate Tax Law.

Company N may not utilise any portion of the loss of AED 2,000,000 relating to its Free Zone parent to offset the Taxable Income (AED 5,000,000) generated from its Domestic Permanent Establishment. Additionally, Company N cannot carry the loss (AED 2,000,000) forward to future Tax Periods to offset against future Taxable Income.

<sup>42</sup> Articles 37 and 39 of the Corporate Tax Law.

<sup>43</sup> Article 37(3) of the Corporate Tax Law.

<sup>44</sup> Article 38(1)(f) of the Corporate Tax Law.



Company N will have to calculate its Corporate Tax liability on its entire Taxable Income (AED 5,000,000) without considering any loss in relation to the Free Zone parent that generates the Qualifying Income loss (AED 2,000,000).

## 5.6. Taxation of a Free Zone Person that is not a QFZP

If a Free Zone Person does not meet the criteria to be a QFZP, the Free Zone Person will be subject to the standard Corporate Tax rates from the beginning of that Tax Period (unless the Free Zone Person qualifies to be an Exempt Person under the applicable articles of the Corporate Tax Law).<sup>45</sup> The standard rates are:<sup>46</sup>

- 0% on Taxable Income up to AED 375,000, and
- 9% on Taxable Income exceeding AED 375,000.

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<sup>45</sup> Article 18(2) of the Corporate Tax Law.

<sup>46</sup> Article 3(1) of the Corporate Tax Law.



## 6. Maintaining adequate substance

### 6.1. Adequate substance

To be a QFZP for a Tax Period, a Free Zone Person must maintain adequate substance in a Free Zone (or in a Designated Zone for the Qualifying Activity of distribution) throughout that Tax Period.<sup>47</sup> This requires the Free Zone Person to:<sup>48</sup>

- undertake the core income-generating activities for that Business in the Free Zone (or Designated Zone for the Qualifying Activity of distribution), and
- within the Free Zone (or Designated Zone), maintain adequate assets and qualified full-time employees, and incur an adequate amount of operating expenditures in relation to each of those core income-generating activities.

Core income-generating activities are the essential and value-adding activities that a Free Zone Person performs to generate Revenue from the Business that it operates in a Free Zone (or in a Designated Zone for the Qualifying Activity of distribution). With the exception of outsourced activities in respect of Qualifying Intellectual Property (see Section [6.3](#)), the Free Zone Person must perform core income-generating activities in relation to each Qualifying Activity in the Free Zone otherwise the Free Zone Person cannot be a QFZP. The Qualifying Income of the Free Zone Person should also reflect the level of core income-generating activities performed in the Free Zone (or Designated Zone), consistent with the arm's length principle.

A Free Zone Person may also perform non-core activities relating to its Free Zone Business outside of a Free Zone. Activities are non-core if they do not directly drive sales or are routine in nature.

#### **Example 20: Company registered in a Free Zone with a warehouse in a Designated Zone**

Company O (a Free Zone Person) has a warehouse in a Designated Zone that it uses for the storage and distribution of goods. However, it has its registered office and employees in a Free Zone that is not a Designated Zone and performs its core distribution activities from that Free Zone office.

The core income-generating activities in relation to the Qualifying Activity of distribution must be performed in a Designated Zone. As Company O performs the core income-generating activities in a Free Zone that is not a Designated Zone, it would not meet the requirement to have adequate substance in the Designated Zone

<sup>47</sup> Article 18(1)(a) of the Corporate Tax Law.

<sup>48</sup> Article 8(1) of Cabinet Decision No. 100 of 2023.



in relation to the Qualifying Activity of distribution, even though it has a warehouse in a Designated Zone.

If however, all the customers of Company O are Free Zone Persons who are the Beneficial Recipients of Company O's Goods, Company O would be able to benefit from the 0% Corporate Tax rate on its Qualifying Income on the basis that its Business involves transacting with Free Zone Persons.

### **Example 21: Routine activities outside a Free Zone**

Company P (a Free Zone Person) establishes a distribution Business in a Designated Zone and performs all of its core coordination activities in the Designated Zone. Company P has 500 employees, 20 of whom work in the Designated Zone performing the core/central operations and 480 who perform delivery activities outside the Designated Zone. Company P does not have any place of Business outside the Designated Zone and the delivery personnel do not have an authority to negotiate or conclude contracts (i.e. Company P does not have a Domestic Permanent Establishment).

Although the activities of the 480 staff performing activities outside the Designated Zone contribute to the income of Company P, they would not be considered as core income-generating activities in case they involve routine delivery execution and do not directly generate sales Revenue. However, if the activities of any of the 480 employees working outside the Free Zone were to extend beyond routine execution activities, Company P would not meet the requirement that it perform all of its core income-generating activities in a Free Zone and so would not meet the adequate substance requirement to be a QFZP.

In this case, the 20 employees working in the Designated Zone may be sufficient to perform the core income-generating activities of the company and meet the substance criteria. This would need to be determined on a case-by-case basis and take into consideration all facts and circumstances.

## **6.2. Core income-generating activities**

To meet the requirement to maintain adequate substance, a Free Zone Person would need to have an adequate number of full-time, qualified employees in the Free Zone to perform each of the core income-generating activities that it needs to perform to derive Qualifying Income.



As Businesses vary, determining what constitutes adequate substance will depend on the nature and size of the Business that the Free Zone Person is conducting. To assess substance, the Free Zone Person should:

- Identify the core income-generating activities related to the relevant Business that it performs to derive Qualifying Income.
- Identify the assets, employees and operational costs associated with each core income-generating activity. The same employee of a Free Zone Person cannot be double counted while assessing whether the Free Zone Person has adequate employees to perform the core income-generating activities for all activities or transactions that derive Qualifying Income. For example, if a Free Zone Person performs manufacturing and treasury activities, the employee that oversees the treasury activity cannot be also counted for substance purposes for the manufacturing activity.
- Evaluate whether those assets, employees, and operational costs are consistent with the nature, size and Revenue of the activities and transactions generating Qualifying Income conducted in the Free Zone.

For example, a Free Zone Person engaged in reinsurance activities would need to be sufficiently capitalised in the Free Zone to support the level of risk that it assumes from other insurers.

#### **Example 22: Core income-generating activities not performed in a Free Zone**

Company Q (a Free Zone Person) is engaged in regulated fund management services. Company Q is a subsidiary of Company R (incorporated in and a tax resident of Country A).

Company Q merely executes the decisions taken by Company R (in Country A) with respect to the holding and selling of investments, without any independent evaluation before taking any steps or decisions to affect the investment or divestment decisions. The directors and members of the investment committee that make the decision on the holding and selling of investments are all based in Country A.

Even though Company Q is executing regulated fund management services in the Free Zone, as key decisions are not made in the Free Zone, Company Q will not be regarded as performing core income-generating activities in relation to the Qualifying Activity of fund management services in the Free Zone.

#### **Example 23: Ownership, management and operation of Ships**

Company S (a Free Zone Person) owns and operates 5 Ships, transporting passengers from the UAE to Oman. Company S manages the crew for the 5 Ships





from its head office in the Free Zone through a team of 3 supervisors led by a manager. The supervisors are responsible for:

- ensuring the availability of a sufficient number of crew members on all operating Ships,
- ensuring that crew members have obtained or renewed all required certificates,
- finding a replacement on short notice should any crew members be absent,
- administration and payment of the payroll.

The manager of the 3 supervisors is in charge of implementing a consistent policy for crew management purposes and supporting any supervisor as required. The manager is also responsible for organising the necessary training for crew members.

Company S also conducts the technical management of the 5 Ships from the head office through 3 experienced staff members consisting of 1 manager assisted by 2 junior members. The role of this team is mainly to organise and oversee the trips.

Regular maintenance and upgrades of the Ships are outsourced to, and undertaken in a shipyard owned by, another Free Zone Person (Company T) and located in the same Free Zone. Company S has 2 dedicated and experienced engineers that fully supervise the regular maintenance.

Company S is considered to conduct all core income-generating activities that are of central importance to generate its gross income from the Qualifying Activity of ownership, management and operation of Ships in the Free Zone. It will therefore be considered to meet the adequate substance requirement.

#### **Example 24: Headquarter services**

Company U (a Free Zone Person) is the regional headquarter for a multinational enterprise group and is responsible for the implementation and success of the marketing and commercial strategy of the group in the MENA region. Each member of the senior management team operates from the office in the Free Zone, has responsibility for a different area within the region, and regularly spends time at the various subsidiaries with the local management teams to provide strategic marketing direction.

Company U's directors review the regional commercial performance on a quarterly basis and assist local management teams to manage other risks through the procurement of external advice centrally. The associated costs are shared amongst the group.



Company U is conducting the core income-generating activities in relation to the Qualifying Activity of headquarter services to Related Parties in the Free Zone and would be considered to meet the adequate substance requirement.

#### **Example 25: Holding company**

Company V (a Free Zone Person) is engaged in the Qualifying Activity of holding of shares and other securities for investment purposes. Investment decisions are made by the Board of Directors and are executed through a broker. Company V has a small office in a Free Zone but does not have any employees.

Although Company V has no operational substance, the decision-making by the Board of Directors constitutes the core income-generating activities of Company V. Consequently, provided decision-making takes place in the Free Zone (for example, minutes of the board meetings at Company V's office in the Free Zone), Company V would be considered to meet the adequate substance requirement.

In addition to performing the relevant core income-generating activities, the Free Zone Person should also ensure that the number of qualified full-time employees is adequate, having regard to the nature and size of the activities carried out. In some cases, it may be reasonable for one employee to perform multiple activities, that said, core income-generating activities will require separate substance per core income-generating activity.

#### **6.2.1. Qualifying Intellectual Property**

In relation to Qualifying Intellectual Property, the Free Zone Person would satisfy the adequate substance requirements by virtue of performing its own relevant R&D activities and supervising any outsourced R&D activities from within a Free Zone.

#### **6.2.2. Activities performed through a Domestic Permanent Establishment**

Activities performed through a Domestic Permanent Establishment would not be taken into consideration in assessing whether a Free Zone Person has adequate substance in relation to its Free Zone parent. Adequate substance is assessed by reviewing whether the assets, employees and operations of the Free Zone parent are adequate to perform the core income-generating activities of the Free Zone parent.



### **Example 26: Location of core income-generating activities**

Company W (a Free Zone parent) is located in a Designated Zone and is involved in the distribution of consumer goods. Company W employs 100 staff, of which 10 employees work in the Designated Zone managing the overall day-to-day Business of Company W and the remaining 90 employees work outside of the Designated Zone, generating sales and performing routine delivery-related activities for Non-Free Zone Persons.

The sales activities constitute core income-generating activities. If the sales activities are performed through a Domestic Permanent Establishment, they would not be taken into consideration when assessing whether Company W's Free Zone Business has adequate substance.

If Company W does not have a Domestic Permanent Establishment, it would not meet the requirement to maintain adequate substance in a Free Zone because the core income-generating activities are being performed outside of the Designated Zone and thus Company W would not meet the adequate substance condition to be a QFZP.

### **Example 27: Location of core income-generating activities**

The facts are the same as in Example 26, except that the 90 employees working outside of the Designated Zone are not involved in generating sales and perform only routine delivery-related activities.

The work performed by the 90 employees do not constitute core income-generating activities for Company W, so would not affect the assessment of whether Company W performs all of its core income-generating activities within a Free Zone. Provided Company W performs all of its core income-generating activities inside the Designated Zone, the requirement to have adequate substance in a Designated Zone would be met.

## **6.3. Outsourced activities**

For the purposes of assessing whether a Free Zone Person maintains adequate substance, core income-generating activities that are outsourced to another Person in a Free Zone (or Designated Zone for distribution activities) are treated as being performed by the QFZP, provided the QFZP has adequate supervision of the outsourced activity (see Section [6.3.1](#)).<sup>49</sup> In the case of Qualifying Intellectual Property, core income-generating activities can be outsourced to any Person in the UAE, or any Person outside the UAE that is not a Related Party.<sup>50</sup>

<sup>49</sup> Article 8(2) of Cabinet Decision No. 100 of 2023.

<sup>50</sup> Article 8(3) of Cabinet Decision No. 100 of 2023.



If a Free Zone Person outsources a core income-generating activity to another Person (i.e. a Related Party or a third party) in a Free Zone or Designated Zone, that activity will be treated as being performed by the Free Zone Person if all of the following conditions are met:<sup>51</sup>

- the core income-generating activity is conducted in the Free Zone or Designated Zone,
- the Free Zone Person is able to monitor, control and demonstrate adequate supervision of the core income-generating activity being undertaken, and
- the employees, expenditures, and physical assets of the provider of the outsourced activity are adequate in relation to its activity and the specific services provided to the Free Zone Person (for example, there should be no double counting of assets, employees and expenditures if the other Person provides outsourced services for multiple Free Zone Persons).

If a Free Zone Person outsources a core income-generating activity relating to Qualifying Intellectual Property to another Person in the UAE, or to any other Person outside the UAE who is not a Related Party, that activity will also be treated as being performed by the Free Zone Person, provided the Free Zone Person has adequate supervision of the outsourced activity.<sup>52</sup>

### 6.3.1. Adequate supervision

To have adequate supervision, a QFZP must put mechanisms and means in place to observe, oversee, assess, instruct, and provide guidance over the deliverables of the service provider in terms of quality, quantity, and timeliness. A Free Zone Person should be able to demonstrate that it has adequate supervision through appropriate documentation, such as contractual agreements that set out how the supervision will be conducted and implemented from both practical and operational standpoints. The contractual arrangements should also be confirmed by the actual conduct of the parties.

#### **Example 28: Adequate supervision for outsourced activities**

Company X (a Free Zone Person) owns and operates a Ship used for the international transportation of passengers across the GCC countries, the Red Sea and the Indian Ocean. Because of the growth of its Business, Company X acquired two new Ships in 2025.

To address the shortage of staff, Company X outsources the management of the crew for the newly acquired Ships to Company Y, a company incorporated in the same Free Zone and specialising in recruitment services and HR management.

<sup>51</sup> Articles 8(1) and (2) of Cabinet Decision No. 100 of 2023.

<sup>52</sup> Article 8(3) of Cabinet Decision No. 100 of 2023.



Company X signs a contract with Company Y for rapid mobilisation and deployment, and comprehensive management of the crew on board the new Ships. The contract provides that two dedicated managers from Company X will supervise and control the execution of the contract, with each manager in charge of a specific Ship.

Managing crew members, including the selection, hiring, deployment, scheduling, training, management and overseeing of seafarers engaged on Ships, as well as the associated administration requirements related to payroll, working permits, insurance and travel arrangements, is one of Company X's core income-generating activities.

For the activities outsourced to Company Y to be treated as performed by Company X for the purposes of meeting adequate substance requirements, Company X will need to demonstrate that:

- Company Y has a sufficient number of qualified full-time employees to perform its responsibilities under the contract,
- the two managers from Company X represent a sufficient number of qualified full-time employees to oversee the outsourced activities, and
- it has appropriate monitoring and controls in place to adequately supervise the activities outsourced to Company Y.

#### **Example 29: Core income-generating activities for distribution outsourced to a Free Zone Person in a Designated Zone**

Company Z (a Free Zone Person in a Designated Zone) is engaged in distributing electronic devices. One of its core income-generating activities is warehousing and managing the inventory of the devices it purchases from manufacturers.

Company Z is unable to focus on its sales and strategic partnerships due to increased workload. It therefore decides to outsource its warehousing and inventory management to another company, Company Y, that is located within the same Designated Zone. One of Company Z's senior members from the operations team regularly coordinates and visits Company Y's warehouse to ensure the quality of the storage conditions, the accuracy of the inventory count, and the security of its products.

Even though Company Z has outsourced part of its core income-generating activities, it would continue to be treated as performing the outsourced core income-generating activities relating to its Qualifying Activity of distribution as these core income-generating activities have been outsourced to another person in the Designated Zone and Company Z maintains adequate supervision of the outsourced activity.



**Example 30: Core income-generating activities for distribution outsourced to a Free Zone Person not in a Designated Zone**

The facts are the same as in the example above (Example 29), except that Company Z outsources its warehousing and inventory management to Company A, a Free Zone Person that is not located in a Designated Zone.

Company Z will no longer be treated as performing the outsourced core income-generating activities relating to its Qualifying Activity of distribution in a Designated Zone as its core income-generating activities have been outsourced to a Free Zone Person that is not in a Designated Zone.

If core income-generating activities are outsourced to another Person without adequate supervision, those activities would not be considered to be performed by the Free Zone Person and the requirement to maintain adequate substance in a Free Zone would not be met.



## 7. Foreign Permanent Establishment or Domestic Permanent Establishment

### 7.1. General

A Foreign Permanent Establishment or Domestic Permanent Establishment is a place of Business or other form of presence outside of a Free Zone. There are two means by which a Person may create a Foreign Permanent Establishment or Domestic Permanent Establishment:

- maintaining a fixed place of Business, or
- conducting Business through a dependent agent.

The income of a QFZP that is attributable to a Foreign Permanent Establishment or Domestic Permanent Establishment is subject to the 9% Corporate Tax rate,<sup>53</sup> unless the income is exempt from Corporate Tax under a specific provision. The Revenue that generates that income is also not taken into consideration when assessing the de minimis requirements to be a QFZP.<sup>54</sup>

A Foreign Permanent Establishment or Domestic Permanent Establishment should be treated as if it were a separate and independent Person from a Free Zone parent. For example:

- The income or profits attributable to the Free Zone parent, Foreign Permanent Establishment or Domestic Permanent Establishment should be consistent with the arm's length principle (i.e. based on the respective functions, assets and risks of the Free Zone parent and the Foreign Permanent Establishment or Domestic Permanent Establishment, as if the Free Zone parent were a separate Person transacting at arm's length). The Free Zone parent must earn and record an appropriate level of operating profits or losses determined in accordance with internationally accepted profit attribution methods such as the separate entity approach.
- If the outputs from the Free Zone parent are used in the Business of its Foreign Permanent Establishment or Domestic Permanent Establishment, the Free Zone parent would be treated as if it has derived Revenue from a Non-Free Zone Person.
- In applying the Beneficial Recipient rule (see Section [4.3.1](#)), a Foreign Permanent Establishment or Domestic Permanent Establishment would not be treated as if it were a Free Zone Person.

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<sup>53</sup> Article 3(2)(b) of the Corporate Tax Law read with Article 5(1) of Cabinet Decision No. 100 of 2023.

<sup>54</sup> Article 4(3)(b) of Cabinet Decision No. 100 of 2023.



### **Example 31: Separation of activities**

Company A (a Free Zone Person) has a Free Zone parent and a Domestic Permanent Establishment. The Free Zone parent engages in:

- transactions with other Free Zone Persons who are the Beneficial Recipients of the services and Goods provided in those transactions,
- Qualifying Activities that are not Excluded Activities,
- ownership and exploitation of intellectual property, and
- leasing of Commercial Property located in a Free Zone to a Free Zone Person.

The Domestic Permanent Establishment engages in:

- leasing of Immovable Property located outside of a Free Zone, and
- other non-Qualifying and Excluded Activities.

The Revenue attributable to the activities performed through the Domestic Permanent Establishment would not be taken into consideration in determining Company A's total Revenue and non-qualifying Revenue in applying the de minimis requirements. The income attributable to the activities performed through the Domestic Permanent Establishment would be subject to the 9% Corporate Tax rate.

The identified activities that Company A performs in its Free Zone parent do not give rise to non-qualifying Revenue (including income from intellectual property). Provided Company A does not derive additional Revenue streams through its Free Zone parent that do not meet the de minimis requirements and meets the other requirements to be a QFZP (for example, adequate substance in the Free Zone), Company A will be a QFZP.

### **Example 32: Outputs transferred to a Domestic Permanent Establishment**

Company B (a Free Zone Person) performs non-Qualifying Activities by way of its Free Zone parent. It transfers the outputs from its Free Zone parent to a Domestic Permanent Establishment, which then makes sales to third parties. The arm's length value of the outputs transferred to the Domestic Permanent Establishment is AED 100,000. The Domestic Permanent Establishment sells the products to its customers for AED 140,000.

In relation to the transfer of outputs, Company B would be treated as deriving Revenue of AED 100,000 from a Non-Free Zone Person in relation to non-Qualifying Activities. The balance of the Revenue (AED 40,000) attributable to the Domestic Permanent Establishment is not taken into consideration in determining non-





qualifying Revenue. Consequently, for the purposes of the de minimis requirements, Company B would derive non-Qualifying Revenue of AED 100,000.

### **Example 33: Domestic Permanent Establishment and Beneficial Recipient**

Company C (a Free Zone Person) provides services and Goods to Company Y, another Free Zone Person. Company Y uses those services and Goods in its Free Zone parent. Company Y transfers its outputs to its Domestic Permanent Establishment.

Company C will be treated as transacting with a Free Zone Person who is the Beneficial Recipient of the services and Goods that it sells.

When Company Y transfers its output to its Domestic Permanent Establishment, it will be treated as if it is dealing with its Domestic Permanent Establishment, which is treated as a Non-Free Zone Person. The amount allocated would also be required to be on an arm's length basis based on a Transfer Pricing analysis. If the output does not relate to Qualifying Activities that Company Y performs by its Free Zone parent, the Revenue attributable to the dealings between the Free Zone parent and the Domestic Permanent Establishment will be treated as non-qualifying Revenue.

## **7.2. Foreign Permanent Establishment**

A Foreign Permanent Establishment is a place of Business or other form of presence outside the UAE of a Resident Person that is determined in accordance with the criteria prescribed in Article 14 of the Corporate Tax Law.<sup>55</sup>

A Resident Person, including a Free Zone Person, may elect to not take the income, and associated expenditure, of its Foreign Permanent Establishments into account in determining its Taxable Income,<sup>56</sup> subject to meeting certain conditions.<sup>57</sup> If such an election is made, the income of all of the Free Zone Person's Foreign Permanent Establishments (that meet the conditions) is exempt from Corporate Tax.<sup>58</sup>

<sup>55</sup> Article 1 of the Corporate Tax Law.

