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Comprehensive Financial Services

UAE CT Free Zones Guide 20.05.2024

Simplified for you by MICS

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Our Webinars/Seminars/Staff Trainings



19 MAY 2022

Understanding Public Consultation Document



23 JUNE 2022

Understanding UAE CT with SME souk



19 DEC 2022

UAE CT Law Simplified



25 MAY 2023

Unravelling UAE CT



14 JUNE 2023

Taxability of Free Zone entities



10/11 AUG 2023

Simplifying freezone taxation



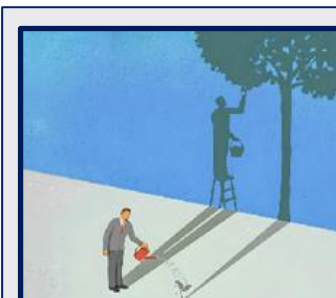
17 AUG 2023

Revaluation of Assets / Liabilities



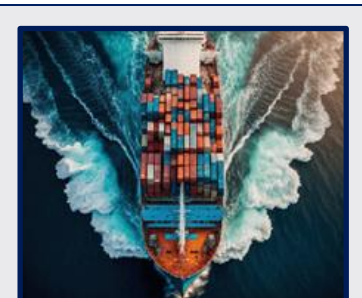
26 AUG 2023

Seminar at ICAI Abu Dhabi Chapter with KT



31 AUG 2023

UAE CT Fund and Fund Manager Taxation



12 SEPT 2023

Staff Training for Shipping industry



Our Webinars/Seminars/Staff Trainings



14 SEPT 2023

UAE CT In partnership
with Tally Solutions



15 SEPT 2023

Staff Training for real
estate industry



27 SEPT 2023

UAE CT with *Dubai*
eye & EY & RAKBANK



21 DEC 2023

Natural Person
Taxation



21 JAN 2024

Taxation on Tax
Groups under UAE CT



22 FEB 2024

Family Foundations in
UAE



07 MAR 2024

CT Registration
Deadlines explained



21 MAR 2024

TP - Managerial
Remuneration



20 APR 2024

Abu Dhabi Chapter
Seminar on UAE CT



25 APR 2024

Taxability of Free Zone
Entities



Our videos on UAE Corporate Tax



UAE CT Simplified in Short videos



UAE CT - Public Consultation Document



SMEsouk presents Webinar on UAE CT



UAE CT Law - Simplified



Revaluation of Assets & Liabilities



UAE CT - Investment Fund & Fund Manager Taxation



Taxability of Free Zones explained



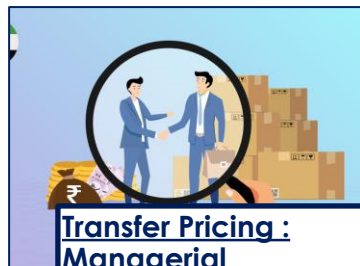
Taxation of Natural Persons under UAE CT



UAE Family Foundations Taxability



CT Registration Deadlines explained



Transfer Pricing : Managerial Remuneration



Deciphering Free Zones Qualifying Activities



Exemptions and Expenditures under UAE CT



UAE CT Opinion Articles in Newspapers

- 11 Sep 2023 Impact of corporate tax on real estate investors in the UAE
- 18 Sep 2023 Impact of corporate tax on Investment funds investment managers and investors
- 25 Sep 2023 Impact of corporate tax on freezone entity
- 2 Oct 2023 Impact of corporate tax on manufacturing companies
- 23 Oct 2023 Exempt Income
- 26 Oct 2023 Tax Groups
- 31 Oct 2023 Transfer Pricing and arms Length Principle , Documentation



