

**Cabinet Decision No. 55 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**

**The Cabinet:**

- Having reviewed the Constitution,
- Federal Law No. 1 of 1972 on the Competencies of Ministries and Powers of the Ministers, and its amendments,
- Federal Decree-Law No. 13 of 2016 on the Establishment of the Federal Tax Authority, and its amendments,
- Federal Decree-Law No. 28 of 2022 on Tax Procedures,
- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses,
- Pursuant to what was presented by the Minister of Finance and upon the approval of the Cabinet,

**Decided:**

**Article (1)**  
**Definitions**

Definitions in Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses shall be applied to this Decision, with exception to that, the following words and expressions shall have the meaning assigned against each, unless the context requires otherwise:

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

**Qualifying Activities:** Any activities determined by a decision issued by the Minister and conducted by a Qualifying Free Zone Person from which Qualifying Income is derived.

**Excluded Activities:** Any activities determined by a decision issued by the Minister and conducted by a Qualifying Free Zone Person from which non-Qualifying Income is derived.

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

**Commercial Property:** Immovable property or part thereof:

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

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

**Article (2)**  
**Scope of Application**

The provisions of this Decision shall apply to Qualifying Free Zone Persons.

**Article (3)**  
**Qualifying Income**

1. For the purposes of application of Article (18) of the Corporate Tax Law, Qualifying Income of the Qualifying Free Zone Person shall include the below categories of income, provided that such income is not attributable to a Domestic Permanent Establishment or a Foreign Permanent Establishment in accordance with Article (5) of this Decision or to the ownership or exploitation of immovable property in accordance with Article (6) of this Decision:
  - a. Income derived from transactions with other Free Zone Persons, except for income derived from Excluded Activities.
  - b. Income derived from transactions with a Non-Free Zone Person, but only in respect of Qualifying Activities that are not Excluded Activities.
  - c. Any other income provided that the Qualifying Free Zone Person satisfies the de minimis requirements under Article (4) of this Decision.
2. For the purposes of paragraph (a) of Clause (1) of this Article, income will be considered as derived from transactions with a Free Zone Person where that Free Zone Person is the Beneficial Recipient of the relevant services or Goods.
3. For the purposes of this Article, the term “Beneficial Recipient” 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 pass on such service or Good to another person and the term “Good” shall mean tangible or intangible property that has economic value in dealing including moveable and immovable property.
4. Qualifying Income shall include income derived from any Person where such income is incidental to the income under paragraph (a) or (b) of Clause (1) of this Article.
5. For the purposes of determining whether a Qualifying Free Zone Person has a Domestic Permanent Establishment, the provisions of Article (14) of the Corporate Tax Law shall apply and the expression “Qualifying Free Zone Person” shall be used instead of the expression “Non-Resident Person”, and the expression “geographical areas outside the Free Zones in the State” shall be used instead of the word “State”, wherever used in that Article.

**Article (4)**  
**De minimis Requirements**

1. The de minimis requirements shall be considered satisfied where the non-qualifying Revenue derived by the Qualifying Free Zone Person in a Tax Period does not exceed a percentage of the total Revenue of the Qualifying Free Zone Person in that Tax Period as specified by the Minister, or an amount specified by the Minister, whichever is lower.
2. Subject to Clause (3) of this Article, the following provisions shall apply:
  - a. Non-qualifying Revenue is Revenue derived in a Tax Period from any of the following:
    - 1) Excluded Activities.
    - 2) Activities that are not Qualifying Activities where the other party to the transaction is a Non-Free Zone Person.
  - b. Total Revenue is all Revenue derived by a Qualifying Free Zone Person in a Tax Period.
3. The following Revenue shall not be included in the calculation of non-qualifying Revenue and total Revenue:
  - a. Revenue attributable to immovable property located in a Free Zone derived from the following transactions:
    - (1) Transactions with Non-Free Zone Persons in respect of Commercial Property.
    - (2) Transactions with any Person in respect of immovable property that is not Commercial Property.
  - b. Revenue attributable to a Domestic Permanent Establishment or a Foreign Permanent Establishment of the Qualifying Free Zone Person.
4. For the purposes of this Article, a Qualifying Free Zone Person and its Domestic Permanent Establishment or Foreign Permanent Establishment shall be treated as if the establishment was a separate and independent Person that is a Related Party of the Qualifying Free Zone Person.

#### **Article (5)**

#### **Income Attributable to a Domestic Permanent Establishment or a Foreign Permanent Establishment**

1. Income attributable to a Domestic Permanent Establishment or a Foreign Permanent Establishment of the Qualifying Free Zone Person shall be considered Taxable Income and taxed in accordance with paragraph (b) of Clause (2) of Article (3) of the Corporate Tax Law.
2. The income attributable to a Domestic Permanent Establishment or a Foreign Permanent Establishment of a Qualifying Free Zone Person for a Tax Period is the Taxable Income of any such establishment for that period calculated as if the establishment was a separate and independent Person that is a Related Party of the Qualifying Free Zone Person.

#### **Article (6)**

#### **Income Attributable to Immovable Property Located in a Free Zone**

1. Income attributable to immovable property located in a Free Zone that is derived from the below transactions shall be considered Taxable Income and taxed in accordance with paragraph (b) of Clause (2) of Article (3) of the Corporate Tax Law:
  - a. Transactions with Non-Free Zone Persons in respect of Commercial Property.
  - b. Transactions with any Person in respect of immovable property that is not Commercial Property.
2. For the purposes of Clause (1) of this Article, the Taxable Income for a Tax Period shall be the income that is attributable to the immovable property referred to in paragraphs (a) and (b) of Clause (1) of this Article calculated in accordance with the relevant provisions of the Corporate Tax Law.

#### **Article (7)**

#### **Maintaining Adequate Substance in a Free Zone and Outsourcing**

1. A Qualifying Free Zone Person shall undertake its core income-generating activities in a Free Zone and, having regard to the level of the activities carried out, have adequate assets, an adequate number of qualified employees, and incur an adequate amount of operating expenditures.
2. Activities can be outsourced to a Related Party in a Free Zone or a third party in a Free Zone, provided the Qualifying Free Zone Person has adequate supervision of the outsourced activity.

#### **Article (8)**

#### **Implementing Decisions**

The Minister shall issue the necessary decisions to implement the provisions of this Decision.

**Article (9)**

**Publication and Application this Decision**

This Decision shall be published in the Official Gazette and shall come into effect on 1 June 2023.

**Mohammed bin Rashid Al Maktoum**

**Prime Minister**

Issued by us,

On: 10 Dhi al-Qi`dah 1444 H

Corresponding to: 30 May 2023