<sup>56</sup> Article 24(1) of the Corporate Tax Law.

<sup>57</sup> Article 24(7) of the Corporate Tax Law.

<sup>58</sup> Article 22(4) of the Corporate Tax Law.



### 7.3. Domestic Permanent Establishment

A Domestic Permanent Establishment is a place of Business or other form of taxable presence of a QFZP outside the Free Zone in the UAE.<sup>59</sup> Income attributable to a Domestic Permanent Establishment is subject to the 9% Corporate Tax rate (unless the income is Exempt Income) and is disregarded when applying the de minimis requirements.<sup>60</sup> The Domestic Permanent Establishment rules are relevant, for example, in the following scenarios:

- A QFZP has its head office in a Free Zone and a branch in the UAE outside the Free Zone wherein the branch may be treated as the Domestic Permanent Establishment.
- A QFZP has its head office in the UAE outside a Free Zone and a branch in the Free Zone wherein the head office may be treated as the Domestic Permanent Establishment.

#### **Example 34: UAE non-Free Zone head office with a Free Zone Branch**

Company D was incorporated in 2020 with its head office outside a Free Zone in the UAE. It is subject to standard Corporate Tax rules post introduction of Corporate Tax.

In 2027, Company D registered a branch in the Free Zone to perform Qualifying Activities (for example, manufacturing of goods). Company D (i.e. the juridical person) will be treated as a Free Zone Person once the branch is registered in the Free Zone.

If Company D satisfies the conditions to be a QFZP, it can benefit from the 0% Corporate Tax rate on its Qualifying Income from the branch in the Free Zone (i.e. Free Zone parent). In this context, Company D's head office will be the Domestic Permanent Establishment of the QFZP, as a Domestic Permanent Establishment refers to a place of Business or any kind of taxable presence of a QFZP located outside the Free Zone in the UAE (i.e. head office).

Income from the Domestic Permanent Establishment (i.e. the head office referred to above) of Company D will be subject to the 9% Corporate Tax rate (subject to any adjustments under the Corporate Tax Law) without the benefit of the 0% Corporate Tax rate on Taxable Income up to AED 375,000.

<sup>59</sup> Article 1 of Cabinet Decision 100 of 2023.

<sup>60</sup> Article 3(2)(b) of the Corporate Tax Law read with Articles 4(3)(b) and 5(1) of Cabinet Decision No. 100 of 2023.



A QFZP creates a Domestic Permanent Establishment if either of the following conditions are met:

- It has a fixed or permanent place outside a Free Zone in the UAE through which its Business, or any part thereof, is conducted, unless the activities performed through that place are solely of a preparatory or auxiliary nature.<sup>61</sup>
- A Person has and habitually exercises an authority to conduct a Business or Business Activity outside a Free Zone in the UAE on behalf of the QFZP.<sup>62</sup> This means that in relation to that Business or Business Activity, the Person habitually concludes contracts on behalf of the QFZP or habitually negotiates contracts that are concluded by the QFZP without the need for material modification by the QFZP, unless that Person is an independent agent acting for the QFZP in the ordinary course of that Person's Business.<sup>63</sup>

### 7.3.1. Fixed or permanent place

Subject to the preparatory and auxiliary activities exception (see Section [7.3.3](#)), a QFZP will have a Domestic Permanent Establishment if it has a fixed or permanent place outside a Free Zone in the UAE through which the Business of the QFZP, or any part thereof, is conducted. There are three elements to this test:<sup>64</sup>

- There must be an identifiable place, such as an office, factory, workshop, or real property, that is at the disposal of the QFZP to conduct its Business Activities.
- The place must be fixed or permanent in nature.
  - If the place is a building site, a construction project, or place of assembly or installation, this requirement will be met only if such site, project or activities, whether separately or together with other sites, projects or activities, lasts for an aggregate period of at least six months (even if not continuous), in the relevant 12 consecutive months.
  - For other places, a place would typically be considered fixed or permanent if it is at the disposal of the QFZP for an aggregate period of at least six months (even if not continuous), in the relevant 12 consecutive months.
- The Business of the QFZP must be wholly or partly conducted through that place. The mere existence of a fixed or permanent place would not constitute a Domestic Permanent Establishment if no Business (or any part thereof) is conducted in that place.

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<sup>61</sup> Articles 14(1)(a), (2), (3) and (4) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>62</sup> Article 14(1)(b) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>63</sup> Articles 14(5) and (6) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>64</sup> Articles 14(1)(a) and (2) of the Corporate Tax Law.



### 7.3.2. Cases that are not considered a fixed or permanent place

If a Free Zone Person owns or leases land, buildings, or other real property outside a Free Zone in the UAE for the purposes of deriving income as a lessor, that property would not be at the disposal of the Free Zone Person as that right would vest in the lessee. For the lease income to be disregarded by the Free Zone Person when applying the de minimis requirements, the ownership and the income from the property would need to be attributed to a Domestic Permanent Establishment based on an arm's length basis.

### 7.3.3. Preparatory and auxiliary activities

A Free Zone Person is not considered to have a Domestic Permanent Establishment if the activities conducted through a fixed or permanent place of Business are solely of a preparatory or auxiliary nature.

Activities are considered preparatory or auxiliary if they consist of:<sup>65</sup>

- storing, displaying, or delivering of goods or merchandise belonging to the QFZP,
- keeping a stock of goods or merchandise belonging to the QFZP for the sole purpose of processing by another Person,
- purchasing goods or merchandise or collecting information for the QFZP,
- conducting any other activity of a preparatory or auxiliary nature for the QFZP, and
- conducting any combination of the above activities, provided that the overall activity is of a preparatory or auxiliary nature.

To meet the preparatory and auxiliary activities test, the QFZP must use the fixed place of Business solely for preparatory or auxiliary purposes. The preparatory and auxiliary activities exception would also not apply if the QFZP or a Related Party carries on a Business or Business Activity at the same place or at another place in the UAE outside a Free Zone, and both of the following conditions are met:<sup>66</sup>

- one or more of the places constitutes a Domestic Permanent Establishment for the QFZP or its Related Party, and
- the overall activity resulting from the combination of the activities carried out by the QFZP and its Related Party at the same place or at the two places is not of a preparatory or auxiliary nature and together would form a cohesive Business operation, had the activities not been fragmented.

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<sup>65</sup> Article 14(3) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>66</sup> Article 14(4) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.



#### 7.3.4. Conducting a Business outside a Free Zone in the UAE for a QFZP

A QFZP may also have a Domestic Permanent Establishment if a Person has and habitually exercises an authority to conduct a Business or Business Activity in the UAE outside a Free Zone on behalf of the QFZP,<sup>67</sup> unless that Person is an independent agent acting for the QFZP in the ordinary course of that Person's Business.<sup>68</sup> A Person would not be considered to be an independent agent if the Person acts exclusively or almost exclusively on behalf of a Free Zone Person, or where that Person cannot be considered legally or economically independent from the Free Zone Person.

The general agent permanent establishment rules focus on Persons who, in view of the nature of their activity (i.e. concluding or negotiating contracts on behalf of the QFZP), perform actions on behalf of the QFZP that go beyond mere promotion or advertising and are sufficient to demonstrate that the QFZP (and not the agent in an independent capacity) is engaged in a Business or Business Activity. Several elements need to be evaluated to assess whether a Person creates a dependent agent Domestic Permanent Establishment for a QFZP:<sup>69</sup>

- There must be a Business or Business Activity that is conducted outside of the Free Zone (see Section [7.3.4.1](#)).
- The Person must exercise an authority to habitually conclude contracts on behalf of the QFZP or habitually negotiate contracts that the QFZP concludes without the need for material modification (see Section [7.3.4.2](#)).
- The exercise of the authority to conclude contracts must be habitual (see Section [7.3.4.3](#)).
- The Person must not be an independent agent acting for the QFZP in the ordinary course of that Person's Business (see Section [7.3.4.4](#)).

##### 7.3.4.1. Business or Business Activities outside of a Free Zone in the UAE

A QFZP may have a Domestic Permanent Establishment where a Person has and habitually exercises an authority to conduct a Business or Business Activity outside a Free Zone in the UAE on behalf of the QFZP.<sup>70</sup>

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<sup>67</sup> Article 14(1)(b) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>68</sup> Article 14(6) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>69</sup> Articles 14(5) and (6) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>70</sup> Article 14(1)(b) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.



#### **7.3.4.2. Authority to conclude, or effectively conclude, contracts**

A Person should be considered as having and habitually exercising an authority to conduct a Business or Business Activity outside of the Free Zone on behalf of a QFZP if the Person habitually concludes contracts on behalf of the QFZP, or habitually negotiates contracts that are concluded by the QFZP without the need for material modification by the QFZP.<sup>71</sup>

In applying this test, only contracts that are linked to the core income-generating activities of the QFZP (for example, sales contracts) should be taken into consideration.<sup>72</sup> In other words, if the Business or Business Activity conducted by a Person in the UAE outside a Free Zone, on behalf of a QFZP, is preparatory or auxiliary in nature, the same would not lead to a Domestic Permanent Establishment for the QFZP. In relation to negotiation, the central question is whether the Person negotiates all elements and details of a contract in a way that is binding on the QFZP.<sup>73</sup>

#### **7.3.4.3. Meaning of “habitual”**

In line with the principle that a Permanent Establishment should have a degree of permanence, the requirement that an agent must habitually conclude (or effectively conclude) contracts should be more than merely transitory.

The extent and frequency of activity necessary to conclude that the agent is habitually concluding (or effectively concluding) contracts will depend on the nature of the contracts and the Business of the principal. The same factors considered in determining whether a place of Business should be considered to be fixed or permanent will be relevant in making that determination.

#### **7.3.4.4. Exception if Person is an independent agent**

A Person who has and habitually exercises an authority to conduct a Business or Business Activity in the UAE outside a Free Zone on behalf of the QFZP would not create a Domestic Permanent Establishment if the Person is an independent agent acting in the ordinary course of that Person’s Business. This is because an independent agent acting in the ordinary course of their Business would be performing activities for its own account. This means that all of the economic income attributable to the activities of the agent would be captured in the hands of the agent (because it

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<sup>71</sup> Article 14(5) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>72</sup> Article 14(7)(b) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.

<sup>73</sup> Paragraph 87 of the Commentary to Article 5 of the OECD Model Tax Convention on Income and on Capital: Condensed Version 2017.



would negotiate a market fee for services) so there would be no residual income to attribute to the QFZP.

The exception applies if the agent:<sup>74</sup>

- conducts a Business or Business Activity in the UAE as an independent agent,
- acts for the QFZP in the ordinary course of that Business or Business Activity,
- does not act exclusively or almost exclusively on behalf of the QFZP, and
- can be considered legally or economically independent from the QFZP.

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<sup>74</sup> Article 14(6) of the Corporate Tax Law read with Article 3(4) of Cabinet Decision No. 100 of 2023 for the purposes of determining whether a QFZP has a Domestic Permanent Establishment.



## 8. Immovable Property

### 8.1. “Immovable Property” and “Commercial Property”

Immovable Property means any of the following:<sup>75</sup>

- Any area of land over which rights or interests or services can be created.
- Any building, structure or engineering work attached to the land permanently or attached to the seabed.
- Any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

An Immovable Property is a property which is settled and fixed in its space and cannot be moved without deterioration or alteration of its shape. On the contrary, movable constructions (for example, construction sites or temporary structures) will not be considered as Immovable Property.<sup>76</sup>

Commercial Property refers to an 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.<sup>77</sup>

### 8.2. Immovable Property located in a Free Zone

Income that a QFZP derives from Immovable Property located in a Free Zone is subject to the following treatment:

- Income from transactions with a Free Zone Person (who is the Beneficial Recipient) in respect of Commercial Property located in a Free Zone is treated as Qualifying Income. Hence income from such transactions will not be treated as Taxable Income.<sup>78</sup>
- Income from transactions with a Free Zone Person (who is not the Beneficial Recipient) in respect of Commercial Property located in a Free Zone is not treated as Qualifying Income and will be treated as Taxable Income subject to a 9% Corporate Tax rate. This will be disregarded for the purposes of calculating total Revenue and non-qualifying Revenue for the de minimis requirement.
- Income from other Immovable Property located in a Free Zone is not treated as Qualifying Income. Hence such income will be treated as Taxable Income and will be disregarded for the purposes of calculating total Revenue and non-qualifying Revenue for the de minimis requirement.<sup>79</sup>

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<sup>75</sup> Article 1 of Cabinet Decision No. 56 of 2023.

<sup>76</sup> Article 101 of the Federal Law No. 5 of 1985.

<sup>77</sup> Article 1 of Cabinet Decision No. 100 of 2023.

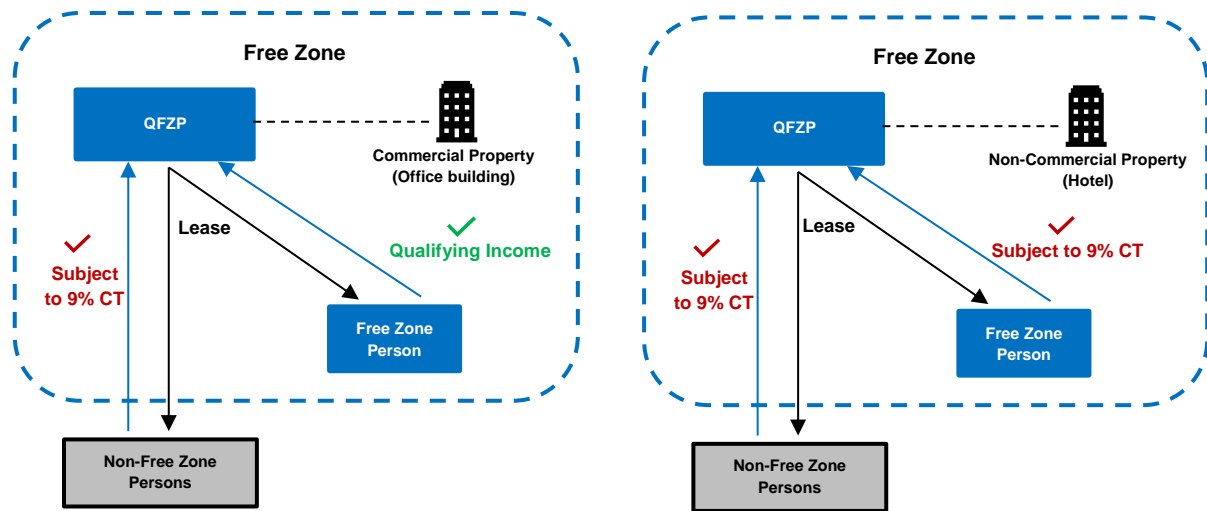
<sup>78</sup> Article 6(1) of Cabinet Decision No. 100 of 2023.

<sup>79</sup> Article 6(1) of Cabinet Decision No. 100 of 2023.





This treatment is illustrated in the following diagrams.



The ownership or exploitation of Immovable Property in a Free Zone, other than Commercial Property transactions conducted with a Free Zone Person, is defined to be an Excluded Activity (see Section [11.6](#)).<sup>80</sup> However, Revenue from such Immovable Property is not taken into account for purposes of the de minimis requirements.<sup>81</sup>

### 8.2.1. Mixed-use property located in a 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.

For example, a residential apartment building located in a Free Zone that has retail units on the ground floor can generate both:

- Qualifying Income from the renting of retail space to Free Zone Persons, and
- income that is not Qualifying Income from the renting of residential apartments to any Person.

Similarly, in the case of a hotel building in a Free Zone, the Revenue should be allocated between the commercial and non-commercial units. This could be based on records of the relevant land registry department or some alternate basis (for example, rental or property value) that results in an arm's length allocation that is reasonable based on the facts and circumstances of each case. Generally, retail outlets and restaurants in a hotel are commercial units but rooms, conference rooms and/or banquet halls are non-commercial units.

<sup>80</sup> Article 2(2)(e) of Ministerial Decision No. 265 of 2023.

<sup>81</sup> Article 4(3)(a) of Cabinet Decision No. 100 of 2023.



### Example 35: Mixed-use property located in a Free Zone

Company E (a QFZP) has a property located in the Free Zone comprising of 10 floors. Out of these, 8 floors (80%) are residential apartments, and the other 2 floors (20%) are occupied by retail establishments that are also Free Zone Persons. Company E receives total annual rental income from this property of AED 10,000,000.

Company E should allocate income using the direct allocation method unless that is not possible, in which case Company E should adopt an allocation method based on specific market conditions and property characteristics. If it was concluded that a direct allocation was not possible, an indirect allocation, for example, using floor space may be used, as follows:

- The income derived from the retail component (paid by Free Zone Persons) would be: 20% of AED 10,000,000 = AED 2,000,000. This income is considered as Qualifying Income and would be subject to Corporate Tax at 0%.
- The income derived from the residential apartments would be: 80% of AED 10,000,000 = AED 8,000,000. This portion of the income is Taxable Income that is not considered Qualifying Income and is hence subject to Corporate Tax at 9%. However, the Revenue would not be taken into consideration in applying the de minimis requirements.

### Example 36: Mixed-use of hotel in Free Zone

Company F (a QFZP) owns a hotel in a Free Zone that it leases to Company Y, a Free Zone Person engaged in the Business of operating hotels. The facilities in the hotel include accommodation, conference rooms, retail spaces and restaurants.

Company F should use a direct allocation method unless this is not possible, in which case an indirect method should be used with an appropriate allocation key to determine the amount of Revenue from Company Y that is attributable to the commercial units (i.e. retail spaces and restaurants) and to non-commercial units (i.e. accommodation and conference rooms).

Revenue from retail spaces and restaurants will give rise to Qualifying Income. Revenue from accommodation and conference rooms will not give rise to Qualifying Income.

For the purpose of the de minimis requirements, transactions related to Immovable Properties located in a Free Zone are not included in the total Revenue and non-qualifying Revenue unless the transaction is in relation to Commercial Property with a Free Zone Person (retail spaces and restaurants).



### 8.3. Immovable Property located outside a Free Zone

The ownership or exploitation of Immovable Property located outside of a Free Zone is an Excluded Activity.<sup>82</sup> This means that the income from Immovable Property located outside of a Free Zone would be taken into consideration when applying the de minimis requirements, unless the income is attributable to a Foreign Permanent Establishment or a Domestic Permanent Establishment.<sup>83</sup>

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<sup>82</sup> Article 2(2)(e) of Ministerial Decision No. 265 of 2023.

<sup>83</sup> Article 4(3)(b) of Cabinet Decision No. 100 of 2023.



## 9. Intellectual Property

### 9.1. General

The Free Zone rules provide a benefit to QFZPs that carry out R&D activities to create Qualifying Intellectual Property. A QFZP will derive Qualifying Income from Qualifying Intellectual Property if there is a direct connection (a technical term for this is a “nexus”) between the income from Qualifying Intellectual Property and the qualifying R&D expenditures contributing to that income.

The fundamental principle underlying the nexus approach is that Qualifying Income only arises to the extent that the QFZP itself incurred the R&D expenditures that contributed to the Qualifying Intellectual Property, either directly or by outsourcing such activities to another Person (other than to a Related Party outside the UAE). Qualifying Income arises only on the proportion of expenditures by the QFZP that are directly related to development activities.

If a QFZP acquires Qualifying Intellectual Property or outsources the R&D to a Related Party outside the UAE, the portion of the income that is attributable to the acquisition cost or outsourced R&D does not give rise to Qualifying Income.

To benefit from the rules, a QFZP must establish a system to track expenditures and income of Qualifying Intellectual Property to show that Qualifying Income and Qualifying Expenditures are linked. Before establishing the system, the QFZP will need to consider whether Qualifying Intellectual Property should be tracked on an asset, product, and/or product family basis (see Section [9.6.1](#)) because this will affect how R&D expenditure should be tracked and traced.

Special rules apply to take into consideration expenditures that were incurred before the first Tax Period under the Corporate Tax Law where the records of the QFZP are not sufficient to trace those expenditures to specific assets, products, and/or product families (see Section [9.6.2](#)).

### 9.2. Intellectual property

Income derived from the ownership or exploitation of intellectual property (including intellectual property that is not Qualifying Intellectual Property) is subject to the following treatment:



- Income derived from the ownership or exploitation of Qualifying Intellectual Property, determined in accordance with the formula in Article 4(1) of Ministerial Decision No. 265 of 2023 (see Section [9.5](#)) is treated as Qualifying Income.<sup>84</sup>
- Income derived from the ownership or exploitation of Qualifying Intellectual Property that exceeds the amount determined under the formula in Article 4(1) of Ministerial Decision No. 265 of 2023, as well as other income derived from the ownership or exploitation of intellectual property, is treated as Taxable Income that is not Qualifying Income (subject to the 9% rate).<sup>85</sup>

Intellectual property generally refers to intangible assets owned and legally protected by a Person from outside use or implementation without consent (for example, trademarks, patents, copyrights, brands, technical know-how). Intellectual property will in certain circumstances be considered as “*Qualifying Intellectual Property*”, which means any Patents, Copyrighted Software and any right functionally equivalent to a Patent that is both legally protected and subject to a similar approval and registration process to a Patent, such as utility models, intellectual property assets that grant protection to plants and genetic material, orphan drug designations, and extensions of Patent protection, but not including any marketing related intellectual property assets, such as trademarks (see Section [9.4](#)).<sup>86</sup>

Revenue derived from the ownership or exploitation of all intellectual property (except for the Revenue related to the Qualifying Income from Qualifying Intellectual Property) is disregarded when applying the de minimis requirements.

#### **Example 37: Income derived from owning or exploiting intellectual property**

Company G (a Free Zone Person) derives income in a Tax Period of AED 200,000 from Qualifying Intellectual Property and AED 100,000 from other intellectual property. The Qualifying Income determined under the formula in Article 4(1) of Ministerial Decision No. 265 of 2023 is AED 60,000 (see Section [9.5](#)).

Company G has Qualifying Income arising from the Qualifying Intellectual Property of AED 60,000. The income from Qualifying Intellectual Property exceeding this amount (AED 140,000), as well as the other income from intellectual property (AED 100,000), is Taxable Income that is not Qualifying Income (subject to the 9% Corporate Tax rate) and the related Revenue is disregarded when applying the de minimis requirements.