UAE CT Opinion Articles in Newspapers

5 Nov 2023 Commodity traders in UAE

11 Nov 2023 UAE's single-digit corporate tax regime: Redefining global standards for fiscal efficiency

10 Dec 2023 MNE Taxation

19 Dec 2023 Accounting standards

28 Dec 2023 Taxation on Foreign Entities

03 Jan 2024 Taxation on Natural Persons

09 Jan 2024 Understanding BEPS 2.0 pillar two rules and implementation strategies



UAE CT Opinion Articles in Newspapers

24 Jan 2024 UAE family foundations

31 Jan 2024 A guide to foreign tax credits in UAE corporate tax law

07 Feb 2024 UAE tax exemption dynamics

16 Feb 2024 Key Management compensation & transfer pricing dynamics

26 Feb 2024 Tax groups and qualifying groups

13 Mar 2024 CT Registration Deadline

02-Apr-24 Treatment of incorporated vs unincorporated partnerships



UAE CT Opinion Articles in Newspapers

22-Apr-24 CT Registration for Foreign Entities

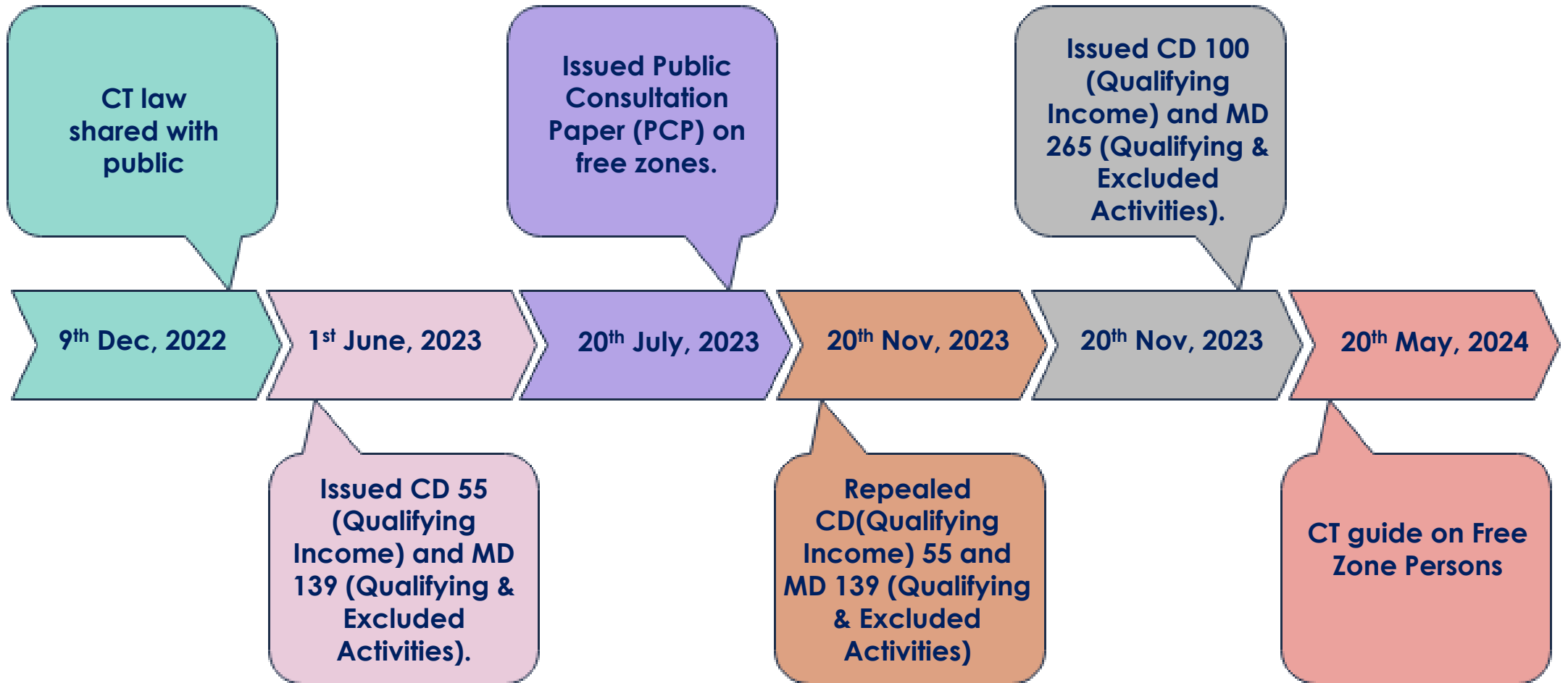
05-May-24 CT implications on UAE real estate investors

