

Cabinet Decision No. 55 of 2023 and Ministerial Decision No. 139 of 2023 prescribing conditions for taxability of Free Zone Persons

Qualifying income

De Minimis Requirements

- The de minimis requirements will be satisfied where non-qualifying Revenue does not exceed 5% of total revenue or AED 5,000,000, whichever is lower.
- Failure to meet any of the qualifying conditions, Free Zone Person will be treated as a Taxable Person subject to 9% CT rate for a period of five years.

Non-qualifying Revenue

- Revenue derived from Excluded Activities or
- Activities that are not Qualifying Activities where the other party is a non-Free Zone Person.

Qualifying Income (0%)

- **Transaction with other Free Zone Person** - Income except for income derived from Excluded Activities.
- **Transaction with a Non-Free Zone Person** - Income only in respect of Qualifying Activities that are not Excluded Activities.
- Any other income provided that the QFZP satisfies the de minimis requirements.

Taxability of Free Zone Person

Excluded Activities

- Transactions with natural persons (except some transactions in relation to the qualifying activities).
- Regulated banking, insurance, finance and leasing activities.
- Ownership or exploitation of intellectual property assets.
- Immovable property, other than transactions with Free Zone Persons in relation to commercial property located in a Free Zone.

Qualifying Activities

- Manufacturing and processing of goods or materials.
- Holding of shares and other securities.
- Ownership, management and operation of ships.
- Regulated reinsurance, fund/ and wealth and investment management services.
- Headquarter and treasury and financing services to related parties.
- Financing and leasing of aircraft.
- Logistics.
- The distribution of goods in or from a designated zone subject to certain conditions.

Certain revenue shall not be included in the calculation of non-qualifying Revenue and total Revenue which includes revenue attributable to certain immovable property located in a Free Zone, revenue attributable to a Domestic Permanent Establishment or a Foreign Permanent Establishment.

Adequate substance (linkage with the Economic Substance Regulations)

- **Core income generating activities** shall be undertaken in the **Free Zone**.
- Having adequacy of the **assets, qualifying employees and operating expenditure** (commensurate to the activities carried out by FZP).
- **Outsourcing of activities** to a third party or related party provided adequate supervision is maintained by the FZP.

Deemed taxability (at the rate of 9%)

- Income attributable to **immovable property** located in Free Zone (except for transactions by a FZP with a FZP for commercial property located in the Free Zone).
- Income attributable to **Domestic Permanent Establishment** ('PE') or a Foreign PE of a FZP.

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