<sup>84</sup> Articles 3(1)(c) and 7(1) of Cabinet Decision No. 100 of 2023 and Article 4 of Ministerial Decision No. 265 of 2023.

<sup>85</sup> Articles 3(1)(c) and 7(2) of Cabinet Decision No. 100 of 2023 and Article 4 of Ministerial Decision No. 265 of 2023.

<sup>86</sup> Article 1 of Cabinet Decision No. 100 of 2023.



### 9.3. Income must be derived from intellectual property

For the purpose of applying the de minimis requirements, income must be derived from the ownership or exploitation of intellectual property, and not for some other purpose.<sup>87</sup> This requires a separately identifiable income stream that is directly attributed to the intellectual property, such as royalties, licence fees, and capital gains. Income that is generated indirectly when embedded intellectual property is used to contribute to a product or service for which no separate remuneration is received from the intellectual property would not be considered to generate income from the ownership or exploitation of intellectual property for purposes of the de minimis requirements.

#### **Example 38: Identifiable income from intellectual property**

Company H (a Free Zone Person) develops (or acquires) intellectual property and licenses the intellectual property to its customers in exchange for a royalty. The royalty income is directly attributable to the licensed intellectual property and would be treated as income derived from the ownership or exploitation of intellectual property (although such income may not necessarily benefit from the 0% Corporate Tax rate (see below)).

### 9.4. Qualifying Intellectual Property

A QFZP may benefit from a 0% Corporate Tax rate on income arising out of Qualifying Intellectual Property, provided there is a direct nexus between the income derived from the Qualifying Intellectual Property and the Qualifying Expenditures that the QFZP incurs to generate that income (i.e. the 0% rate would not apply to income from Qualifying Intellectual Property that the QFZP acquires from a third party).

Qualifying Intellectual Property refers to:<sup>88</sup>

- Patents granted under the law regulating patents in the UAE or granted under the relevant law of a foreign jurisdiction,
- Copyrighted Software, which refers to any copyright subsisting in software granted under the law regulating copyrights in the UAE or granted under the relevant law of a foreign jurisdiction, and
- any right functionally equivalent to a Patent that is both legally protected and subject to a similar approval and registration process to a Patent, such as utility models, intellectual property assets that grant protection to plants and genetic material, orphan drug designations, and extensions of Patent protection.

<sup>87</sup> Article 7 of Cabinet Decision No. 100 of 2023.

<sup>88</sup> Article 1 of Cabinet Decision No. 100 of 2023.



Utility models are generally provided to incremental inventions, have a less rigorous patent process, and provide patent protection for a shorter time period. Intellectual property assets that grant protection to plants and genetic material would include plant breeders' rights, which grant exclusive control over new varieties of plants. Orphan drug designations are provided by government agencies for certain pharmaceuticals that are developed to treat rare diseases or diseases that are not likely to lead to significant profits and these designations grant exclusive rights to the innovations. Extensions of patent protection such as supplementary protection certificates extend the exclusive right of certain patents for pharmaceuticals and plant protection products, and they recognise that the time needed to research and develop these intellectual property assets is generally longer than the time needed to research and develop other intellectual property assets and therefore justifies that the protected life of the asset should extend past the duration of the patent.

Qualifying Intellectual Property does not include any marketing related intellectual property assets, such as trademarks.<sup>89</sup>

## 9.5. Qualifying Income from Qualifying Intellectual Property

Qualifying Income from the ownership or exploitation of each Qualifying Intellectual Property asset is calculated using the following formula:<sup>90</sup>

$$\text{Qualifying Income} = \frac{\text{Qualifying Expenditures} + \text{Uplift Expenditures}}{\text{Overall Expenditures}} \times \text{Overall Income}$$

"Qualifying Expenditures" means expenditures incurred to fund R&D activities, conducted either by the QFZP or outsourced to any Person in the UAE or any Person outside the UAE that is not a Related Party, directly connected with the creation, invention or significant development of the Qualifying Intellectual Property.

The R&D cost incurred should be directly connected to the Qualifying Intellectual Property. This could include salary and wages, direct costs, overhead costs directly associated with R&D facilities, and cost of supplies so long as all of these costs arise out of activities undertaken to advance the understanding of scientific relations or technologies, address known scientific or technological obstacles, or otherwise increase knowledge or develop new applications. However, interest payments, building costs, acquisition costs, or any costs that cannot be directly linked to a specific Qualifying Intellectual Property asset are not included in Qualifying Expenditure. Building costs or other non-separable capital costs would not be included because it would be impossible to establish a direct link between the cost of an entire building and different intellectual property assets created in that building.

<sup>89</sup> Article 1 of Cabinet Decision No. 100 of 2023.

<sup>90</sup> Article 4 of Ministerial Decision No. 265 of 2023.



Where expenditures for general and speculative R&D cannot be included in the Qualifying Expenditures of a specific Qualifying Intellectual Property asset to which they have a direct link, they may be divided pro-rata across Qualifying Intellectual Property assets or products.

Where R&D activities are outsourced to a Person in the UAE or a Person outside the UAE that is not a Related Party, the amount of “*Qualifying Expenditures*” should be determined on the same basis as if they were undertaken by the QFZP itself. This means that any expenditures that would not be included in Qualifying Expenditures if incurred by the taxpayer itself (for example, Interest payments, building costs, and other costs that do not represent actual R&D activities) cannot be included in “*Qualifying Expenditures*”. The QFZP will need to obtain sufficient information from the Person to whom R&D is outsourced to demonstrate that “*Qualifying Expenditures*” in relation to outsourced R&D is measured in an appropriate manner.

Qualifying expenditures should be included in the nexus calculation at the time they are incurred, regardless of their treatment for accounting or other tax purposes. In other words, expenditures that are not fully deductible in the Tax Period in which they were incurred because they are capitalised will still be included in full in the nexus ratio starting in the Tax Period in which they were incurred. This timing rule only applies for purposes of the nexus ratio, and does not affect the timing for deductions under the Corporate Tax Law.

“*Overall Expenditures*” means total expenditures incurred to fund R&D activities, conducted either by the QFZP or outsourced to any Person, directly connected with the creation, invention or significant development of the Qualifying Intellectual Property, including acquisition costs of the Qualifying Intellectual Property.

Expenditures for unsuccessful R&D will typically not be included in the formula for determining Qualifying Income from Qualifying Intellectual Property, since unsuccessful R&D does not generate any income.

“*Overall Income*” means royalties or any other income derived from Qualifying Intellectual Property, including embedded intellectual property income derived from the sale of products and the use of processes directly related to the Qualifying Intellectual Property as determined in accordance with the arm’s length principle under Article 34 of the Corporate Tax Law.

“*Uplift Expenditures*” means the Qualifying Expenditures increased by 30%, but only to the extent that Qualifying Expenditures, after being uplifted, is less than or equal to Overall Expenditures (i.e. the sum of Qualifying Expenditures and Uplift Expenditures will be the lesser of: (i) 130% of Qualifying Expenditures or (ii) Overall Expenditures).





### Example 39: Uplift expenditures

Company I (a Free Zone Person) incurred Qualifying Expenditures of AED 100, acquisition costs of AED 10, and paid AED 40 for the R&D expenditures of a related party outside the UAE.

The maximum uplift will be AED 30 (i.e. AED 100 x 30%). Company I can uplift its expenditures by AED 30 only if its Overall Expenditures are equal to or greater than AED 130. In this example, Overall Expenditures are AED 150, i.e. greater than AED 130, so the uplift will be AED 30.

### Example 40: Uplift Expenditures

Company J (a Free Zone Person) incurred Qualifying Expenditures of AED 100, acquisition costs of AED 5, and paid AED 20 for the R&D expenditures of a related party outside the UAE. The 30% uplift would again increase Qualifying Expenditures to AED 130, but Company J only has AED 125 of Overall Expenditures. The uplift can therefore only be AED 25.

### Example 41: Qualifying Intellectual Property formula

Company K (a Free Zone Person) incurs Qualifying Expenditures of AED 30,000 and Overall Expenditures of AED 100,000 in a Tax Period. Company K has Overall Income of AED 400,000 in that Tax Period.

Company K has Qualifying Income from the ownership or exploitation of Qualifying Intellectual Property of AED 156,000 (i.e.  $[(30,000 + 9,000)/100,000] \times 400,000$ ), where:

- Qualifying Expenditure is AED 30,000,
- Uplift Expenditure is AED 9,000,
- Overall Expenditure is AED 100,000, and
- Overall Income is AED 400,000.

The formula applies an additive approach, and the calculation requires both that “Qualifying Expenditures” include all Qualifying Expenditures incurred by the taxpayer over the life of the Qualifying Intellectual Property asset and that “Overall Expenditures” include all Overall Expenditures incurred over the life of the Qualifying Intellectual Property asset. These numbers will therefore increase every time a taxpayer incurs expenditure that would qualify for either category. The proportion of the cumulative numbers will then determine the percentage to be applied to Overall Income earned each Tax Period.



## 9.6. Tracking systems to demonstrate nexus

To benefit from the 0% rate on Qualifying Income from Qualifying Intellectual Property, a QFZP must be able to demonstrate the nexus between Qualifying Expenditures and the income from Qualifying Intellectual Property. A QFZP that wants to benefit from the Qualifying Intellectual Property rules must, therefore, track expenditures, Qualifying Intellectual Property assets, and income to show that the Qualifying Income did, in fact, arise from Qualifying Expenditures.

If a QFZP has only one Qualifying Intellectual Property asset that it has fully self-developed and that provides all of its Qualifying Intellectual Property income, the ratio in the formula in Section [9.5](#) will be 1:1 (100% when expressed as a percentage). The QFZP would be able to satisfy the tracking requirements by demonstrating that it incurred the relevant R&D expenditures.

When a QFZP has more than one Qualifying Intellectual Property asset, engages in any degree of outsourcing or acquisition, or derives Revenue other than from Qualifying Intellectual Property, detailed tracking becomes essential. The QFZP will need to be able to track the link between expenditures and income of the Qualifying Intellectual Property asset and provide evidence of this to the FTA upon request.

### **Example 42: Tracking systems for individual Qualifying Intellectual Property assets**

Company L (a Free Zone Person) produces plastic lids for travel mugs. Company L has two Patents, one of which applies to plastic lids for coffee mugs and one of which applies to plastic lids for tea mugs. The R&D responsible for the two Patents was undertaken by different project teams of Company L employees.

Company L would need to track and trace two Qualifying Intellectual Property assets. It would need to set up a tracking system that tracked income from coffee mugs and tea mugs separately.

### 9.6.1. Tracking by products and product families

Where it would be unrealistic and require arbitrary judgements to track income and expenditures for individual Qualifying Intellectual Property assets, a QFZP may apply the nexus approach between expenditures, products arising from Qualifying Intellectual Property assets, and income. This product approach allows a QFZP to include all Qualifying Expenditures linked to the development of all Qualifying Intellectual Property assets that contributed to the product in “Qualifying Expenditures” and to include all Overall Expenditures linked to the development of all Qualifying



Intellectual Property assets that contributed to the product in “Overall Expenditures”. This aggregate ratio would then be applied to Overall Income from the product that was directly linked to all the underlying Qualifying Intellectual Property assets.

If a QFZP adopts the product-based approach, the QFZP should apply a purposive definition of products. If a QFZP is engaged in a complex, intellectual property-based Business with multiple products and R&D projects, the product to which the QFZP tracks and traces cannot be so large as to include all the Qualifying Intellectual Property income or expenditures of the QFZP. The product also should not be so small as to require the QFZP to track and trace to a category that is entirely unrelated to innovation or Business practices.

#### **Example 43: Defining “product”**

Company M (a Free Zone Person) produces multiple components for one type of product (for example, a truck), which it then sells to customers.

A product definition that permitted tracking and tracing to that truck and allows Company M to allocate all its R&D expenditures and Qualifying Intellectual Property income to that one final product, would not be the most adequate system because the R&D and related Qualifying Intellectual Property assets underlying the different value driving components would not sufficiently overlap. In this, case it would be more appropriate for Company M to set up a tracking system to track and trace to the components.

#### **Example 44: Defining “product”**

Company N (a Free Zone Person) produces hinges that are used in hundreds of industries. This includes various types of hinges that are built for specific trucks.

A product definition that required Company N to track and trace to the specific type of hinge built for a specific type of truck would be too narrow as it would require Company N to track and trace to a level of detail that did not relate to the actual innovation. It would be more appropriate for Company N to track to the groups of hinges that shared the same Qualifying Intellectual Property rather than to the products in which they are used.

It would also not be appropriate to require tracking by individual products if they had only minor variations but contained the same intellectual property (for example, medicines that are produced in different colours, dosages, or sizes). The definition of products can therefore include product families such as components for printer or



computer producers, active compounds for the chemical industry, and therapeutic areas or narrower disease categories for the pharmaceutical industry.

The principle is that a QFZP may track to products (including product families) when these groupings include all the intellectual property assets that arose from overlapping expenditures and contributed to overlapping streams of income.

**Example 45: Tracking systems for Qualifying Intellectual Property product categories**

Company O (a Free Zone Person) produces hundreds of different types of printers, which are divided and managed along three different product families: large printer/copier combinations for office use, small personal printers for home use, and photo printers for professional-quality digital photos. Each product family contains several distinct product types. Company O engages in R&D to develop the printers, and this R&D contributes to 250 Patents. 100 Patents are relevant to all three product families, 50 are relevant only to the larger printer/copier combinations, 50 are relevant only to the small personal printers and 50 are relevant only to the photo printers. Company O's employees track their research time according to which product family they are working on or whether they are engaged in general or speculative R&D.

Company O would need to track and trace to product families and would need to set up a tracking system that tracked income of the three product families separately. The expenditures incurred to develop the 100 general Patents would be divided across the product families, and the expenditures that are only relevant to individual product families would be allocated only to those product families. It would not be appropriate to track and trace to either Qualifying Intellectual Property assets or product types because Company O's R&D is shared across product families, so tracking and tracing to individual products could over-allocate expenditures to one individual printer or under-allocate expenditures to another individual printer.

**Example 46: Tracking systems for Qualifying Intellectual Property product categories**

Company P (a Free Zone Person) is a pharmaceutical company which has thousands of Patents and which produces hundreds of pharmaceutical products. Each Patent contributes to multiple products, and each product uses multiple Patents. Company P manages and tracks its R&D, including its employees' time, along the four different diseases that its products treat. The R&D undertaken for one disease generally does not overlap with the R&D undertaken for another disease,



and the diseases are dissimilar enough that products for one disease are not used to treat another disease.

Company P's expenditures cannot be tracked to individual products (since R&D expenditures would have to be divided across multiple products which could only be done on an arbitrary basis). Company P's income cannot be tracked to individual patents (because income for one product would have to be divided across multiple patents, requiring arbitrary allocations). Company P would therefore need to track and trace to the diseases that Company P's products are designed to treat, and would need to set up a tracking system that tracked Qualifying Intellectual Property income from products that treat the four diseases separately.

### 9.6.2. Expenditure before first Tax Period under Corporate Tax Law

The nexus approach comprises a cumulative ratio of Qualifying Expenditures and Overall Expenditures, based on tracking of expenditures for Qualifying Intellectual Property assets or products. The rules do not preclude a QFZP from deriving Qualifying Income from Qualifying Intellectual Property that was created or under development at the time the Corporate Tax Law took effect. However, the QFZP would need to have sufficient information available to track the historic expenditures for each Qualifying Intellectual Property asset or product.

Because a QFZP would not have established a tracking and tracing system before the Corporate Tax Law took effect, the QFZP may not be able to track and trace historic expenditures to individual Qualifying Intellectual Property assets or products, particularly if the QFZP holds or develops multiple assets or products. To address this, a QFZP that was established before the Corporate Tax law took effect may, for the first three Tax Periods following the introduction of the rules, apply a ratio where Qualifying Expenditures and Overall Expenditures are calculated based on a three-year rolling average. The QFZP would then transition to using a cumulative ratio for the fourth and subsequent Tax Periods.

#### **Example 47: Expenditure before first Tax Period**

Company Q (a Free Zone Person) is a technology company that sells products which use multiple intellectual property assets that Company Q has developed. It follows the Gregorian calendar year as its Financial Year and Tax Period. Before 2024, Company Q did not track and trace either expenditures or income to individual Qualifying Intellectual Property assets or products, but Company Q does have information on the overall R&D expenditures that Company Q itself incurred, as well as its Overall Expenditures for related party outsourcing and its overall acquisition costs for 2022 and 2023. Company Q tracks and traces to product families starting in 2024.



Company Q's expenditures are listed below:

2022 All Qualifying Expenditures (i.e. all R&D expenditures incurred by Company Q): AED 5,000

All Overall Expenditures (i.e. all R&D expenditures incurred by Company Q, all expenditures for non-UAE related party outsourcing, and all acquisition costs): AED 10,000

2023 All Qualifying Expenditures: AED 3,000  
All Overall Expenditures: AED 3,000

2024 All Qualifying Expenditures: AED 2,000  
Qualifying Expenditures for Product Family A: AED 400  
Qualifying Expenditures for Product Family B: AED 1,600

All Overall Expenditures: AED 5,000  
Overall Expenditures for Product Family A: AED 2,400  
Overall Expenditures for Product Family B: AED 2,600

2025 All Qualifying Expenditures: AED 2,000  
Qualifying Expenditures for Product Family A: AED 1,300  
Qualifying Expenditures for Product Family B: AED 700

All Overall Expenditures: AED 3,000  
Overall Expenditures for Product Family A: AED 2,000  
Overall Expenditures for Product Family B: AED 1,000

2026 Qualifying Expenditures for Product Family A: AED 800  
Qualifying Expenditures for Product Family B: AED 200

Overall Expenditures for Product Family A: AED 800  
Overall Expenditures for Product Family B: AED 800

Based on the three-year average, the nexus ratio would be calculated as follows:

In 2024, Company Q calculates the nexus ratio using the average of all of its R&D expenditures over three years. The ratio for 2024 would be AED 10,000/AED 18,000 before applying the uplift. For purposes of calculating the three-year average, this ratio does not include any expenditures incurred before 2022, even if the R&D to create Qualifying Intellectual Property began before that time, and it uses all



expenditures because Company Q had not yet begun tracking and tracing to product families in 2024.

In 2025, Company Q would again calculate the nexus ratio using the average of all of its R&D expenditures because it did not yet have three years of expenditures tracked to product families. The ratio for 2025 would be AED 7,000/AED 11,000 before applying the uplift.

In 2026 and all following years, Company Q would transition to a cumulative approach using expenditures for product families since it would now have three years of expenditures that were tracked by product family. The ratio for Product Family A in 2026 would therefore be AED 2,500/ AED 5,200 before applying the uplift, and all subsequent Qualifying Expenditures and Overall Expenditures for Product Family A will be added to that ratio in future years. The ratio for Product Family B in 2026 would be AED 2,500/AED 4,400 before applying the uplift, and all subsequent Qualifying Expenditures and Overall Expenditures for Product Family B will be added to that ratio in future years.

## 9.7. Records relating to Qualifying Intellectual Property

To demonstrate the nexus between Qualifying Expenditures and income from each Qualifying Intellectual Property asset, a QFZP must maintain all records, books and documents that prove the following for each asset:<sup>91</sup>

- Ownership and the right to exploit the Qualifying Intellectual Property,
- Qualifying Expenditures and Overall Expenditures incurred,
- Overall Income derived from the Qualifying Intellectual Property, and
- the link between Qualifying Expenditures and Overall Income derived from the Qualifying Intellectual Property.

If the QFZP is not tracking directly to each Qualifying Intellectual Property asset but is instead tracking to products, the QFZP must maintain documentation showing the complexity of its intellectual property business model and providing justification for using the product-based approach (i.e. why tracking to individual Qualifying Intellectual Property assets would be unrealistic and based on arbitrary judgements). The QFZP must also justify the appropriateness of this approach with reference to objective and verifiable information (for example, the commonality of scientific, technological, or engineering challenges underlying the R&D expenditures and income), demonstrate its consistency with the organisation of R&D activities within the group, and apply the approach consistently over time.

<sup>91</sup> Article 4(4) of Ministerial Decision No. 265 of 2023.



If the QFZP incurs expenditures for general or speculative R&D, the QFZP must either:

- show a link between such expenditures and the Qualifying Intellectual Property asset or product, or
- provide an explanation for how such expenditures were divided pro rata across Qualifying Intellectual Property assets or products.

If the QFZP acquired a Qualifying Intellectual Property asset from a Related Party, the QFZP must prepare documentation substantiating the arm's length price. This should include documentation on the Overall Expenditures that the Related Party transferor incurred.

These records need to be made available to the FTA upon request.

If a QFZP does not have an adequate tracking system, it will be unable to demonstrate the amount of Qualifying Income arising from its Qualifying Intellectual Property assets. In that case, the QFZP would not be able to apply the 0% Corporate Tax rate to income from its Qualifying Intellectual Property.

However, the QFZP would still be able to exclude its Revenue from the ownership and exploitation of intellectual property from total Revenue and non-qualifying Revenue when applying the de minimis requirements.





## 10. Qualifying Activities

### 10.1. Overview

If a QFZP sells services or Goods (other than in relation to Excluded Activities) **to other Free Zone Persons** who are the Beneficial Recipients of those services and Goods, the QFZP can benefit from the 0% Corporate Tax rate on the income derived **from those transactions**.

If a QFZP sells services or goods **to Non-Free Zone Persons**, the QFZP can benefit from the 0% Corporate Tax if it derives Qualifying Income from transactions in respect of the following **Qualifying Activities**:<sup>92</sup>

- 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, and
- Logistics services.

The scope of each Qualifying Activity should be understood in the context of the meanings set out in Ministerial Decision No. 265 of 2023. In particular, the scope should also take into account how the relevant term is understood in conventional Business practice and encompasses all processes that form a natural and integral part of a coherent Business that a Free Zone Person is conducting in relation to that Qualifying Activity.