13-May-24 Tax Treaties Transforming UAE's Corporate Tax

21-May-24 UAE CT Registration deadlines approaching: initial step towards compliance



Free zone Journey



*CD= Cabinet Decision
**MD= Ministerial Decision

Key Highlights of the guide



- Taxpayers to check their respective Free Zone Authority and confirm if they are operating in DZ
- FZP will be deemed to be a QFZP unless any one of the conditions to be a QFZP is not met , or if QFZP makes an election to be subject to CT at standard rates
- FZP which has not started to derive revenue and not earn any qualifying income, would still be considered to meet the requirement of derive qualifying income
- Separate substance required for each core income generating activity and restrictions of double counting of employees for substance purpose.
- Guidance provided for income derives form mixed use of immovable property located in a FZ, requiring allocation of revenue between commercial and non commercial units on an ALP
- Investment on surplus funds cannot be considered as an Ancillary activities. May still be treated as arising from the Qualifying Activity of treasury and financing services to related parties.
- Tax Losses of QFZP related to Taxable Income cannot be offset and carried forward against Qualifying Income. However Tax Losses can be carried forward and offset against QFZP's Taxable Income
- Ancillary Activities are necessary for performance of main activity or make a minor contribution and closely related to main activity of the QFZP and not regarded as separate activity

Conditions to be a QFZP

- ✓ Maintains Adequate Substance
- ✓ Derives Qualifying Income
- ✓ Not elected for Corporate Tax
- ✓ *De Minimis requirements satisfied (Ministerial Decision -265/2023)
- ✓ Maintains Audited Financial Statements (Ministerial decision- 265/2023)
- ✓ Complies with transfer pricing rules and documentation and Arms length Pricing.

