







QUALIFIED FREE ZONE PERSON

-  maintains adequate substance in a Free Zone
-  has not elected to be subject to Corporate Tax
-  complies with Articles 34 "Arm's Length Principle" and 55 "Transfer Pricing Documentation"
-  derives Qualifying Income as specified in a decision issued by the Cabinet
-  its non-qualifying Revenue doesn't exceed the de minimis requirements
-  prepares audited financial statements





CONSEQUENCES OF NON-COMPLIANCE WITH THE CONDITIONS


➔ A Qualifying Free Zone Person ceases to be a Qualifying Free Zone Person from the beginning of the relevant Tax Period and **for the subsequent (4) four Tax Periods**

! A Qualifying Free Zone Person can elect to be taxed at the general rates of Corporate Tax.

The election will be effective for the following four Tax Periods, after which the election can be made again.

ADEQUATE SUBSTANCE IN A FREE ZONE or DESIGNATED ZONE

-  **core income-generating activities** in a Free Zone or Designated Zone – those significant functions that drive the business value for each activity
-  adequate **assets** - assets to carry out a Relevant Activity in a Free Zone or Designated Zone
-  adequate number of **qualified full-time employees**
-  adequate amount of **operating expenditures**

 Activities can be outsourced to a Related Party or a third party in a Free Zone or Designated Zone, but under proper supervision of the outsourced activities

THE DE MINIMIS REQUIREMENTS

The de minimis requirements shall be considered satisfied where:



The non-qualifying Revenue in a Tax Period



5% (five percent) of the total Revenue or AED 5,000,000 (five million dirhams), whichever is lower

comparing Non-qualifying Revenue and Total Revenue

Non-qualifying Revenue includes:

1. the Revenue from the Excluded Activities
2. the Revenue from the Activities that are not Qualifying Activities where the other party to the transaction is a Non-Free Zone Person
3. Revenue from a FZP, where such FZP is not the Beneficial Recipient

Total Revenue includes:

all Revenue derived by a Qualifying Free Zone Person in a Tax Period.

shall NOT be included in the calculation

1. Revenue from immovable property located in a Free Zone from:

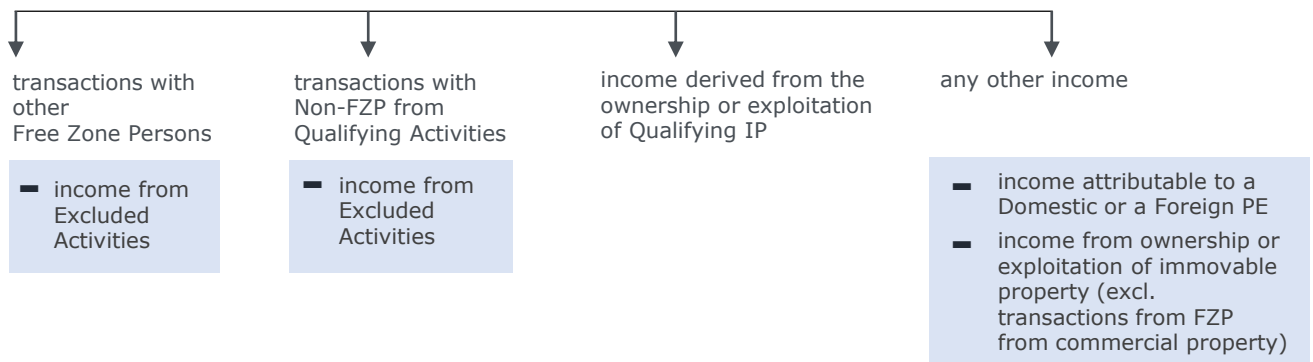
- a) transactions with Non-Free Zone Persons in respect of Commercial Property.
- b) transactions with any Person in respect of immovable property that is not Commercial Property.

2. Revenue attributable to a Domestic PE or a Foreign PE of the Qualifying Free Zone Person.

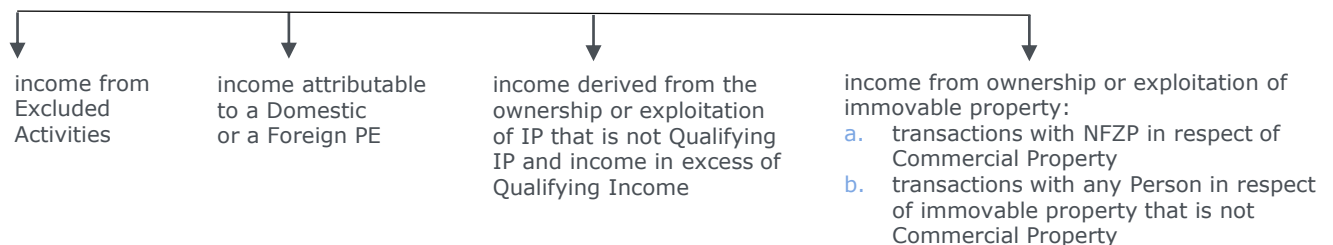
3. Revenue derived from the ownership or exploitation of intellectual property, except for the Revenue related to the Qualifying Income

QUALIFYING AND NON-QUALIFYING INCOME

0% IF SOURCE OF INCOME



9% IF SOURCE OF INCOME



? What about "income from Excluded Activities" – should it be included in any other income and taxed at 0%?

$$\text{Qualifying Income} = \frac{\text{Qualifying Expenditures} + \text{Up-lift Expenditures}}{\text{Overall Expenditures}} \times \text{Overall Income}$$

QUALIFYING ACTIVITIES







- a. Manufacturing of goods or materials
- b. Processing of goods or materials
- c. Trading of Qualifying Commodities
- d. Holding of shares and other securities for investment purposes
- e. Ownership, management and operation of Ships
- f. Reinsurance services
- g. Fund management services
- h. Wealth and investment management services
- i. Headquarter services to Related Parties
- j. Treasury and financing services to Related Parties
- k. Financing and leasing of Aircraft
- l. Distribution of goods or materials in or from a Designated Zone
- m. Logistics services
- n. Ancillary activities

EXCLUDED ACTIVITIES

1. Any transactions with natural persons, except several transactions in relation to the Qualifying Activities
2. Banking activities
3. Insurance activities, without prejudice to the Qualifying Activities
4. Finance and leasing activities, without prejudice to the Qualifying Activities
5. 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 FZP
6. Ancillary activities to the listed

Ministerial Decision No. (265) of 2023 Regarding Qualifying Activities and Excluded Activities

WHAT TO DO?

-  check compliance with all the criteria established for Qualified Free Zone Person
-  analyze types of activity from the perspective of whether such activity is classified as Qualifying or Excluded types of activity
-  assess whether a requirement to maintain adequate substance in a Free Zone or Designated Zone is met
-  analyze all the activities that are non-Qualifying and check the compliance with the de minimis requirement
-  assess whether it is expedient to restructure the business
-  check benefits from shifting to the general taxation regime, taking into account the benefits which are unavailable for Qualified Free Zone Person: small business relief, the possibility to set up a tax group, the transfer of Tax Losses, etc.



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