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.<sup>93</sup> Ancillary activities are discussed further below (see Section [10.2](#)).

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<sup>92</sup> Article 2(1) of Ministerial Decision No. 265 of 2023.

<sup>93</sup> Articles 2(1)(n) and (4) of Cabinet Decision No. 100 of 2023.



Sections [10.3](#) to [10.15](#) discuss the scope of each Qualifying Activity in more detail and identify activities that may fall within the scope of that activity and ancillary activities. The list of activities is illustrative and any activity on the list must be evaluated in the context of the nature of the specific Qualifying Activity. For example, if a Free Zone Person performs a solitary activity (for example, sells an Aircraft), it may not constitute a Qualifying Activity unless that activity forms a natural and integral part of a coherent Business that the Free Zone Person performs in relation to that and other Qualifying Activities. Further, in relation to any ancillary activities that are listed, those activities must naturally and integrally complement the main Business conducted by the Free Zone Person. If a listed ancillary activity is performed by the Free Zone Person without the execution of the main activity, it will not be treated as a Qualifying Activity.

## 10.2. Scope of Qualifying Activity and associated ancillary activities

Determining when a Qualifying Activity and associated ancillary activities ends and when a separate and potentially non-Qualifying Activity starts is important in determining qualifying and non-qualifying Revenue for the purposes of calculating the de minimis requirements, based on which a Free Zone Person can assess whether they qualify to be a QFZP or not.

As stated above, Qualifying Activities also include activities that are ancillary to a main Qualifying Activity. An activity is ancillary where:<sup>94</sup>

- it is necessary for the performance of the main activity (see Section [10.2.1](#)), or
- it makes a minor contribution to the main activity and is so closely related to the main activity that it should not be seen as a separate activity (see Section [10.2.2](#)).

Ancillary activities will need to be determined on a case-by-case basis depending on the main Qualifying Activity conducted by the Free Zone Person.

### 10.2.1. Necessary for the performance of the main activity

Some of the features associated with activities that are necessary for the performance of a main Qualifying Activity, and are therefore ancillary activities, are:

- (i) **Support to main activity:** An activity is ancillary if it serves as a necessary supportive function to the main operation of the Business rather than being a core activity or function itself.
- (ii) **Seamlessly integrated:** An activity is ancillary if its absence would disrupt the main operation (i.e. it is integral to the main operation and cannot be detached without materially affecting the functioning of the main operations).

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<sup>94</sup> Article 2(4) of Ministerial Decision No. 265 of 2023.



### **10.2.2. Minor contribution and closely related to the main activity**

Ancillary activities include an activity that makes a minor contribution to the main activity but is so closely related to the main activity that it should not be seen as a separate activity.

Generally, the assessment of whether a contribution is minor should be based on the financial contribution of the activity when compared with the total Revenue of the Business.

The assessment of whether an activity is closely related to the main activity will depend on the specific facts and circumstances. For example, if a car manufacturer sells automotive accessories that are integrated into the cars that it manufactures, this may meet the test. However, a car manufacturer that sells automotive accessories as a side line to manufacturing cars may not meet the test.

### **10.2.3. Surplus funds**

A QFZP may generate surplus funds that are not essential for the immediate needs of its Business but may be required for identified future working capital requirements. In that case, the QFZP may decide to retain the funds for future use, rather than returning the surplus to investors.

The investment of surplus funds is not considered as an ancillary activity. The investment would either need to be a Qualifying Activity in its own right (for example, treasury and financing services to Related Parties, which includes oneself) or the income from the investment would be non-qualifying Revenue for purposes of the de minimis requirements.

## **10.3. Manufacturing of goods or materials**

### **10.3.1. Overview**

Manufacturing is a process that includes a broad spectrum of activities such as the creation, production, improvement or assembly of products and materials from raw materials or components.<sup>95</sup> It includes all activities from the conception of a product to its end (i.e. the beginning (conception, business plan, capital investment, R&D, raw materials) to the end (finished product) stages of production). Manufacturing refers not only to producing new goods but also to improving or assembling pre-existing components. Manufacturing occurs in industries where physical products are produced, for example, automotive, textile, electronics, food, pharmaceuticals, and chemical.

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<sup>95</sup> Article 2(3)(a) of Ministerial Decision No. 265 of 2023.



Activities that might constitute the Qualifying Activity of manufacturing of goods or materials include:

- **Production planning:** Developing the production strategy, including timelines, quantities, and critical procedures.
- **Production:** Converting raw materials into finished products. This process may involve several stages and techniques, such as assembly line production, handcrafting, or utilising machinery. It may also include packing products for shipping, warehousing, or transporting to retail locations if this forms an integrated part of the production process.
- **Quality control:** Testing and inspection of the manufactured products to ensure they meet the desired standards and specifications.

Activities that might be treated as ancillary to the Qualifying Activity of manufacturing of goods or materials, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Post-sale activities:** This includes installation, warranty, maintenance, upgrade etc. that are directly linked to the goods or materials manufactured/processed.
- **Customer support:** Providing support after the product has been sold, including warranty services, and handling customer queries.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of manufacturing goods or materials will be treated as a Qualifying Activity in their own right or on a standalone basis, if taken individually.

Manufacturing does not include repairs. Repairs are typically classified as a service and the act of repairing involves restoring or fixing existing products to their original or functional state, rather than creating a new product (manufacturing) or substantially changing the form or nature of a product (processing).

#### **Example 48: Manufacturer performing core and ancillary activities in the Free Zone**

Company R (a Free Zone Person) is engaged in the contract manufacturing of different types of furniture such as tables, chairs, and beds. Company R does not have any transactions with natural persons. During the relevant Tax Period, Company R received:

- AED 7,000,000 from the sale of furniture: Company R manufactured furniture for its customers (Free Zone Persons and Non-Free Zone Persons) based on orders received from them in its workshop in the Free Zone.
- AED 50,000 from the sale of scrap and waste materials: While crafting the furniture, leftover wood and other materials that were too small or suitable for manufacturing were sold as scrap to another company (Non-Free Zone Person) that uses them to produce other products.



- AED 70,000 from after sales services: Company R rendered installation, for their furniture and extended warranties at an additional cost to its customers (Non-Free Zone Persons).

Total Revenue of Company R is AED 7,120,000 out of which AED 120,000 relates to activities that make a minor contribution (i.e. sale of scrap (AED 50,000) and after sales services (AED 70,000)). As these activities are closely related to the Qualifying Activity of manufacturing and should not be regarded as a separate activity, they constitute ancillary activities and the entire Revenue of AED 7,120,000 will be treated as being derived from the Qualifying Activity of manufacturing of goods or materials.

### 10.3.2. Meaning of goods

Typically, goods are tangible items or products that are produced or manufactured for sale or use. They are physical items that serve a particular purpose or satisfy a want or need. Examples of goods include food, clothing, electronics, furniture, cars, and Ships.

Intangible items such as software that can be sold separately from a physical asset are not included in the definition of goods for the purposes of this Qualifying Activity. Hence creation of software, ERPs, automation tools, etc. will not be treated as the manufacturing of goods or materials.

Software embedded in hardware (i.e. it is inherently part of the hardware) generally would be considered as goods. This is because it involves a physical product (the hardware) that incorporates an intangible element (the software), but the software has been integrated into the physical product to the point where they function as a single unit and are sold as a single unit.

For example, a smartphone or a video game console are hardware devices that come with pre-installed software. These items are considered goods because they are tangible products that can be purchased. Similarly, a car with pre-installed navigation software or a washing machine with pre-programmed wash cycles are also examples of goods.

### 10.3.3. Types of manufacturing

There are various types of manufacturing activities across different sectors and industries. Irrespective of the type of manufacturing and the manufacturing industry, manufacturers can broadly be categorised as those that:

- manufacture goods or materials for and on behalf of another person (i.e. contract or toll manufacturing), and
- manufacture their own goods or materials at their own risk (i.e. full-fledged manufacturing).



The application of the Free Zone rules to these two categories of manufacturers is illustrated below.

#### **10.3.3.1. Contract or toll manufacturing**

In the case of contract manufacturing, a Free Zone Person (i.e. manufacturing company) enters into a contract with a person under which the manufacturing company manufactures products for and on behalf of that person. In addition to the manufacturing of the product, the manufacturing company also procures all necessary raw materials.

Irrespective of whether the contractor is based in a Free Zone, in the UAE outside a Free Zone or in a foreign country, the compensation received by the manufacturing company for the manufacturing service provided (including the supply and usage of raw materials in the manufacturing process) to the contractor would be treated as being derived from Qualifying Activities.

Although toll manufacturing and contract manufacturing are similar modes of production, in the case of toll manufacturing, the contractor would typically supply the manufacturing company with the necessary raw materials, designs and production specifications. The income earned by a toll manufacturer based in a Free Zone would also be treated as being derived from Qualifying Activities.

#### **10.3.3.2. Full-fledged manufacturing**

In the scenario of full-fledged manufacturing, the Free Zone Person (i.e. manufacturing company) manufactures products in its own name and at its own risk. The manufacturing company would normally be responsible for procuring the necessary raw materials and may sell the manufactured products or materials to Related Party distributors or third-party distributors.

The direct manufacturing of goods or materials is clearly derived from the Qualifying Activity of manufacturing, irrespective of whether the manufactured products or materials are manufactured for the sale to juridical persons in the UAE outside a Free Zone or to foreign juridical persons. However, whether the other functions (for example, generating sales and delivery) should be considered to be part of the manufacturing Qualifying Activity would depend on whether those functions could be considered ancillary activities, which will depend on the specific facts and circumstances.

Goods that are manufactured in the UAE do not need to pass through a Designated Zone, however, the distribution activity is required to be conducted in or from a Designated Zone in order to be a Qualifying Activity.



#### **Example 49: Full-fledged manufacturer**

Company S (a Free Zone Person) is engaged in the manufacturing of advanced Magnetic Resonance Imaging (MRI) machines at its own risk (i.e. full-fledged manufacturing). All manufacturing activities are performed by Company S's employees in the Free Zone.

Company S sells the MRI machines to Company Y, a Free Zone Person established in a Designated Zone and engaged in distribution activity. As part of the sale to Company Y, it is agreed that any post-sale services required by the end customers (such as installation and maintenance) will be the responsibility of Company S because MRI machines are intricate and complex pieces of equipment that require specialised knowledge to install and maintain properly. These obligations are fulfilled by employees of Company S at the premises of Company Y's customers (Non-Free Zone Persons).

The post-sale services are closely related to the Qualifying Activity of manufacturing and should not be regarded as a separate activity. Accordingly, provided they make a minor contribution, such post-sale services should constitute ancillary activities. Accordingly, the Revenue of Company S from sales and post-sale service will be treated as being derived from the Qualifying Activity of manufacturing of goods or materials. Whether the post-sales services can be treated as ancillary to the main activity will be assessed on a case-by-case basis.

#### **Example 50: Packing as part of manufacturing process**

Company T (a Free Zone Person) is engaged in the manufacture of televisions. As an integrated part of the manufacturing assembly line, Company T packs the televisions into boxes that form part of the final retailed product.

In this case, the packing process forms part of the Qualifying Activity of manufacturing even though it is not an element in the manufacture of the television itself. As the packing process is closely related to the Qualifying Activity of manufacturing and should not be regarded as a separate activity, it constitutes an ancillary activity provided it makes a minor contribution. Whether a packing process can be treated as ancillary to the main activity will be assessed on a case-by-case basis.



### Example 51: Packing as supplement to manufacturing process

The facts are the same as in Example 50, except that once the televisions are packed into boxes, Company T loads the finished products on pallets for delivery.

Packing and loading products on pallets does not form part of the manufacturing process. Revenue attributable to the packing and loading process would be treated as non-qualifying Revenue for the purposes of applying the de minimis requirements unless:

- the packing and loading activities are ancillary activities because they make a minor contribution to the manufacturing activity and are so closely related to the main activity that they should not be regarded as separate activities (this would need to be assessed based on the specific facts and circumstances),
- Company T has a distribution operation in a Designated Zone and the packing and loading activities meet the conditions to fall within the scope of the Qualifying Activity of distribution of goods or materials in or from a Designated Zone,
- Company T passes title to the televisions to its customer before it performs the packing and loading activities, and the activities meet the conditions to fall within the scope of the Qualifying Activity of logistics services,
- the packing and loading activities (and corresponding Revenue and income) are attributable to a Domestic Permanent Establishment of Company T, or
- Company T derives its Revenue from sales to other Free Zone Persons who are the Beneficial Recipient of the televisions.

## 10.4. Processing of goods or materials

Processing of goods or materials includes the preparation, treatment, transformation or conversion of goods or materials into another form of good or material for further commercial or industrial use or sale.<sup>96</sup> Processing is typically, but not always, the middle step in the production process that involves changing the properties or form of the raw materials or semi-manufactured goods or materials to make them suitable for use or final manufacturing. It can also be the end step, for example, rust-proofing a car with a special coating. Processing is more typically seen in industries like food, oil refining, milling, etc. where raw materials undergo different treatments to become ready for use. Processing is a wider concept than manufacturing and may occur where an item undergoes a process but remains essentially the same thing, and no new product is created. For example, freezing a fish before distribution and/or packaging for sale, pasteurisation of dairy products, re-packaging of finished products bought from a supplier could be processing of goods or materials. Processing implies a regular or continuous action or actions applied to a physical item or material.

<sup>96</sup> Article 2(3)(b) of Ministerial Decision No. 265 of 2023.





While processing is different from manufacturing, the two are interconnected steps in many industries. For example, in the automobile industry/steel industry, the raw iron ore needs to be processed to create steel, which is then manufactured into various goods, such as cars. Here, the income comes primarily from the manufacturing of final products, but it is directly influenced by the efficiency and quality of the processing activity.

Activities that might constitute the Qualifying Activity of processing of goods or materials include:

- **Production planning:** This involves determining the schedule, sequence, and method of processing materials to optimise production efficiency and effectiveness.
- **Processing:** This is the repetitive or continuous action applied to good or materials. It could involve activities like assembly, fabrication, machining, chemical reactions, printing, or packaging depending on the industry.
- **Quality control:** This involves inspection, testing, and monitoring of materials and products at various stages of production to ensure that they meet the required quality standards.

Activities that might be treated as ancillary to the Qualifying Activity of processing of goods or materials, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Post-sale activities:** This includes services that are directly linked to the goods or materials processed.
- **Customer support:** Providing support after the product has been sold, including warranty services, and handling customer queries.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of processing of goods or materials will be treated as a Qualifying Activity in their own right or on a standalone basis, if taken individually.

#### **Example 52: Revenues from ancillary activities**

Company V (a Free Zone Person) is primarily involved in the processing of agricultural products (i.e. converting raw food materials into packaged goods). The core Business generates AED 12,000,000 in the relevant Tax Period. However, due to the nature of its Business, the company generates a significant amount of organic waste.

Instead of disposing of this waste, Company V sells it to biofuel and compost-making companies. By doing this, it generates an additional Revenue of AED 500,000 during the Tax Period.



Additionally, Company V has acquired a high level of expertise and efficiency in food processing. Recognising the value in this knowledge, it decides to create and offer special training workshops or consultations to other companies or individuals in the industry for a fee. Company V conducted 20 workshops throughout the year and charged AED 10,000 each, bringing in additional Revenue of AED 200,000.

Company V earned AED 500,000 from its non-core operations of selling organic waste. This is closely related to and makes a minor contribution to the main Qualifying Activity and therefore is considered ancillary to their main Business of processing agricultural products. Accordingly, Revenue of AED 12,000,000 (from processing of goods) and AED 500,000 from the sale of organic waste will be treated as being derived from a Qualifying Activity.

Company V also earned AED 200,000 from conducting training workshops. Conducting workshops is neither necessary for the performance nor closely related to its main activity of processing. Hence Revenue from such workshops will not be treated as being derived from a Qualifying Activity.

### **Example 53: Substantial Revenue from non-core activities**

Company W (a Free Zone Person) is engaged in timber processing. It has 3 large factories in a Free Zone. The company's core Business of processing timber generated AED 10,000,000 in Revenue during the relevant Tax Period.

Additionally, in the same Tax Period, Company W:

- rented out parts of its unused factory space to another Free Zone Person that generated rental income of AED 700,000, and
- derived Dividends of AED 100,000 from its investment portfolio worth AED 2,000,000 (all shares in the portfolio were held for more than 12 months).

Company W's main Business of processing timber generated AED 10,000,000, and its other operations contributed an additional Revenue of AED 800,000 (AED 700,000 from rental income and AED 100,000 from Dividends). Revenue of AED 10,000,000 from processing timber is Revenue from Qualifying Activity. The additional Revenue will be characterised as follows:

- AED 700,000 from rental income will not be treated as income from the Qualifying Activity of processing of goods or material as it is not related to its main activity. It also could not be considered as ancillary activities, as it neither makes a minor contribution nor is necessary for the performance of the main activity. However, it may still benefit from the 0% Corporate Tax rate on Qualifying Income on the



basis that the income arises from a transaction with another Free Zone Person in relation to Commercial Property located in a Free Zone (see Section 8).

- AED 100,000 from Dividends will not be treated as income from the Qualifying Activity of processing of goods or material as it is not related to its main activity. However, it would be treated as income arising from the separate Qualifying Activity of holding of shares and other securities.

## 10.5. Trading of Qualifying Commodities

Trading of Qualifying Commodities means the physical trading activities of Qualifying Commodities and associated derivative trading used to hedge against risks involved in such activities (for example, using financial instruments, like futures or options, to protect against potential financial risks or losses that could occur in the commodity trading process).<sup>97</sup>

Qualifying Commodities refer to metals, minerals, energy and agriculture commodities that are traded on a Recognised Commodities Exchange Market in raw form. A Recognised Commodities Exchange Market refers to:

- any commodities exchange market established in the UAE that is licensed and regulated by the Central Bank of the UAE, the Dubai Financial Services Authority of the Dubai International Financial Centre (DFSA), the Financial Services Regulatory Authority of the Abu Dhabi Global Market (FSRA), or the Securities and Commodities Authority (SCA). For example, the Dubai Gold & Commodities Exchange in the UAE, or
- any commodities exchange market established and recognised outside the UAE of equal standing. For example, the Chicago Board of Trade, and the London Metal Exchange.

The Qualifying Commodity needs to be in a form that is traded on a Recognised Commodities Exchange Market. Metals, minerals, energy and agriculture commodities that are traded on a Recognised Commodities Exchange Market will be deemed to be in raw form when they meet the conditions to be traded on the said exchange (for example, gold being 99.4% purity in bullion form). The trade itself does not need to be performed through an exchange. For example, if gold is considered the commodity and it is in a form that is traded on a Recognised Commodities Exchange Market, it can qualify as a Qualifying Commodity, regardless of whether any actual trades involving gold occur on the exchange market or off-market.

### 10.5.1. Meaning of “raw form”

In the context of trading of Qualifying Commodities, raw form typically refers to commodities that are in their natural and unprocessed state, and no value has been

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<sup>97</sup> Article 2(3)(c) of Ministerial Decision No. 265 of 2023.



added to the commodity once it was grown, extracted, or mined. They are basically products that are close to the form they were in when they were harvested or extracted and are traded on Recognised Commodities Exchange Market before being processed or transformed.

For instance, agricultural commodities like wheat, corn, or soybeans, are generally traded in their raw harvested, unprocessed form. They have not been processed into food items or any other type of product. In the case of energy commodities, raw form usually refers to crude oil or natural gas which have not yet been refined or processed into other products. Similarly, metal commodities are often also traded in their raw form, such as gold or silver bars, or aluminium ingots, before being processed into jewellery, components, or other goods.

However, while many commodities are traded in their raw form, it is important to note that some degree of processing may sometimes be involved to meet the trading standards or specifications required to even be traded on a Recognised Commodities Exchange Market. This processing typically aims to ensure uniformity and quality control, which makes large-scale trading possible.

For example, raw gold ore is usually refined to remove impurities and formed into bars or coins with standardised weights and purity levels before being traded. Even crude oil, while considered a “raw” commodity, undergoes an initial separation to remove water, sand, and other impurities to meet trading standards. Coffee beans, after being harvested, are processed and graded to separate them by size and quality before they are traded. Raw materials like phosphate rock, potash, and nitrogen may be processed into various types of fertilizers like Diammonium Phosphate (DAP), Monoammonium Phosphate (MAP), urea etc. These processed fertilisers are then traded on the commodity markets.

Similarly, cotton must be cleaned and undergo ginning, which is a mechanical process that removes the seeds and compresses the cotton into bales before it is traded. This processing, although it takes the commodities away from their strict “raw” state, ensures they meet the minimum quality thresholds for trading on commodity markets.

The HSN code can serve as an indicator in verifying if a commodity still maintains its raw form. A mere alteration in HSN code due to some level of processing does not conclusively determine whether that commodity has lost its raw form for the purposes of determining whether it is a Qualifying Commodity (for example, steel would still be classified as in its raw form as long as the new HSN code aligns to a product that is also traded on the exchange market in a form and purity that is recognised and is also considered to be in raw form).



Commodities that have undergone minimal processing (such as cleaning, sorting, grading, and minor refining) to ensure the commodity meets the quality and uniformity standards required for trading on commodity exchanges are still considered to be in their raw form. So, while these commodities may not be in their exact natural, untouched state, as they have undergone only minimal processing and have not been transformed into a different product or a finished good, they are still classified as “raw” commodities.

Activities that might constitute the Qualifying Activity of trading in Qualifying Commodities include the following, where done in relation to Qualifying Commodities:

- **Buying and selling:** This is the act of purchasing commodities at a lower price and selling them at a higher price to make a profit that requires a deep understanding of market trends and price dynamics.

Activities that might be treated as ancillary to the Qualifying Activity of trading in Qualifying Commodities, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Warehousing:** This may involve the storage or housing of Qualifying Commodities before they are delivered to the buyer.
- **Delivery:** This may involve the transportation of the Qualifying Commodities to the buyer.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of Trading of Qualifying Commodities will be treated as a Qualifying Activity in its own right or on a standalone basis, if taken individually.