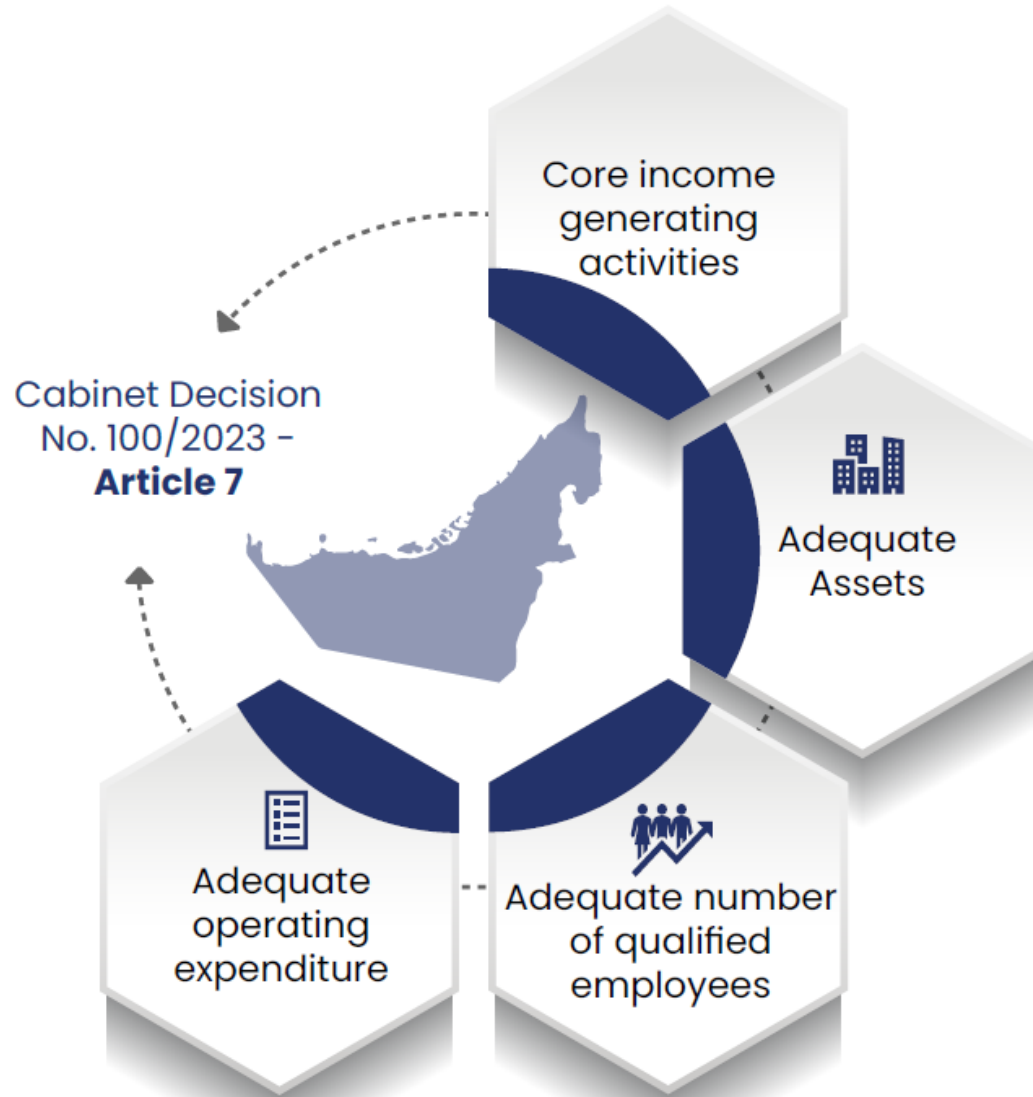


Fails to meet any conditions

Ceases to be QFZP for relevant tax period & 4 subsequent tax periods.

**Mandatory Registration &
CT Return filing
irrespective of the status**

Adequate Substance



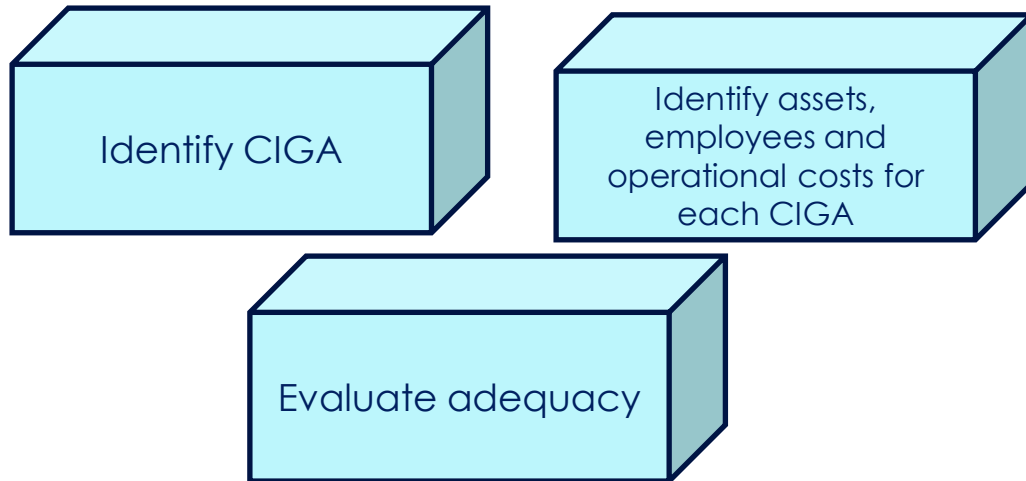
Activities can even be outsourced to Related Party in a Free Zone or a third party in a Free Zone (subject to adequate supervision of outsourced party by QFZP)

What is adequate substance?