#### **Example 54: Commodity trader**

Company X (a Free Zone Person) is engaged in the trading of metals. It has a strong relationship with an aluminium manufacturer that produces high-grade aluminium for various industries. The market price for aluminium is AED 9,500 per tonne, and Company X negotiates to buy 10,000 tonnes at a slightly discounted rate of AED 9,250 per tonne to reflect the purchase volume and relationship. The total cost to Company X is 10,000 tonnes \* AED 9,250 = AED 92,500,000.

Company X finds a buyer in the automotive industry who needs a large supply of aluminium to produce car parts. The buyer agrees to purchase 10,000 tonnes of aluminium at the current market rate of AED 9,500 per tonne. So, the total sales amounts to 10,000 tonnes \* AED 9,500 = AED 95,000,000, resulting in gross profit on the trade of AED 2,500,000 (i.e. AED 95,000,000 – AED 92,500,000).



In addition to the above and as part of its trading Business, Company X arranges the necessary storage and warehousing facilities for its customers to store the aluminium before it is sold to the buyers. Company X charges the buyer AED 15 per tonne for the storage/warehousing facility resulting in Revenue of AED 150,000 (10,000 tonnes \* AED 15).

Further, the buyer requested Company X to deliver the aluminium to the buyer's manufacturing facility. To arrange the delivery, Company X charged the buyer AED 10 per tonne resulting in Revenue of AED 100,000 (10,000 tonnes \* AED 10).

The total Revenue of Company X from the transaction is AED 95,250,000 out of which AED 250,000 relates to the warehousing and delivery activities performed by Company X to execute its main activity of trading in Qualifying Commodities. As these activities are closely related to and make a minor contribution to the Qualifying Activity of trading of a Qualifying Commodity, the activities are ancillary, and the entire Revenue of AED 95,250,000 will be treated as being derived from Qualifying Activities.

## 10.6. Holding of shares and other securities for investment purposes

Holding of shares and other securities for investment purposes includes the following:<sup>98</sup>

- Shares of any class in the share capital of another juridical person or other types of equitable interests that entitle the holder to receive profits and liquidation proceeds, whether as a legal or beneficial owner (for example, ordinary shares, preferred shares, redeemable shares, membership and partners interest, options, warrants, other types of securities, capital contributions and rights, etc.).
- Negotiable or non-negotiable financial instruments, including, derivative instruments, financial commodities, cryptocurrency and other investment instruments that are or can be traded in a public or private market or that are convertible or exchangeable into a security or which confer a right to purchase a security, with the exception of the holding of financial or investment instruments that are issued pursuant to a securitisation of receivables from a non-financial asset.

In some cases, a major shareholder holding shares in a company for investment purposes may also derive income such as royalties or management fees from that company. Those other income streams would not constitute income from the Qualifying Activity of holding shares and other securities for investment purposes.

The active trading of shares and other securities also would not constitute a Qualifying Activity for the purposes of the rules. Shares and other securities are deemed to be

<sup>98</sup> Article 2(3)(d) of Ministerial Decision No. 265 of 2023.



held for investment purposes when held (or there is an intention to hold and the QFZP can demonstrate its intention to hold) for an uninterrupted period of at least 12 months.<sup>99</sup>

If a Person trades shares and securities on a Recognised Stock Exchange, the Person may presume that the transaction is not made with a natural person and hence will be treated as a Qualifying Activity, provided the 12-month ownership test is satisfied (see Section [11.2](#)).

Activities that might constitute the Qualifying Activity of holding of shares and other securities for investment purposes include:

- **Investment planning:** This involves identifying the right investment opportunities based on the investor's financial goals and risk tolerance. This includes analysing financial statements, company reports, market trends, and other critical data to make informed investment decisions and estimating the future performance of investments based on various financial and economic indicators.
- **Buying and selling securities:** This is the actual act of purchasing shares or other securities and selling them when they have appreciated in value or when the investor needs to divest.
- **Portfolio management:** This involves monitoring the performance of the whole investment portfolio, rebalancing it periodically to ensure it aligns with the investment goals, and making necessary adjustments based on market conditions.

Activities that might be treated as ancillary to the Qualifying Activity of holding of shares and other securities for investment purposes, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of holding of shares and other securities for investment purposes will be treated as a Qualifying Activity in their own right or on a standalone basis, if taken individually.

#### **Example 55: Holding of shares and other securities**

Company Y (a Free Zone Person) holds a diversified portfolio of shares and other securities for investment purposes. During the relevant Tax Period, Company Y receives:

- A Dividend of AED 1,000,000 from shares that have been held for less than 12 months on the date of the Dividend payment. However, Company H has the intention to continue holding the shares for more than 12 months.

<sup>99</sup> Article 2(3)(d) of Ministerial Decision No. 265 of 2023.



- A Dividend of AED 1,500,000 from membership interests in a Limited Partnership that have been held for more than 12 months.
- A capital gain of AED 2,500,000 on a sale of shares that have been held for more than 12 months.
- Interest of AED 250,000 from an investment in bonds that have been held for more than 12 months.

The total Revenue of Company Y is AED 5,250,000, out of which AED 1,000,000 relates to shares that have been held for less than 12 months when the Revenue (Dividend) is derived. However, as Company Y has the intention and can demonstrate it has the intention to continue to hold the shares for a period of more than 12 months, the entire Revenue of AED 5,250,000 is treated as being derived from the Qualifying Activity of holding of shares and other securities.

#### **Example 56: Financial recovery**

Company Z (a Free Zone Person) purchases 100% of the shares in Company A for AED 1,000,000. After the purchase, Company Z discovers that Company A had certain undisclosed liabilities, negatively impacting the value of its shares.

Company Z litigates the issue and the court rules in its favour. The court awards Company Z AED 200,000 in financial damages from the original owners of Company A. Although this payment of AED 200,000 is separate from the original purchase price of AED 1,000,000 of the shares, it should be considered as Revenue from the Qualifying Activity of holding shares and other securities.

#### **Example 57: Indemnity claim**

Company B (a Free Zone Person) sold 100% of the shares of Company Y (a subsidiary) to Company Z. As part of the agreement, Company B provides an indemnity to Company Z for any liabilities that appear within a period of two years from the sale, in which case Company B will cover those costs up to a maximum of AED 500,000.

After holding the shares of Company Y for a year, a liability of AED 400,000 is identified that was not known at the time of the sale. Company B honouring the contractual agreement, pays AED 400,000 to Company Z to cover these costs.

The indemnity claim, although not directly part of the purchase or sales price, should be reflected in the overall return Company Z makes from its investment in Company Y. It will be treated as Revenue from the Qualifying Activity of holding of shares and other securities for investment purposes.





#### **Example 58: Securitisation of receivables from non-financial assets**

Company C has long-term contracts with utility companies worth AED 20,000,000 over the next 20 years. These are essentially future commitments from utility companies, promising to pay Company C for solar energy they receive.

Company C decides to convert these long-term receivables into immediate cash. It does this by selling these contracts to a special purpose vehicle (SPV). The SPV, in turn, issues asset-backed securities based on these contracts and sells them to investors.

Company Y (a Free Zone Person) decides to purchase AED 5,000,000 of these securities. Company Y anticipates a steady stream of income from these securities for the next 20 years by way of an annual return of 5%. For the relevant Tax Period, Company Y earned AED 250,000 (AED 5,000,000 \* 5%).

Securities purchased by Company Y are backed by receivables from a non-financial asset (the solar energy generated by Company C). Such an investment is excluded from the Qualifying Activity of holding of shares and other securities. Hence any receipts from such activity will not be considered to arise from Qualifying Activities for Company Y.

#### **Example 59: Securitisation of receivables from financial assets**

Company D is in the Business of securitising mortgage loans, involving the sourcing and bundling of mortgage loans to create mortgage-backed securities and selling those securities to investors.

Company E (a Free Zone Person) purchases mortgage-backed securities from Company D.

Securities purchased by Company E are backed by receivables from a financial asset (the bundle of mortgages). Such an investment is not excluded from the Qualifying Activity of holding of shares and other securities. Hence any receipts from such activity will be considered to arise from Qualifying Activities for Company E if the holding period of 12 months is met.



## 10.7. Ownership, management, and operation of Ships

Ownership, management and operation of Ships includes the ownership, management and operation of Ships used in the international transportation of passengers, goods or livestock, towing activities and the provision of general assistance to Ships at sea, dredging activities at sea, and the leasing and chartering of Ships on a bareboat basis used in the international transportation of passengers, goods or livestock.<sup>100</sup> This activity does not include Ships used for local transportation or leisure or recreational purposes, or as floating hotels, restaurants or casinos.<sup>101</sup> It also does not include the leasing of shipping containers, unless that activity is ancillary to a shipping Business.

A Ship refers to any structure normally operating, or set for operating, in maritime navigation regardless of its power and tonnage.<sup>102</sup> Ships include tugboats, barges, etc. that are used for marine operation, or to transport goods or passengers from vessels in international waters to UAE domestic waters, or to maneuver other types of Ships (for example, container ships, passenger ferries, etc.).

**International transportation** means the movement (of goods or persons) beyond the territorial waters of the UAE. Transportation between two ports in the UAE (for example, a cruise Ship sailing from Abu Dhabi to Dubai) would be considered to be international transportation provided it is an integral part of transportation involving a broader itinerary that includes ports outside of the UAE.

The use of Ships in **offshore oilfield and maritime services**, involving such operations as oil drilling, seismic surveys, and related services typically associated with oilfield support and offshore vessels, are within the scope of ownership, management and operation of Ships.

Transactions with natural persons in relation to ownership, management, and operation of Ships are not Excluded Activities and may benefit from the 0% Corporate Tax rate on Qualifying Income.<sup>103</sup>

Activities that might constitute the Qualifying Activity of ownership, management, and operation of Ships include:

- **Ownership of Ships:** This involves the purchase, ownership, and maintenance of various types of Ships. The owner is responsible for all aspects of the Ship, including its upkeep and safety protocols.

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<sup>100</sup> Article 2(3)(e) of Ministerial Decision No. 265 of 2023.

<sup>101</sup> Article 2(3)(e) of Ministerial Decision No. 265 of 2023.

<sup>102</sup> Article 1 of Ministerial Decision No. 265 of 2023.

<sup>103</sup> Article 2(2)(a) of Ministerial Decision No. 265 of 2023.



- **Management of Ships:** This activity involves the administrative and operational aspects of running Ships. It is inclusive of managing crew members, updating certifications and licences, ensuring safety and health compliance, etc. A Business consisting solely of maintenance, fit-out or repairing Ships will not be considered as a Qualifying Activity.
- **Operation of Ships:** This refers to the actual functioning of the ships including navigation, cargo handling, routine checks, and Ship repairs (overhaul and maintenance) if required. This might also encompass route planning and logistics management, among other operational tasks.

Activities that might be treated as ancillary to the Qualifying Activity of ownership, management and operation of Ships, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Ship broking:** involves buying, selling, or chartering Ships (this could only be a Qualifying Activity on the basis that it is an ancillary activity that meets the necessary conditions).
- **Organising and overseeing voyages** includes the logistical aspects of the operation of Ships, and determining which routes to use.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of ownership, management and operation of Ships will be treated as a Qualifying Activity in their own right or on a standalone basis, if taken individually.

#### **Example 60: Ownership, management and operation of Ships**

Company F (a Free Zone Person) is involved in the ownership, management, and operation of Ships. During the relevant Tax Period, in addition to the freight and hire charges, Company F received the following Revenue from its customers (Non-Free Zone Persons):

**Demurrage charges:** Company F had 50 instances when its customers kept the vessel longer than the agreed lay time and the ports concerned charged Company F for demurrage, rather than the vessel operators. For this Company F charged AED 22,000 per day of demurrage which resulted in AED 1,100,000 from demurrage charges.

**Standby charges:** Company F had 20 days when its vessel was instructed to wait before loading or unloading cargo. Company F charged AED 20,000 per day for standby, resulting in AED 400,000 from standby charges.

**Additional war risk insurance premium:** Company F's vessels had to sail through high-risk areas for which it charged an additional premium to cover the added risk of AED 3,000 per voyage. Company F's Ships had 100 such voyages, resulting in AED 300,000 from additional war risk premium.



Heating charges: Company F charged AED 500 per day for heating charges. It experienced 100 such instances, resulting in AED 50,000 from heating charges.

The above Revenue of AED 1,850,000 is closely related to the Qualifying Activity of Ownership, management and operation of Ships. Accordingly, it will be treated as Revenue from a Qualifying Activity.

#### **Example 61: Ownership, management and operation of Ships**

Company G (a Free Zone Person) owns and operates a fleet of semi-submersible drilling rigs and drill Ships. It offers services related to oil and gas drilling, well intervention, and decommissioning. It also operates offshore construction vessels that carry out heavy lift operations and help construct oil rigs and platforms.

Company G's operations revolve around oil and gas exploration and extraction, which are included in the Qualifying Activity of ownership, management and operation of Ships.

#### **Example 62: International cruise line**

Company H (a Free Zone Person) is a cruise line that operates a fleet of Ships that offers round-trip travel packages between ports in Dubai, Abu Dhabi, Doha and Manama, allowing passengers to enjoy multiple specialty restaurants, shows and other entertainment amenities as they travel back to their point of origin.

Company H is engaged in the Qualifying Activity of ownership, management and operation of Ships. The itinerary includes transit through non-UAE ports so the cruises do not fall within the exclusion when Ships are used for local transportation or leisure or recreational purposes. Further, the Ships do not fall within the exclusion for floating hotels or restaurants, because that exclusion refers to Ships that are moored and operate in a fixed location. Finally, the transactions with natural persons in relation to Ships are not treated as an Excluded Activity.



### Example 63: Ticketing agent for international cruises

Company I (a Free Zone Person) is a ticketing agent that sells cruise packages as an agent for various cruise lines. Company I receives a commission for each package that it sells.

Company I derives its Revenue from the cruise lines, not the individuals purchasing cruise packages, so would not be treated as transacting with natural persons. However, Company I is not itself engaged in the ownership, management and operation of Ships so is not performing a Qualifying Activity. However, Company I may still be a QFZP if the cruise lines that it sells tickets for are Free Zone Persons and Company I meets all other requirements to be considered as QFZP including the de minimis requirements.

## 10.8. Reinsurance services

Reinsurance services means reinsurance operations that are regulated under Federal Law No. 6 of 2007.<sup>104</sup> These include the activity of assuming all or part of a risk undertaken by another insurer or reinsurer under a contract or policy of insurance or reinsurance, respectively, provided this is subject to regulatory oversight of a Competent Authority in the UAE.

Any income earned by virtue of conducting reinsurance services (such as reinsurance premiums, underwriting fees, actuarial services, account management etc.) will be considered as income generated from a Qualifying Activity.

Activities that might constitute the Qualifying Activity of reinsurance services include:

- **Underwriting premiums:** this involves careful underwriting and assessment of the insurance policies that are transferred by insurers.
- **Salvage and subrogation recoveries:** Reinsurers may pay claims and then recover part of that money, for example, from the sale of salvaged goods or from a third-party responsible for the loss.
- **Claim handling or management:** this involves handling and processing reinsurance claims when they arise.
- **Loss adjusting and claims management:** this includes dealing with claims, determining the amount of loss, and coordinating with the ceding insurer on claim settlement.

Activities that might be treated as ancillary to the Qualifying Activity of reinsurance services, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

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<sup>104</sup> Article 2(3)(f) of Ministerial Decision No. 265 of 2023.

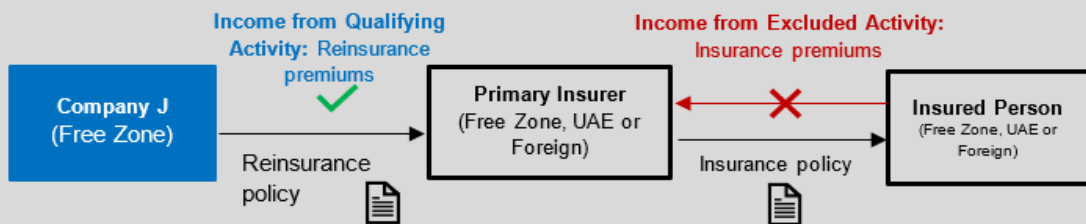


- **Investing activities:** this involves investing the premiums received from insurers in bonds, stocks, real estate, and other financial instruments that provide a return until they need to pay out claims.
- **Actuarial services:** a reinsurance service provider may employ actuaries to evaluate and forecast future risks and losses. This service may be extended to insurance clients as an additional service.
- **Risk management:** Offering risk management solutions for other insurance companies.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of reinsurance services will be treated as a Qualifying Activity in their own right or standalone basis, if taken individually.

#### Example 64: Reinsurance services to both a primary insurer and consumers

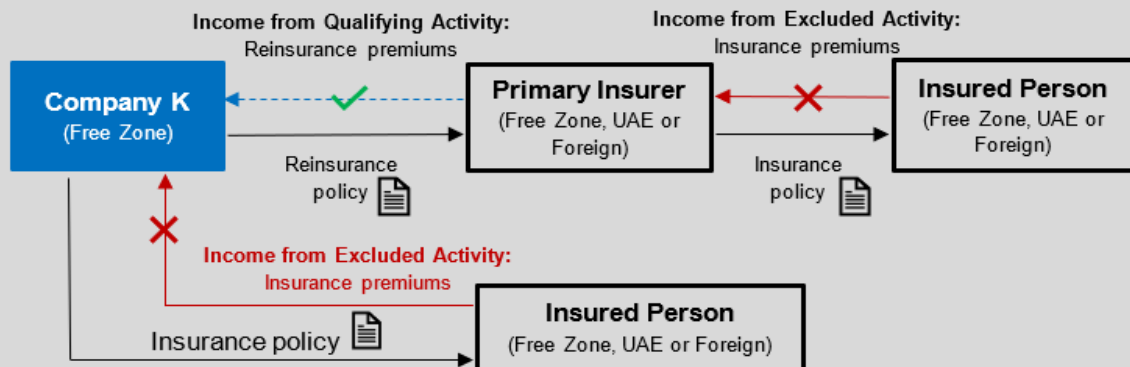
Company J (a Free Zone Person) is a reinsurance service provider that issues reinsurance policies to primary insurers. The arrangement is illustrated in the following diagram.



Income earned by Company J from reinsurance premiums and retrocessions is derived from Qualifying Activities irrespective of the location of the primary insurer and that of the insured person or the insured asset or activity.

#### Example 65: Reinsurance services

Company K (a Free Zone Person) provides reinsurance services to a primary insurer and also provides insurance directly to consumers (for example the insured Person). The arrangements are illustrated in the following diagram.



The transactions with the insured Person would not form part of the Qualifying Activities of Company K.



### **Example 66: Ancillary activities in relation to reinsurance services**

Company L (a Free Zone Company) is engaged in reinsurance services. It has a contract with a life insurance firm (Company Y) to provide reinsurance for their life insurance policies. Under this contract, Company L agrees to accept a 10% share of the risk of every policy that Company Y underwrites in exchange for 10% of the premium paid by the policyholders.

Company L invests part of the premium received from Company Y into a diversified portfolio of bonds, equities, and real estate investments which results in Dividend and Interest income.

Company L also renders:

- Risk consulting services to assess the risk profiles of potential policyholders based on various factors like age, medical history, lifestyle habits, etc., and charges a consulting fee for this service to other insurance companies.
- Claim handling and settlement services wherein when a policyholder dies and a large claim needs to be settled, Company L aids the main insurer in the detailed claim settlement process, charging a fee for this service.

During the relevant Tax Period, Company L received the following:

- Premiums of AED 2,000,000: Company Y enrolled 20,000 new policies with an average annual premium of AED 1,000 per policy. For these policies, Company L received AED 2,000,000 as transferred premiums (AED 20,000 x 1,000 x 10%).
- Income from investments of AED 300,000 (as Dividend and Interest).
- Income from risk consulting services of AED 60,000.
- Income from handling claims of AED 20,000.

The total Revenue earned by Company L from the reinsurance Business is AED 2,380,000. This sum is made up of AED 2,000,000 from premiums and AED 300,000 from investment income. In addition, Company L derives Revenue of AED 60,000 from risk consulting and AED 20,000 from claim handling. As these activities are closely related to the company's primary operations and make a minor contribution to the overall Revenue, they are ancillary activities and will also be treated as Qualifying Activities.

### **Example 67: Reinsurance services**

Company M (a Free Zone Person) is engaged in reinsurance services. It has a contract with Company Y (that provides automobile insurance) to cover certain claims over AED 50,000.

One of Company Y's (insurer) insured customers, Mr Z, gets into a car accident, causing significant damage to his car, valued at AED 100,000.



As per the reinsurance agreement between Company M (reinsurer) and Company Y (insurer), Company Y pays Mr Z the full loss amount of AED 100,000 and recovers AED 50,000 from Company M (reinsurer).

Later, Company Y (insurer) manages to sell the damaged car in a salvage auction for AED 15,000. This salvage recovery of AED 15,000 is agreed to be split with Company M (reinsurer) equally (i.e. AED 7,500 each).

Further, it is discovered that the accident was the fault of a third-party. Company Y (insurer) sues the at-fault party, and the court awards damages to Company Y (insurer) for the loss of AED 10,000. This amount, received from the third party, (i.e. subrogation recovery) is also agreed to be split with Company M (reinsurer) equally (i.e. AED 5,000 each).

Amounts received by Company M (reinsurer) in relation to salvage (AED 7,500) and subrogation (AED 5,000) recoveries would be treated as income from Qualifying Activities as they are derived in the normal course of Company M's reinsurance Business.

## 10.9. Fund management services

Fund management primarily includes managing a specific portfolio of investments on behalf of third-party investors. This could be a mutual fund, a hedge fund, or a pension fund. The fund manager aims at generating maximum returns by investing in securities such as stocks, bonds etc. based on the fund mandate. The decision of where to invest is taken solely by the fund manager, having in-depth knowledge of financial markets and economies. Fund management is typically restricted to handling investments in a specific fund.

Fund management services includes the activities of portfolio management, risk management, discretionary and non-discretionary fund management services and other services relating to the day-to-day management and operation of an investment fund by a fund manager that is appointed by the fund or its investors, including those activities that are delegated by an investment fund or its fund manager to an investment advisor or sub-advisor.<sup>105</sup> Such services will be Qualifying Activities if the Free Zone Person is appropriately regulated as an investment fund manager or investment advisor and subject to the regulatory oversight of the relevant Competent Authority in the UAE (Central Bank of the United Arab Emirates, the Dubai Financial Services Authority, the Financial Services Regulatory Authority of the Abu Dhabi Global Market, or the Securities and Commodities Authority).<sup>106</sup>

<sup>105</sup> Article 2(3)(g) of Ministerial Decision No. 265 of 2023.

<sup>106</sup> Articles 1 and 2(3)(g) of Ministerial Decision No. 265 of 2023.





Fund management services provided to natural persons are not Excluded Activities so may benefit from the 0% Corporate Tax rate on Qualifying Income.<sup>107</sup>

Activities that might constitute the Qualifying Activity of fund management services include:

- **Investment planning and strategy:** Identifying the best investment opportunities based on the financial goals and risk tolerance of the clients, including making decisions on the holding and selling of investments.
- **Investment diversification:** Investing in a mix of asset types and sectors to reduce investment risk.
- **Asset allocation:** Distributing the client's investments across various asset classes like equities, bonds, real estate, and others to balance risk and reward.
- **Fund management:** Managing the client's funds or portfolio, making necessary adjustments based on market trends and client's requirement.
- **Performance monitoring:** Regularly reviewing the performance of the client's portfolio, assessing its progress towards the set financial goals, preparing relevant regulatory or other reports for government authorities and investors, and regular reporting to clients about the performance of their portfolios.

Activities that might be treated as ancillary to the Qualifying Activity of fund management services, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Financial advisory:** Providing financial advice to clients on the best ways to achieve their financial goals.
- **Training and education:** Educating clients about financial products and investment strategies might also be part of their responsibilities, though not a primary task.
- **Financial planning:** Some fund management firms may also offer holistic financial planning services, including retirement planning, estate planning, insurance needs analysis, etc.
- **Technological support:** Providing clients with digital platforms to check their investments, make transactions, view reports, etc.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of fund management services will be treated as a Qualifying Activity in their own right or standalone basis, if taken individually.

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<sup>107</sup> Article 2(2)(a) of Ministerial Decision No. 265 of 2023.



### **Example 68: Income from fund management services**

Company N (a Free Zone Person) is a regulated investment manager company that manages a diversified equity and debt fund. During the relevant Tax Period, the fund has total assets of AED 300,000,000 and derives a 20% return, AED 54,000,000 from equity investments and AED 6,000,000 from Interest income.

During the Tax Period, Company N received the following income from its fund management services:

(1) Investment management fee: Company N charges an investment management fee of 1% of total assets under management. Accordingly, Company N received AED 3,000,000 (i.e. AED 300,000,000 under management \* 1% investment management fee).

(2) Performance fees: Company N charges a performance fees (carried interest) of 15% if the performance exceeds a hurdle rate set at 12% per annum (i.e. return on investment is more than 12% per annum). Accordingly, Company N charged performance fees (carried interest) of AED 3,600,000 (i.e. AED 300,000,000 \* 15% \* (20% – 12%)).

The investment income of AED 60,000,000 belongs to the fund. The Revenue that Company N derives from the Qualifying Activity of fund management services during the relevant Tax Period is AED 6,600,000:

- Investment management fee: AED 3,000,000
- Performance fees: AED 3,600,000

### **Example 69: Discretionary and non-discretionary services**

Company O (a Free Zone Person) is an investment fund manager. It has two clients, Mr A and Ms B.

Mr A has a portfolio of AED 2,000,000 under Company O's discretionary service. Company O charges an annual management fee of 1.5% of the assets under management. So, Company O earns AED 30,000 (AED 2,000,000 \* 1.5%) annually as a management fee from Mr A.

Additionally, Company O also charges a performance fee of 20% on any returns above a benchmark of 8%. During the relevant Tax Period, Company O generated a return of 12% for Mr A, so the excess returns are 4% (12% - 8%). Therefore, the performance fee Company O earned in the relevant Tax Period is AED 16,000 (AED 2,000,000 \* 4% \* 20%).



Ms B has an AED 3,000,000 portfolio with Company O but under a non-discretionary service. Company O charges a flat annual advisory fee of 1% on the total assets it advises on for non-discretionary clients. So, the advisory fee collected by Company O from Ms B is AED 30,000 (AED 3,000,000 \* 1%) for the relevant Tax Period.

The Revenue that Company O received of AED 46,000 (AED 30,000 management fee and AED 16,000 performance fee) from Mr A and AED 30,000 from Ms B arise from the performance of a Qualifying Activity.

### **Example 70: Delegation**

Company P (a Free Zone Person) is an investment management company with a total of AED 50,000,000 assets under management.

Company P manages a special fund that focuses on technology stocks worth AED 10,000,000. They realise they lack up-to-date expertise in the cryptocurrency sector which they consider crucial for the fund's performance. So, Company P decides to delegate the management of 20% of this fund (equivalent to AED 2,000,000) to cryptocurrency specialists, Company Y (a Free Zone Person) charges a 1.5% fee for managing this portion of the fund.

The cost incurred by Company P for this delegation is Company Y's management fee, (i.e. 1.5% of AED 2,000,000 = AED 30,000).

Revenue of AED 30,000 received by Company Y for providing their expertise on the cryptocurrency sector will be treated as being derived from a Qualifying Activity.

### **Example 71: Legal services**

Company Q (a Free Zone Person) is engaged in fund management services. It is planning to launch a new international mutual fund with an initial size of AED 20,000,000. To ensure compliance with global standards and various country-specific laws, it engages Company Y (a Free Zone Person) to provide legal services.

Company Y assists Company Q in drafting the fund's prospectus, creating the legal structure, complying with international and local regulatory requirements, and other legal considerations. Company Y charges a fee of AED 150,000 for this service.

Following the fund's setup, Company Y continues to provide ongoing legal advice and services necessary for the day-to-day functioning of the fund, including dealing



with changes in relevant laws and regulations, handling any legal conflicts, and so on. For the ongoing services, Company Y charges an annual retainer of AED 70,000.

Company Q is performing the Qualifying Activity of fund management services.

For Company Y, the legal fees of AED 220,000 received from Company Q (AED 150,000 and AED 70,000) may benefit from the 0% Corporate Tax rate on Qualifying Income on the basis that it is derived from transactions with another Free Zone Person that is the Beneficial Recipient of the services, subject to Company Y meeting the requirements to be a QFZP.

### 10.10. Wealth and investment management services

Wealth and investment management services includes the activities of providing discretionary and non-discretionary investment management and advisory services, portfolio management and wealth and investment advisory services.<sup>108</sup> Such services will be Qualifying Activities if they are subject to the regulatory oversight of the relevant Competent Authority in the UAE (i.e. the Central Bank of the United Arab Emirates, the Dubai Financial Services Authority of the Dubai International Financial Centre, the Financial Services Regulatory Authority of the Abu Dhabi Global Market and the Securities and Commodities Authority as applicable).<sup>109</sup>

Typically, wealth and investment management is a holistic service that differs from fund management because it extends beyond just investing. It encompasses all parts of a person's financial life. A wealth manager offers services like retirement planning, estate planning, tax planning, budgeting and so on. They create custom strategic plans for their clients to meet their individual short and long-term financial goals.

Wealth and investment management services provided to natural persons are not Excluded Activities so may benefit from the 0% Corporate Tax rate on Qualifying Income.<sup>110</sup>

Activities that might constitute the Qualifying Activity of wealth and investment management services include:

- **Portfolio management:** designing and managing client portfolios based on risk tolerance, financial goals, and investment timelines.
- **Financial planning:** budgeting, retirement planning, tax advice, estate planning, and more to help clients meet their financial objectives and secure financial future.
- **Asset allocation:** placement of investments across various asset classes such as stocks, bonds, real estate, and other types of investment products.

<sup>108</sup> Article 2(3)(h) of Ministerial Decision No. 265 of 2023.

<sup>109</sup> Articles 1 and 2(3)(h) of Ministerial Decision No. 265 of 2023.

<sup>110</sup> Article 2(2)(a) of Ministerial Decision No. 265 of 2023.



Activities that might be treated as ancillary to the Qualifying Activity of wealth and investment management services, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Risk management:** assessing and managing different types of investment risks. It helps clients to protect their investment from potential discrepancies.
- **Market research:** analysing market trends, studying investment opportunities and potential risks.
- **Investment analysis:** detailed assessment of investments, which includes examining financial performance, economic environment, recent trends, and even unexpected developments.
- **Family governance:** managing intergenerational wealth, succession planning for family Businesses, and setting up family offices.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of wealth and investment management services will be treated as a Qualifying Activity in their own right or standalone basis, if taken individually.

#### **Example 72: Single Family Office**

Company R (a Free Zone Person) was established as a Single Family Office (a private, standalone Business entity) to exclusively manage the financial and personal needs of a single family. Company R is not regulated by a relevant Competent Authority.

Company R would not be considered to provide the Qualifying Activity of wealth and investment managements services as it is not appropriately regulated by a relevant Competent Authority.

#### **Example 73: Multi Family Office**

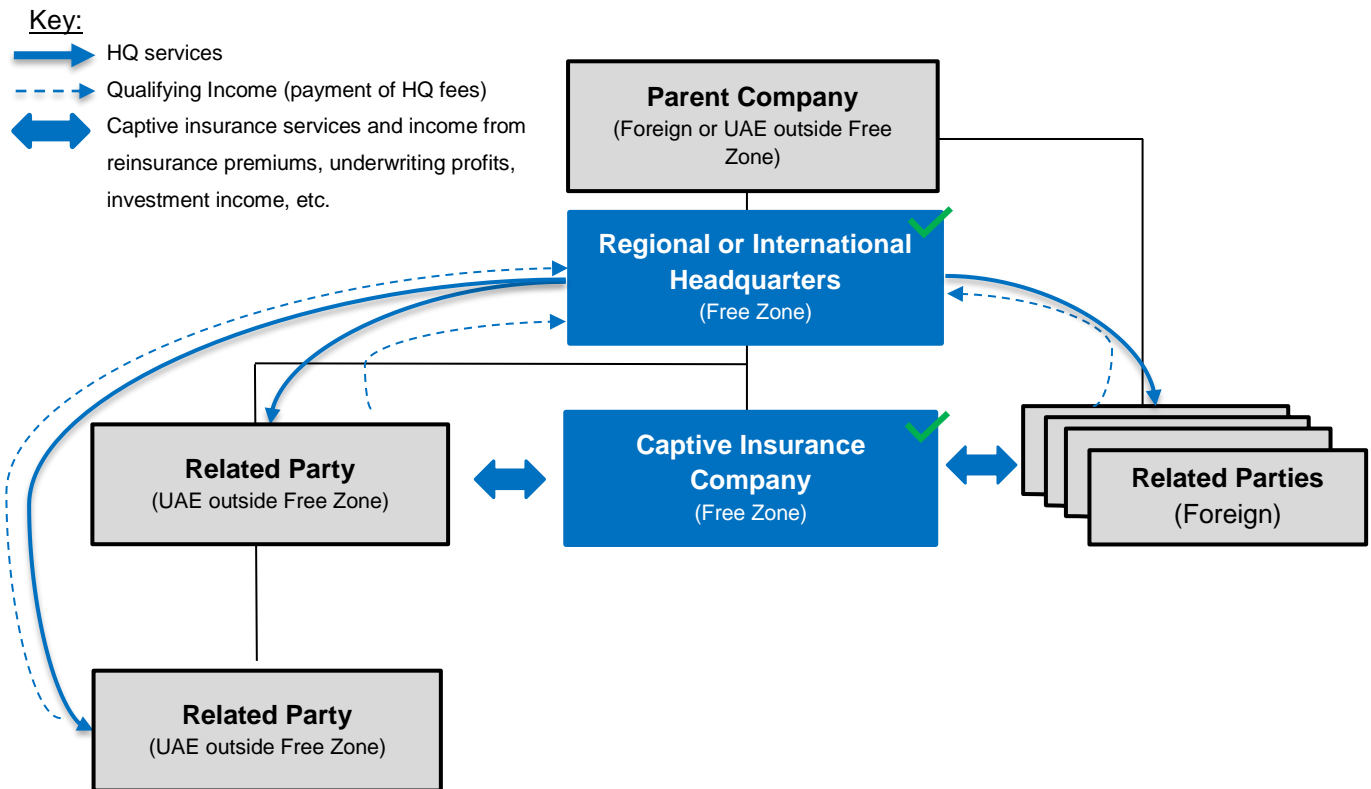
Company S (a Free Zone Person) was established as a Multi Family Office (a private, standalone Business entity) to manage the financial and personal needs of a number of families.

Company S would be considered to provide the Qualifying Activity of wealth and investment managements services if it is appropriately regulated by a relevant Competent Authority.



### 10.11. Headquarter services to Related Parties

Headquarter services to Related Parties includes the administering, overseeing and managing of Business Activities of Related Parties, including the provision of senior and general management services, captive insurance services (self-insurance that allows a group to meet its unique risk management needs), administrative services, procurement services, business planning and development, risk management, coordination of group activities, and in general incurring expenditures on behalf of Related Parties and providing other support services to Related Parties.<sup>111</sup> A typical structure is illustrated in the following diagram.



The reference to “Related Parties” for the purposes of the Qualifying Activity of providing headquarter services is limited to juridical persons and branches of juridical persons as per Article 35(1)(c) and (d) of the Corporate Tax Law. For the purposes of the scope of headquarters services, it should also be understood to include Foreign Permanent Establishments and Domestic Permanent Establishments.

A Free Zone Person is considered to conduct headquarter services if the entity provides specific services to resident and/or non-resident Related Parties. A headquarter company can take the responsibility for the overall success of the group, or an important aspect of the group’s performance, and ensure corporate governance.

<sup>111</sup> Article 2(3)(i) of Ministerial Decision No. 265 of 2023.



For a Free Zone Person to be considered as having “taken on the responsibility for the overall or an important aspect of the overall group’s success or performance”, the services provided by the entity may involve:

- the provision of strategic services,
- the provision of senior management,
- the assumption or control of material risk for activities carried out by group companies, or
- substantive advice in relation to the assumption or control of such risks.

Activities that might constitute the Qualifying Activity of headquarter services to Related Parties include:

- **Taking relevant management/strategic decisions:** this refers to making decisions on the substantive functions and significant risks for group companies, making decisions on the groups’ overall strategic vision, ongoing operations, future projects or initiatives, such as decisions on material acquisitions and purchases, the group companies’ sales and marketing strategy, product development, business process standardisation, etc.
- **Incurring operating expenditures on behalf of group entities:** taking specialist advice or procuring technology on behalf of the group, or purchasing significant assets or specific services for or on behalf of group companies.
- **Coordinating group activities:** ensuring that activities that provide an advantage to group entities (such as procurement, marketing, HR, IT, finance, tax etc.) are coordinated and organised in a way that produces the best outcome for the group as a whole as opposed to individual group companies.
- **Financial management:** it could include financial forecasting, budgeting, business modelling, treasury functions and providing company-wide financial advice.
- **Central procurement services:** assisting in the purchasing of equipment, office supplies, or raw materials for the operations of Related Parties.
- **Human resource management:** this includes strategic hiring, payroll processing, staff benefit programs, administrative tasks and implementing any HR related strategies or policies across different branches of the company.
- **Technical Support:** providing technical support to Related Parties.
- **Legal and compliance services:** ensuring all Related Parties comply with regulations and provide legal assistance when needed.
- **Intellectual property management:** administrative management of intellectual property rights such as patents, trademarks, copyrights and trade secrets of the company.

Activities that might be treated as ancillary to the Qualifying Activity of headquarter services to Related Parties, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see [Section 10.2](#)), include:

- **Training and development:** hosting training sessions to upgrade and develop the skills of the employees of Related Parties.



This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of headquarter services to Related Parties will be treated as a Qualifying Activity in their own right or standalone basis, if taken individually.

#### **Example 74: Bundled services**

Company T (a Free Zone Person) is the headquarters for a multinational coffee chain with franchises (subsidiaries) across the globe. Company T provides a variety of services such as strategic planning, marketing strategies, HR and financial management, and quality standards to every franchise. Company T charges a single bundled fee, based on a percentage of each subsidiary's Revenue, to cover the use of the brand name and all support services.

Apart from these services, the headquarters also procures and distributes its own proprietary coffee blends which are supplied to the subsidiaries globally, ensuring the taste and quality consistency across the chain. These are not charged within the bundled service fee. Instead, they are sold to the subsidiaries as goods, at a separate price.

While both services and goods (the coffee blends) originate from the headquarters, for the purposes of accounting and management, they are treated as separate activities due to their different nature and the way they contribute to each subsidiary's operations.

Rendering headquarter services would be treated as a Qualifying Activity. However, selling goods would be treated as a Qualifying Activity of distribution only if performed in a Designated Zone.

The transactions should comply with the arm's length principle. This means that the pricing of transactions between the headquarters office and its Related Parties should be the same as it would be between unrelated parties under similar circumstances. All these transactions need to be appropriately documented and priced using the arm's length principle, following the relevant Transfer Pricing rules.

#### **10.12. Treasury and financing services to Related Parties**

Treasury and financing services includes the provision of cash and liquidity management, financing, debt management, and financial risk management and related advisory services to Related Parties, including centralised payment and collection activities for or on behalf of Related Parties (including Domestic Permanent





Establishments and self-investment).<sup>112</sup> Treasury and financing services also includes cash pooling.

Shareholder loans fall under the scope of financing services and there is no threshold for the amount of loans that must be granted in order to qualify for the Qualifying Activity of treasury and financing services.

Any payment (for example, Interest or a service fee) received as part of conducting the treasury and financing services will be treated as Qualifying Income from a Qualifying Activity.

Activities that might constitute the Qualifying Activity of treasury and financing services to Related Parties include:

- **Cash management:** this involves maintaining optimal cash flow to meet current and future financial obligations. It involves tracking cash inflows and outflows, and planning for short-term and long-term financial needs.
- **Risk management:** identifying, evaluating, and managing financial risks such as credit risk, liquidity risk, and operational risk in order to reduce potential losses.
- **Investment management:** this involves deciding on investment strategies and managing the organisation's portfolio of investments.
- **Financing:** securing funds needed for Business Activities, through means such as loans, bonds, or equity financing.

Activities that might be treated as ancillary to the Qualifying Activity of treasury and financing services to Related Parties, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of treasury and financing services to Related Parties will be treated as a Qualifying Activity in their own right or standalone basis, if taken individually.

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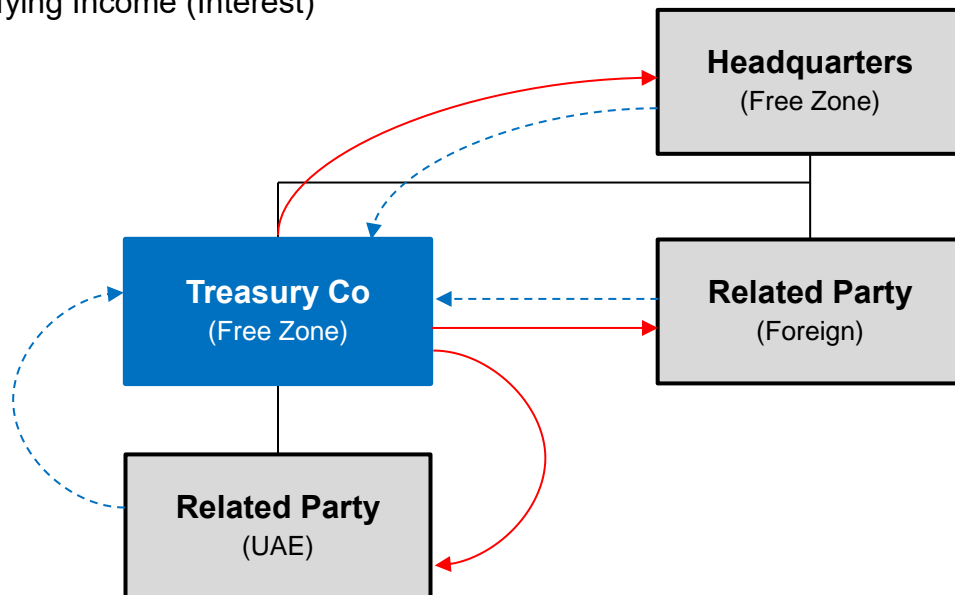
<sup>112</sup> Article 2(3)(j) of Ministerial Decision No. 265 of 2023.



A typical structure is illustrated in the following diagram:

Key:

- Intragroup financing and cash management services
- - - Qualifying Income (Interest)



The reference to “Related Parties” for the purposes of the Qualifying Activity of providing treasury and financing services includes juridical persons and branches of juridical persons as per Article 35(1)(c) and (d) of the Corporate Tax Law, as well as Domestic Permanent Establishments and self-investment.

**Example 75: Interest income from bank deposit**

Company U (a Free Zone Person) deposits its working capital in an Interest-bearing bank account and derives Interest income of AED 100.

The Interest income will be treated as arising from the Qualifying Activity of treasury and financing services to Related Parties, provided Company U maintains adequate substance in relation to the activity.

**Example 76: Cash pooling**

Company V (a Free Zone Person) is a multinational company that has its head office in a UAE Free Zone. Company V renders treasury and financing services to its subsidiaries in Country A and Country B.

Company V operates a centralised cash management system. Its head office manages all the cash resources within the group. Each subsidiary has its local account and a master account is maintained at the head office.



During the relevant Tax Period, the subsidiary in Country A ended up with surplus cash of AED 2,000,000 after all local operations are financed and the subsidiary in Country B had a deficit of AED 1,500,000. Instead of the subsidiary in Country B borrowing externally, it accessed the surplus of the subsidiary in Country A via the centralised pool managed by the head office.