Core Income-generating activities ('CIGA')

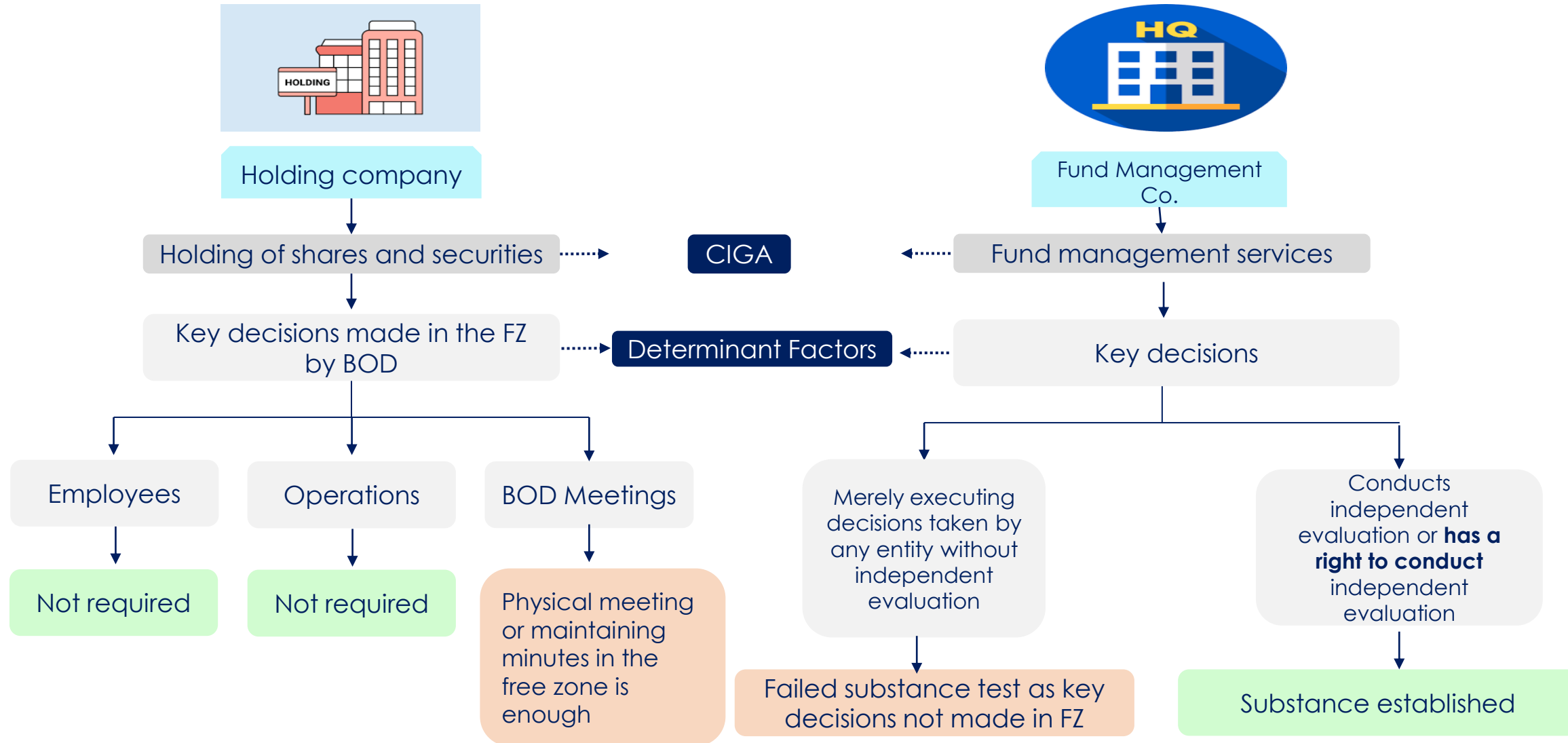
- Essential and value adding activities to generate revenue
- Consistent with arms length principle
- Non-core activities (not driving sales or routine in nature) can be performed outside free zone
- Adequacy to be seen at each and every level
- Even if majority of employees operate o/s free zone but in carrying non-core activities (delivery services are considered non-core services for a distribution business)
- If outsourcing, put a mechanism in place to observe, oversee, assess, instruct and provide guidance to ensure quality, quantity and timeliness