The subsidiary in Country A transfers its surplus of AED 2,000,000 to the master account which then funds the deficit in the subsidiary in Country B, saving the group external borrowing costs. For these services, the head office charges a service fee.

Company V performs a Qualifying Activity in relation to the treasury and financing services to Related Parties.

### **Example 77: Hedging activities**

Expanding on Example 76, Company V's subsidiary in Country C generates Revenue in Australian dollars (AUD), but Company V's reporting currency is US dollars (USD). The fluctuation in the AUD/USD exchange rate impacts the group's financials.

To reduce this currency risk, Company V's head office buys a forward contract to sell AUD for USD at a predetermined exchange rate of 0.65 (1 AUD = 0.65 USD) in 3 months. At maturity, if the spot rate drops below 0.65, Company V benefits from the rate locked in initially. If it appreciates, Company V loses the opportunity to benefit from the higher rate, but it eradicates the uncertainty, which is the main objective.

Company V charges a percentage of the hedged amount as a service fee.

Company V performs a Qualifying Activity in relation to the hedging services as it is considered to be part of the Qualifying Activity of treasury and financing services to Related Parties.

Transactions should comply with the arm's length principle. This means that the pricing of transactions between the head office and its Related Parties should be the same as it would be between unrelated parties under similar circumstances. All these transactions need to be appropriately documented and priced using the arm's length principle.



### 10.13. Financing and leasing of Aircraft

The financing and leasing of Aircraft includes the financing, leasing and securitisation of the financing and leasing of Aircraft, Aircraft engines or rotatable components, granting the right to use Aircraft, Aircraft engines or rotatable components in exchange for rental or other consideration pursuant to a finance lease, operating lease or other arrangement, and related advisory and agency services for the procurement, sale or leasing of Aircraft, Aircraft engines or rotatable components undertaken by the QFZP.<sup>113</sup> Sub-leasing of Aircraft will fall within the scope of this activity.

An Aircraft refers to any machine that can derive support in the atmosphere from the reactions of the air other than the reactions of the air against the surface of the earth.<sup>114</sup> It includes drones but does not include hovercraft or spacecraft.

Financing and leasing of Aircraft services provided to natural persons are not Excluded Activities so may benefit from the 0% Corporate Tax rate on Qualifying Income.<sup>115</sup>

Activities that might constitute the Qualifying Activity of financing and leasing of Aircraft include:

- **Agreeing funding terms; financing:** this relates to the funding of the acquisition of Aircraft, Aircraft engines or rotatable components and includes agreeing the type of leasing (operational lease, financial lease etc.), the type of funding (for example, equity, preference shares, debt, etc.), the quantum of funding, the currency, the rates of interest payable, the security given (if any), and any covenants.
- **Identifying and acquiring the Aircraft, Aircraft engines or rotatable components to be leased:** involves the activity of identifying and verifying suitable assets to purchase and then rent to a hirer or lessee for an agreed period, including negotiating the acquisition and the terms of the supply of the assets to be leased or hired.
- **Setting the terms and duration of any financing or leasing:** this includes the financial terms, the parameters as to acceptable counterparties, the amounts, rates of interest, the legal agreements and the period for which the financing or leasing is to be provided.
- **Monitoring and revising any agreements; lease management:** includes the acquisition of data about a borrower or a lessee, testing compliance against contract and covenants, extending the duration or the changing of other terms of the financing provided, managing the details of the lease agreement, such as terms, conditions, rental rates, lease duration, and ensuring all relevant information is fed into the decision-making process and any amended financing terms.

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<sup>113</sup> Article 2(3)(k) of Ministerial Decision No. 265 of 2023.

<sup>114</sup> Article 1 of Ministerial Decision No. 265 of 2023.

<sup>115</sup> Article 2(2)(a) of Ministerial Decision No. 265 of 2023.



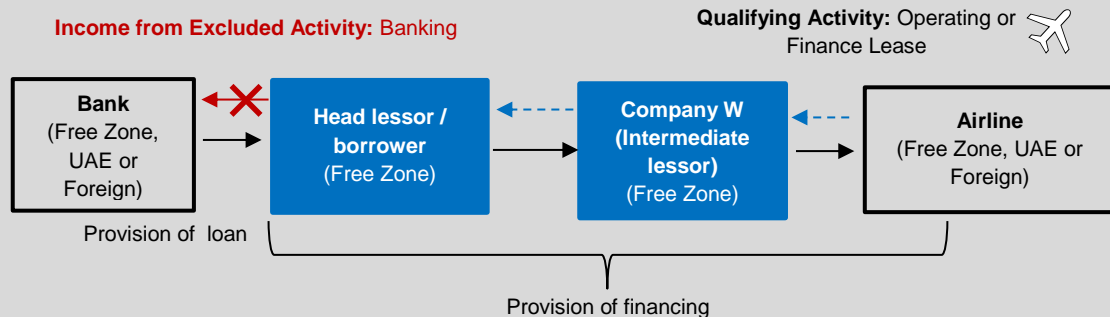
Activities that might be treated as ancillary to the Qualifying Activity of financing and leasing of Aircraft, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Credit analysis:** evaluating the creditworthiness of potential lessees.
- **Portfolio management:** monitoring and managing the mix of lease contracts and financing agreements to maintain risk diversification.
- **Disposal or sale of Aircraft or any part thereof:** companies may sell aircraft from their portfolio, either at the end of the lease term or during the lease term.
- **Asset management:** maintenance oversight, arranging inspections, and making sure the Aircraft are being handled as per the lease terms and industry standards.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of financing and leasing of Aircraft will be treated as a Qualifying Activity in their own right or standalone basis, if taken individually.

### Example 78: Provision of aviation financing

Company W (a Free Zone Person) is a lessor that provides financing to an airline to acquire an Aircraft and Aircraft engines in the form of a finance lease. The financing is secured over the Aircraft and Aircraft engines. The arrangement is illustrated in the following diagram.



The finance lease payments from the airline to Company W and the income derived by the head lessor from the intermediate lessor relate to Qualifying Activities.

The bank which finances the acquisition of the Aircraft by Company W would not be considered as undertaking the Qualifying Activity of financing and leasing the Aircraft.



### **Example 79: Broker arrangement in relation to leasing and financing Aircraft**

Company X (a Free Zone Person) is engaged in leasing and financing of Aircraft. It buys Aircraft from manufacturers and leases them to airlines.

During the relevant Tax Period, Company X purchased an Aircraft for AED 200,000,000 that can be leased to airline companies with an annual lease rate of 10%, yielding AED 20,000,000 per year for the term of the lease.

For arranging these deals, especially in foreign markets and with new customers, Company X contracted the services of an independent broker, Company Y (a Free Zone Person) who has the expertise, contacts, and understanding of complex lease agreements to facilitate these leasing deals (broker arrangement). Company Y's fee is 1% of the deal value (AED 20,000,000) i.e. it earns AED 200,000 a year as long as the leasing contract is in effect.

The activities of Company Y will not be treated as a Qualifying Activity as Company Y is rendering pure professional services in relation to leasing and financing of Aircraft. However, Company Y's Revenue may still benefit from the 0% Corporate Tax rate on the basis that it derives Qualifying Income from a transaction with another Free Zone Person that is the Beneficial Recipient of the services, subject to Company Y meeting the requirements to be a QFZP.

### **Example 80: Brokerage services in relation to leasing and financing Aircraft**

Expanding on Example 79, during the relevant year, Company X acted as a middleman in a financing deal for Company A (an airline company) that was looking to finance the purchase of Aircraft with an AED 150,000,000 loan and performed brokerage services to link Company A with a financial institution that was ready to provide a loan for the purchase.

Company X charged a broker's fee of 0.5% of the deal value to both the airline and the bank and earned AED 750,000 (0.5% \* AED 150,000,000) from each party, leading to total broker's fees of AED 1,500,000.

The brokerage services rendered by Company X is an independent service/activity that is not linked to its main operation of leasing and financing Aircraft. Such brokerage services will not be treated as a Qualifying Activity.



### Example 81: Sale of Aircraft

Company B (a Free Zone Person) is engaged in the Business of leasing and financing Aircraft. At the conclusion of an operating lease, Company B decides to sell an Aircraft that it had previously leased.

As Company B was the owner of the Aircraft and the Aircraft was used in Company B's Business, Revenue from the sale of the Aircraft will be considered to arise from a Qualifying Activity.

## 10.14. Distribution of goods or materials in or from a Designated Zone

Distribution typically includes the process of transporting products from a manufacturer, storing them, and selling them to different stores and customers. A key feature of a distribution activity is that the distributor holds title to the products. This differentiates distribution from logistics services (see Section [10.15](#)). Distribution implies a change in the location of goods or materials.

The distribution of goods or materials in or from a Designated Zone includes the buying and selling of goods, materials, component parts or any other items that are tangible or movable and may include the importation, storage, inventory management, handling, transportation and exportation of those goods or materials to a customer that resells such goods or materials, or parts thereof or processes or alters such goods or materials or parts thereof for the purposes of sale or resale, provided: <sup>116</sup>

- such activities are conducted in or from a Designated Zone, and
- if the goods or materials enter the UAE, they are imported through the Designated Zone (i.e. the requirement for distributed goods to enter a Designated Zone only applies to the distribution of foreign goods to customers in the UAE outside of a Designated Zone).

There are no limitations on the mode of distribution. The distribution of goods does not include the distribution of intangible products and services such as licences, software and financial products or services. However, if any goods have embedded software or firmware, income for which cannot be separately identifiable, this would not be excluded (see Section [10.3.2](#) for the meaning of goods).

### 10.14.1. End user

In order to fall within the scope of this Qualifying Activity, distribution services should be performed vis-à-vis a customer that further resells or a person that processes the goods or part thereof for the purpose of resale. If goods or materials are distributed to

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<sup>116</sup> Article 2(3)(l) of Ministerial Decision No. 265 of 2023.



a customer that is the "end user", (i.e. uses or consumes the product), then such activity will not be treated as a Qualifying Activity.

The end user could be a Person that the goods are ultimately intended for, after it has been passed through any intermediate stages of distribution, production, or resale. In other words, the end user is the person who eventually uses the product for its intended purpose, whether that may be personal, commercial, or industrial. For example, if a person buys a laptop for personal use, that person is the end user of the laptop. If a company buys office supplies for its employees to use, the company is the end user of those supplies as they are not further sold by the Company.

Accordingly, a Free Zone Person that is engaged in the activity of distribution of goods or materials must conduct necessary due diligence (such as 'know your client' ("KYC"), seeking confirmation by way of an undertaking or a contract, etc) to ensure that its customer is not the end user, in order to fall within the scope of the Qualifying Activity.

Activities that might constitute the Qualifying Activity of distribution of goods or materials include:

- **Purchase and resale of goods or materials:** this involves buying products from manufacturers or producers at a lower price, and then reselling them at a marked-up price to retailers.
- **Warehousing:** this involves storing products purchased from manufacturers in a safe and secure location until the time for them to be delivered.
- **Transportation, delivery and logistics:** this includes all the activities related to moving goods from the point of origin to the point of destination. For example, movement of goods from their warehouse to the retailer or directly to the customer. It also includes planning routes and schedules, handling shipment documentation, and ensuring products are delivered on time.
- **Inventory management:** this involves the management and tracking of stock levels, orders, sales, and deliveries, avoiding over-stocking or under-stocking scenarios.
- **Order processing:** this involves receiving and processing orders from retailers or directly from customers and arranging for the delivery of purchased items.
- **Packaging and repackaging:** this involves adding branding, instructions, warranty information, improving the packaging of the goods, etc.

Activities that might be treated as ancillary to the Qualifying Activity of distribution of goods or materials, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Marketing and advertising:** although not directly related to the distribution process, marketing and advertising activities are help to promote the products and drive sales volume.
- **Quality control and inspection:** distributors often take up the role of maintaining the quality of the goods distributed. Hence, services related to quality control and





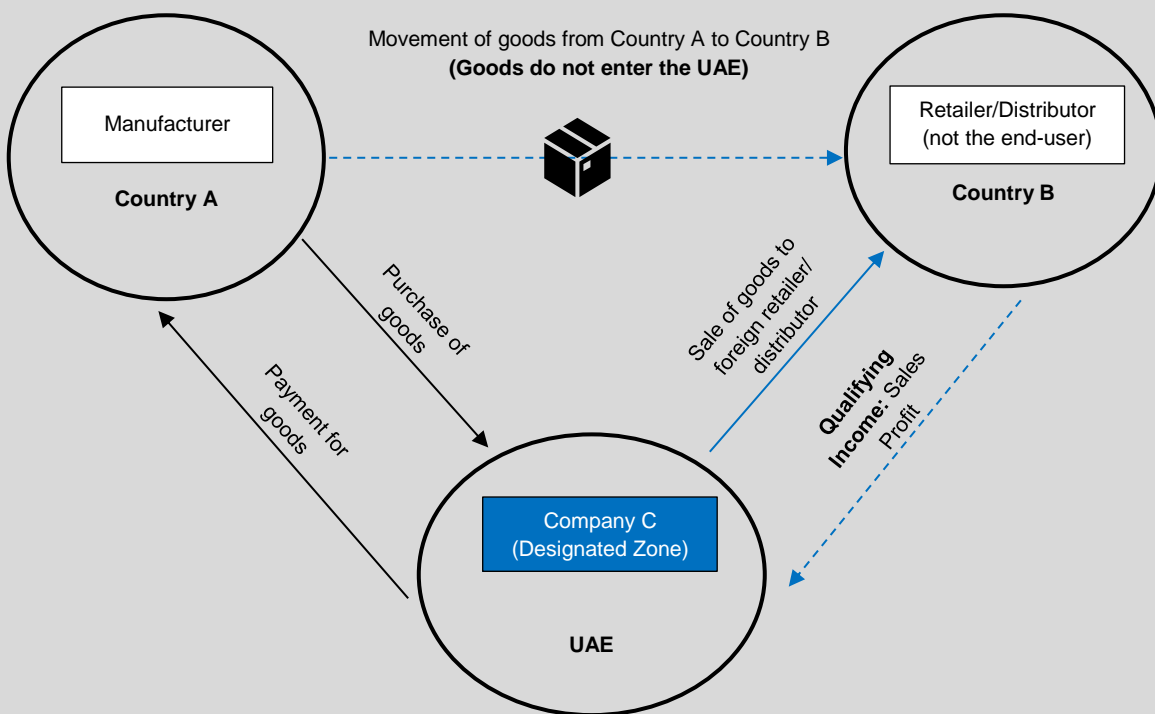
inspection of goods before they are delivered to the customer can be an essential ancillary activity.

- **Customer support services:** offering comprehensive customer services such as handling queries, grievances, or feedback.

This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of distribution of goods or materials will be treated as a Qualifying Activity in their own right or standalone basis, if taken individually.

**Example 82: Distribution of goods or materials outside of the UAE (high sea sales or third port trading)**

Company C is a Free Zone Person in a Designated Zone that buys goods from a manufacturer in Country A and sells these goods to a retailer/distributor in Country B. Company C earns a profit on the goods sold to the retailer/distributor in Country B. The goods are shipped directly from the manufacturer in Country A to the retailer/distributor in Country B. The arrangement is illustrated in the following diagram.

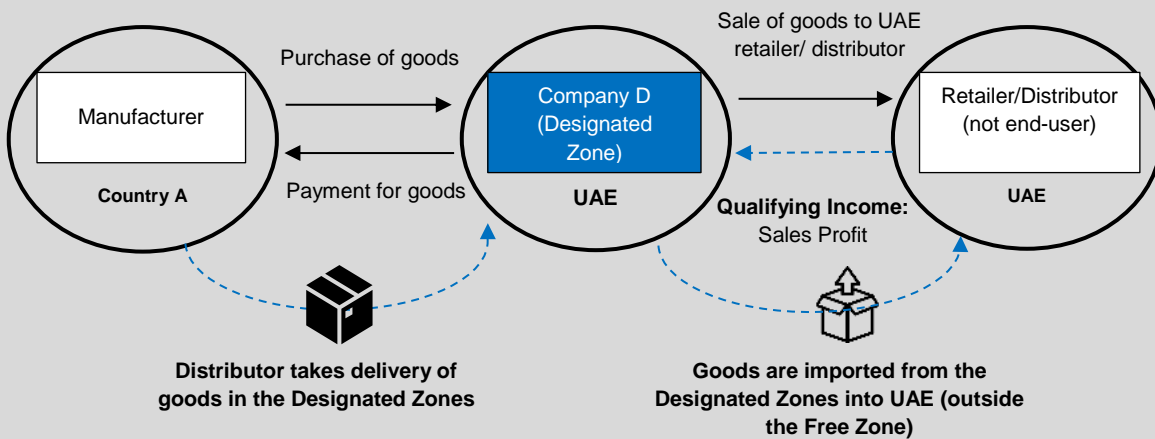


Company C performs its activities in or from a Designated Zone and the arrangements do not involve goods or materials entering the UAE. Consequently, Company C is performing Qualifying Activities.



### Example 83: Distribution of goods or materials in the UAE (import)

Company D is a Free Zone Person in a Designated Zone that buys goods from Country A and sells these goods to a retailer/distributor in the UAE. Company D earns a profit on the goods sold to the retailer/distributor. The goods are shipped by the manufacturer in Country A to Company D in the Designated Zone from where they are imported into the UAE.



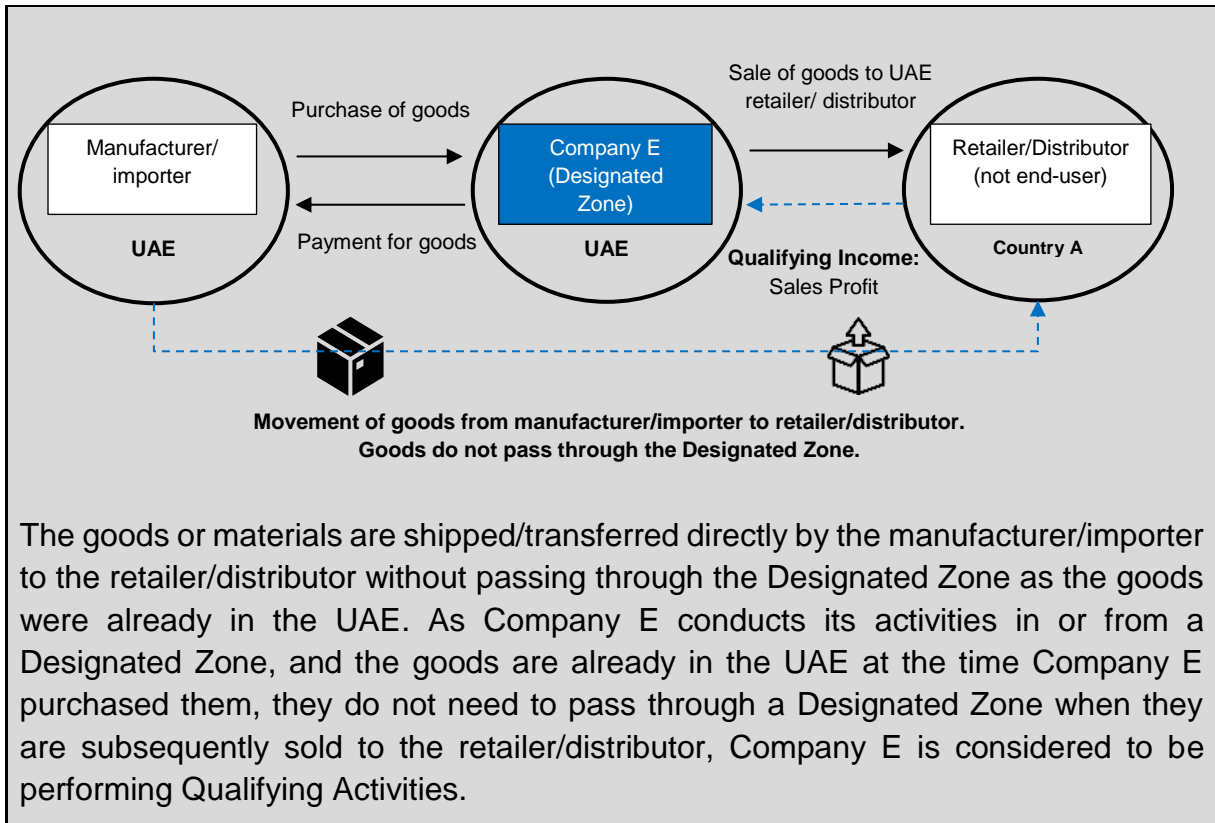
As Company D conducts its activities in or from a Designated Zone and the goods entering the UAE are imported through the Designated Zone, Company D is performing Qualifying Activities.

If the goods or materials were not imported through the Designated Zone, the activities of Company D would not be Qualifying Activities.

### Example 84: Distribution of goods or materials from the UAE (export)

Company E is a Free Zone Person in a Designated Zone that buys goods from a juridical person in the UAE (outside a Free Zone). The goods have been either manufactured in the UAE or imported into the UAE by another Person.

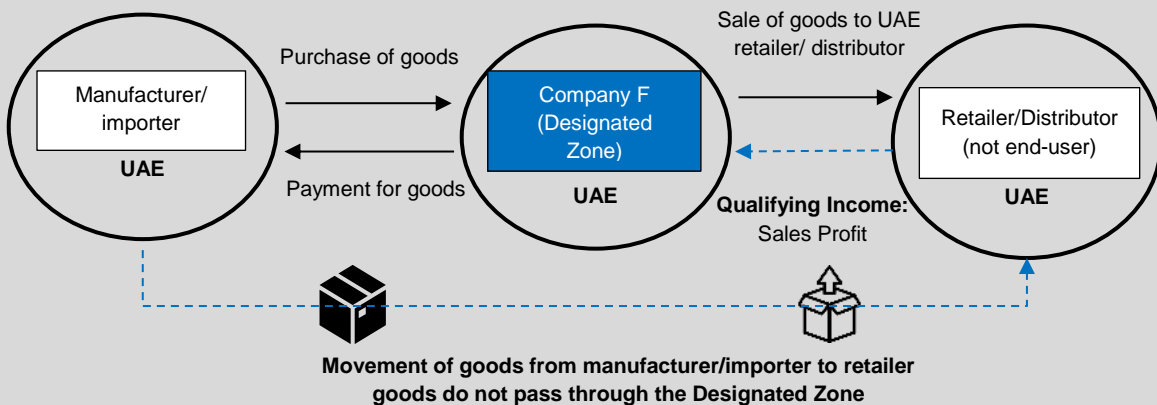
Company E sells these goods to a retailer/distributor outside the UAE. Company E earns a profit on the goods sold to the retailer/distributor. The goods are shipped by the manufacturer (or importer) in the UAE to the retailer/distributor outside the UAE.



### Example 85: Distribution of goods or materials within the UAE

Company F is a Free Zone Person in a Designated Zone that buys goods from a juridical person in the UAE (outside a Free Zone). The goods have been either manufactured in the UAE or imported into the UAE by another entity. Company F sells these goods to a retailer/distributor in the UAE outside a Free Zone. Company F earns a profit on the goods sold to the retailer/distributor.

The goods are shipped/transferred by the manufacturer (or importer) in the UAE to the retailer/distributor in the UAE outside a Free Zone.





The goods or materials are shipped/transferred directly by the manufacturer/importer to the retailer/distributor without passing through the Designated Zone. As Company F conducts its activities in or from a Designated Zone, and the goods are already in the UAE at the time Company F purchased them so they do not need to pass through a Designated Zone when they are subsequently sold to the retailer/distributor, Company F is considered to be performing Qualifying Activities.

Activities of a sales agent or consultant that only assists in the buying or selling of goods or materials without being involved in the actual buying and selling of goods or materials, (i.e. their activities are not linked to the physical activity of distribution), are not covered within the scope of Qualifying Activity of distribution of goods or materials.

#### **Example 86: Distributor versus sales agent**

A book publishing company in the UAE (outside a Free Zone) has published a new novel. It sells the novel in bulk to a distributor, Company D (a Free Zone Person in a Designated Zone). Company D sells the books to different bookstores (retailers) across the UAE and outside UAE through the Designated Zone. Company D owns the books once it buys them from the publisher, and it manages the logistics of getting the books to the various bookstores (retailers). It also bears the financial risk if the books do not sell. Company D is performing the Qualifying Activity of distribution of goods.

The same book publishing company also employs a sales agent, Company S (a Free Zone Person in a Designated Zone) to sell its books. Company S does not buy the books. Instead, it represents the publishing company to get bookstores to place orders for the book, which is then supplied directly by the publisher. Company S performs all its marketing and promotion activities from the Designated Zone. It gets a commission for each book ordered due to their efforts. Company S does not own the books or bear the financial risk if the books do not sell, as its primary role is to facilitate sales. The activities of Company S do not involve the Qualifying Activity of distribution of goods, as it does not take title to the books. Company S renders professional services of sales and marketing.

**Variation:** If the publishing company were a Free Zone Person, Company S's Revenue may still benefit from the 0% Corporate Tax rate on the basis that it derives Qualifying Income from a transaction with another Free Zone Person that is the Beneficial Recipient of its services, subject to Company S meeting all the other requirements to be a Qualifying Free Zone Person.



## 10.15. Logistics services

Logistics services includes the storage and transportation of goods or materials on behalf of another Person without taking title to the good or material of that other Person. Logistics services include activities such as cargo handling, warehousing, container storage, transport agency services, customs brokerage services, order and inventory management, freight forwarding and brokerage services, document preparation, packing and unpacking and other related services.<sup>117</sup> There are no limitations on the mode of delivery. However, logistics services do not include the movement of people.

Activities that might constitute the Qualifying Activity of logistics services include:

- **Transporting goods:** this refers to the movement of goods on behalf of clients and managing the associated risks and includes everything from planning routes to overseeing the boarding and offloading of goods.
- **Warehousing:** this involves the storing of goods, managing stocks and processing orders. It implies managing of inventory and maintaining of quality control and controlling the associated risks.
- **Inventory Management:** logistics companies are responsible for tracking and managing inventory levels to ensure that the supply of goods matches the demand.
- **Declaration and documentation:** this involves the process of preparing declarations, declaring goods to customs authorities and other government agencies when entering or leaving the UAE or any other jurisdiction including providing and preparing supporting documentation.
- **Freight forwarding services:** this entails serving as an intermediary between transportation Businesses importing or exporting goods and clients to whom these goods are intended.
- **Order fulfilment:** involves receiving, processing, and delivering orders to end customers.
- **Packing:** Some logistics companies provide packing services, ensuring that goods are appropriately packed for transit and reaching the end consumer in good condition.

Activities that might be treated as ancillary to the Qualifying Activity of logistics services, provided that they naturally and integrally complement the main Qualifying Activity and meet the conditions for ancillary activities (see Section [10.2](#)), include:

- **Supply chain management:** this involves coordinating and managing all the different parties involved in the production and distribution of goods, from suppliers to manufacturers to retailers.
- **Customs brokerage:** some logistics companies provide customs brokerage services, helping Businesses navigate the complexities of international trade laws and regulations.
- **Customer service:** handling client queries, complaints, and issues related to the transportation and delivery of goods.

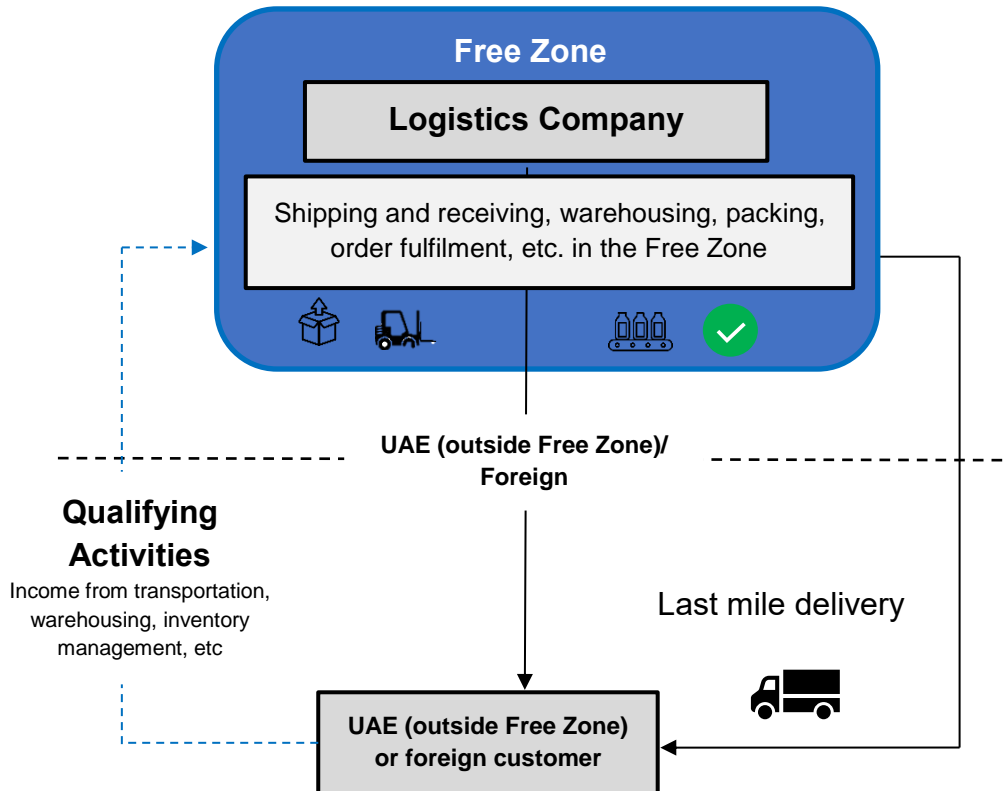
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<sup>117</sup> Article 2(3)(m) of Ministerial Decision No. 265 of 2023.



This does not necessarily mean that any activity that might be ancillary to the Qualifying Activity of logistics services will be treated as a Qualifying Activity in their own right or standalone basis, if taken individually.

A typical structure is illustrated in the following diagram.



Where the Free Zone Person performs most of its logistics services within a Free Zone for its customers in the UAE outside a Free Zone or foreign customers but provides last mile delivery services outside of the Free Zone in the UAE or in a foreign country, the last mile delivery services will still form part of the Free Zone Person's logistics services Qualifying Activity.

### Example 87: Logistics services

Company F (a Free Zone Person) is a logistics service provider with its Business operations in a Free Zone. During the relevant Tax Period, Company F has rendered the following services to its customer, Company R (a Non-Free Zone Person), a clothing retailer:

- Transport and delivery: Company R requested to ship 5,000 units of a new dress style to stores across Country U. Company F charged AED 10 per unit for transportation, resulting in Revenue of AED 50,000.



- Warehousing: Company R requested storage space for an additional 2,000 units of clothing for 3 months for which Company F charged them a monthly storage fee of AED 5,000, resulting in Revenue of AED 15,000.
- Order fulfilment: Company F provided order fulfilment service to Company R for which it charged per order processed. Company F processed 2,000 orders and charged AED 10 per order, resulting into AED 2,000 \* AED 10/order = AED 20,000.
- Freight forwarding: Company F coordinates international shipments for Company R. Over the year Company F managed 10 international shipments. For each shipment, it charged an AED 1,000 service fee, bringing the annual cost to AED 10,000 (10 shipments \* AED 1,000/shipment).

All the above services that Company F provided involve the Qualifying Activity of logistics services.



## 11. Excluded Activities

### 11.1. Overview

Revenue from Excluded Activities is treated as non-qualifying Revenue for the purposes of the de minimis requirements, unless the Revenue is attributable to a Free Zone Person's Foreign Permanent Establishment or Domestic Permanent Establishment or pertains to Immovable Property in a Free Zone that does not generate Qualifying Income. The following activities are Excluded Activities:<sup>118</sup>

- Any transactions with natural persons, except transactions in relation to:<sup>119</sup>
  - 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, or
  - financing and leasing of Aircraft, including engines and rotatable components.
- Banking activities.<sup>120</sup>
- Insurance activities, other than:<sup>121</sup>
  - reinsurance services, and
  - captive insurance related activities forming part of headquarter services to Related Parties.
- Finance and leasing activities, other than:<sup>122</sup>
  - ownership, management and operation of Ships,
  - treasury and financing services to Related Parties, and
  - financing and leasing of Aircrafts, 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.<sup>123</sup>

Excluded Activities also include ancillary activities that are integral or closely connected to each Excluded Activity. Similar to Qualifying Activities, an activity is ancillary where it is necessary for the performance of the main 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 (see Section [10.2](#)).<sup>124</sup>

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<sup>118</sup> Article 2(2) of Ministerial Decision No. 265 of 2023.

<sup>119</sup> Article 2(2)(a) of Ministerial Decision No. 265 of 2023.

<sup>120</sup> Article 2(2)(b) of Ministerial Decision No. 265 of 2023.

<sup>121</sup> Article 2(2)(c) of Ministerial Decision No. 265 of 2023.

<sup>122</sup> Article 2(2)(d) of Ministerial Decision No. 265 of 2023.

<sup>123</sup> Article 2(2)(e) of Ministerial Decision No. 265 of 2023.

<sup>124</sup> Article 2(4) of Ministerial Decision No. 265 of 2023.



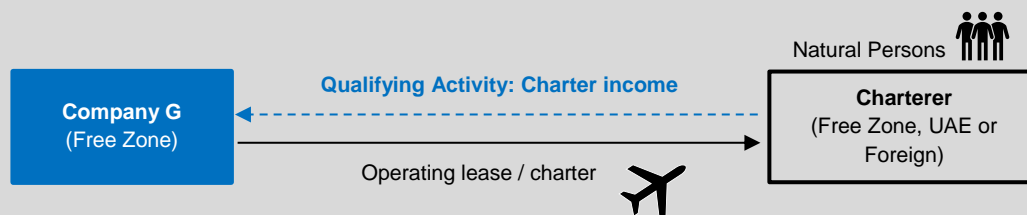


## 11.2. Transactions with natural persons

As noted in Section [11.1](#), all transactions with natural persons are treated as Excluded Activities, except transactions in relation to the ownership, management and operation of Ships, fund management services, wealth and investment management services, and financing and leasing of Aircraft.<sup>125</sup>

### Example 88: Leasing of aircraft

Company G (a Free Zone Person) charters an Aircraft to natural persons. The transaction is illustrated in the following diagram.



The income derived from chartering the Aircraft would not be considered to arise from Excluded Activities.

### Example 89: Restaurant in a Free Zone

Company H (a Free Zone Person) operates a restaurant that is located in a Free Zone and makes sales to individual and corporate customers. Sales made to natural persons will be treated as an Excluded Activity and will give rise to non-qualifying Revenue.

## 11.3. Banking activities

Banking activities means the regulated financial activities specified under Article 65 of Federal Decree-Law No. 14 of 2018.<sup>126</sup> These are as follows:

- Receiving all types of deposits, including Sharia-compliant deposits.
- Providing all types of credit facilities.
- Providing all types of funding facilities, including Sharia-compliant funding facilities.
- Providing currency exchange and money transfer services.
- Providing monetary intermediation services.
- Providing stored values services, electronic retail payments and digital money services.
- Providing virtual banking services.

<sup>125</sup> Article 2(2)(a) of Ministerial Decision No. 265 of 2023.

<sup>126</sup> Article 2(3)(n) of Ministerial Decision No. 265 of 2023.



- Arranging and/or marketing licensed financial activities.
- Acting as principal for financial products that affect the financial position of the licensed Financial Institution, including but not limited to foreign exchange, financial derivatives, bonds and sukuk, equities, commodities, and any other financial products approved by the Central Bank.

Banking activities do not include fund management services, wealth and investment management services or treasury and financing services to Related Parties if they constitute a separate and distinct Business performed by a Free Zone Person.

If a Free Zone Person engaged in banking activities performs any of these services, (i.e. fund management services or wealth and investment management services or treasury and financing services to Related Parties), the same could be treated as Qualifying Activities but it would need to satisfy the de minimis requirements.

#### **Example 90: Interplay between banking and treasury and financing services**

Company I (a Free Zone Person) is a bank in the UAE. Company I has a branch located in Country A that requires additional funds to meet its loan disbursement and other financial requirements. The Country A branch requests liquidity (funds) from its head office (Free Zone parent) in the UAE Free Zone.

The head office (Free Zone parent) in the Free Zone sends the necessary funds to the Country A branch, which is a treasury function as it is a common practice for branches of a bank to receive such liquidity from their head office (Free Zone parent) or from other money market participants, including other banks.

The treasury function (i.e. facilitation role in relation to funds) performed by Company I (Free Zone parent) could fall under the scope of the Qualifying Activity of treasury and financing services to Related Parties but the de minimis requirements will have to be satisfied.

#### **11.4. Insurance activities**

Insurance activities means insurance operations that are regulated under Federal Law No. 6 of 2007.<sup>127</sup> This includes activities that are subject to regulatory oversight, such as, the Business of accepting risks by effecting or carrying out contracts of insurance, in both the life and non-life sectors. Insurance activities do not include reinsurance activities.

Reinsurance activities and captive insurance that fall within the scope of the Qualifying

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<sup>127</sup> Article 2(3)(o) of Ministerial Decision No. 265 of 2023.



Activity of “reinsurance services” or “headquarter services to Related Parties” are specifically excluded from the scope of this Excluded Activity and therefore can give rise to Qualifying Income (see Sections [10.8](#) and [10.11](#)).

#### **Example 91: Interplay between insurance and captive insurance**

Group E (headquartered in a Free Zone) is a large multinational organisation and has several group companies. One of the group companies, Company I (a Free Zone Person) is engaged in insurance services.

Company I provides insurance policies to both natural persons and juridical persons, including life and non-life insurance products. These activities are subject to regulatory oversight, as they involve accepting risks via contracts of insurance and are considered as Excluded Activities.

The head office of Group E (a Free Zone Person) offers insurance coverage to other group companies. The services offered by the head office are not considered the same as the insurance activities usually performed by Company I. The activities of the head office are instead recognised under “headquarter services to Related Parties” as it provides only internal coverage within the corporate entities of Group E. Such headquarter services will be treated as a Qualifying Activity.

### **11.5. Finance and leasing activities**

Financing and leasing activities means the provision of credit or financing for any kind of consideration (including digital and cryptocurrency), and the letting, hiring out or otherwise granting the right to use an asset in exchange for rental or other consideration pursuant to a finance lease, operating lease or other arrangement, that are subject to the regulatory oversight of the relevant Competent Authority (i.e. the Central Bank of the United Arab Emirates, the Dubai Financial Services Authority of the Dubai International Financial Centre, the Financial Services Regulatory Authority of the Abu Dhabi Global Market and the Securities and Commodities Authority as applicable) in the UAE.<sup>128</sup>

Finance and leasing activities do not include:<sup>129</sup>

- financing and leasing of Ships.
- financing services to Related Parties (Related Party financing is not a regulated activity in the UAE).
- financing and leasing of Aircraft (including engines and rotables).

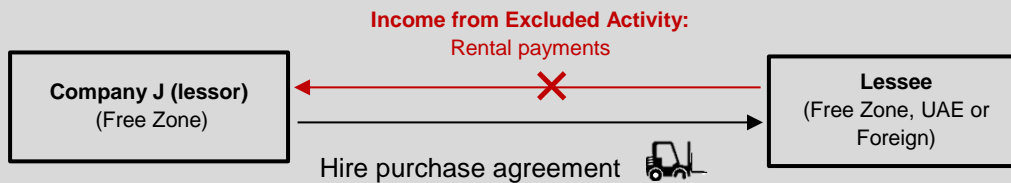
<sup>128</sup> Articles 1 and 2(3)(p) of Ministerial Decision No. 265 of 2023.

<sup>129</sup> Article 2(2)(d) of Ministerial Decision No. 265 of 2023.



### Example 92: Leasing

Company J (a Free Zone Person) is a regulated lessor. Company J enters into a hire purchase agreement under which it leases a forklift to a lessee for consideration (irrespective of the location of the lessee). The transaction is illustrated in the following diagram.



The rental income derived from the leasing activity is considered income from an Excluded Activity.

### Example 93: Financing

Company K (a Free Zone Person) is a regulated non-bank lender. Company K makes a loan to a borrower that is not a Related Party and earns Interest on the loan (irrespective of the location of the borrower). The transaction is illustrated in the following diagram.



The Interest income is considered income derived from an Excluded Activity because it related to a regulated Business.

## 11.6. Ownership or exploitation of Immovable Property

The 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, is an Excluded Activity.<sup>130</sup>

Section 8 discusses the treatment of Immovable Property and the implications of the ownership or exploitation of most Immovable Property being an Excluded Activity.

<sup>130</sup> Article 2(2)(e) of Ministerial Decision No. 265 of 2023.



## 12. Compliance

### 12.1. Record Keeping

A QFZP is a Taxable Person for the purposes of the Corporate Tax Law, even if all its income is Qualifying Income that is subject to a 0% Corporate Tax rate. Consequently, a Free Zone Person must maintain all records and documents required for Corporate Tax purposes for 7 years following the end of the Tax Period to which they relate.<sup>131</sup>

All Taxable Persons must provide the FTA with any information, documents or records reasonably required by the FTA when requested to do so. The records must, therefore, be easily accessible if the FTA requests them.

### 12.2. Tax Registration

A Free Zone Person, including a QFZP should register for Corporate Tax with the FTA in the form and manner and within the timelines prescribed by the FTA.<sup>132</sup> Failure to submit a Tax Registration application as per the prescribed timelines will result in Administrative Penalties.<sup>133</sup>

A non-resident juridical person with a branch in a Free Zone that derives only State Sourced Income<sup>134</sup> and does not have a Permanent Establishment in the UAE (for example, performs only preparatory or auxiliary activities in the UAE) is not required to register for Corporate Tax purposes.<sup>135</sup>

### 12.3. Applicable Accounting Standards

The Corporate Tax Law does not require a Free Zone Person to maintain separate Financial Statements relating to its activities that generate Qualifying Income. However, in all cases, a QFZP would need to have sufficient documentation to demonstrate how it calculated its Qualifying Income.

For the purposes of the Corporate Tax Law, a Taxable Person is required to prepare Financial Statements based on applicable Accounting Standards. Accounting Standards that are accepted in the UAE for Corporate Tax purposes are the IFRS, or IFRS for SMEs for a Taxable Person with Revenue of AED 50,000,000 or less in the

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<sup>131</sup> Article 56(1) of the Corporate Tax Law.

<sup>132</sup> Article 51(1) of the Corporate Tax Law read with FTA Decision No. 3 of 2024.

<sup>133</sup> Cabinet Decision No. 75 of 2023.

<sup>134</sup> Article 13 of the Corporate Tax Law.

<sup>135</sup> Article 2(1)(e) of Ministerial Decision No. 43 of 2023.



relevant Tax Period, or Cash Basis of Accounting where the relevant conditions are met.<sup>136</sup>

#### **12.4. Preparing audited Financial Statements**

A Free Zone Person is required to prepare and maintain audited Financial Statements for Corporate Tax purposes (regardless of its Revenue) as a condition of being a QFZP.<sup>137</sup>

A QFZP is not required to prepare separate Financial Statements for its Qualifying Income and its other income and is also not required to prepare separate audited financial statements for any branches that it may have. However, the QFZP should have sufficient documentation to demonstrate how it calculated its Qualifying Income.

#### **12.5. Tax Return and Corporate Tax payment**

Corporate Tax is a self-assessed regime. A 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.<sup>138</sup>

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<sup>136</sup> Articles 2 and 4 of Ministerial Decision No. 114 of 2023.

<sup>137</sup> Article 54(2) of the Corporate Tax Law read with Article 5(1)(b) of Ministerial Decision No. 265 of 2023 and Article 2(2) of Ministerial Decision No. 82 of 2023.

<sup>138</sup> Articles 48 and 53(1) of the Corporate Tax Law.



## 13. Updates and Amendments

Date of amendment	Amendments made
May 2024	<ul style="list-style-type: none"><li>• First version</li></ul>