Steps to assess substance

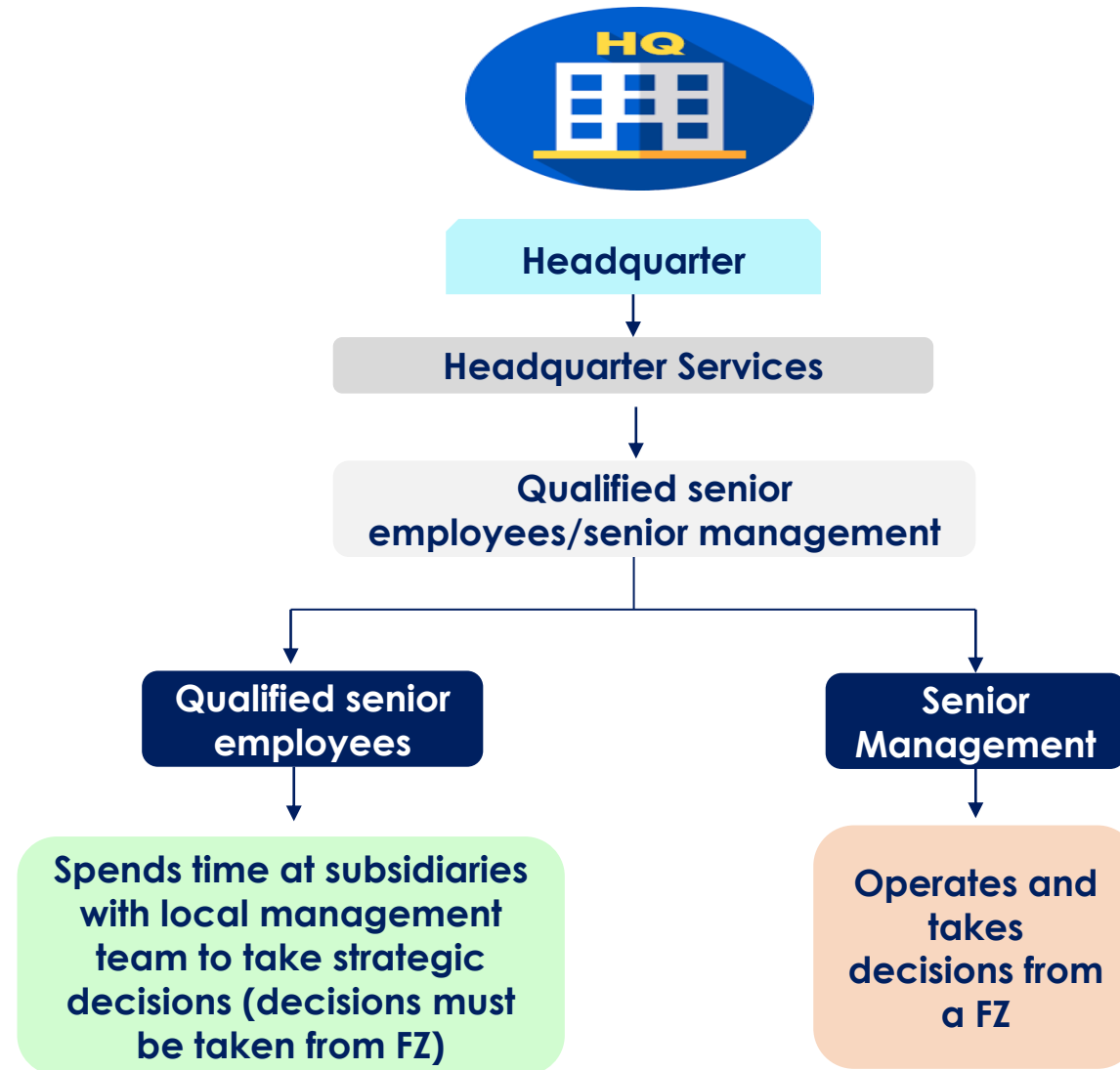


- What is adequate is still not clarified – would depend on nature, size of business, revenue of the activities.
- In case of a domestic or foreign PE, CIGA of the domestic PE and foreign PE would not to be considered in assessing FZ substance.
- Bifurcation may be required into core and routine activities.
- No double counting of employees allowed.

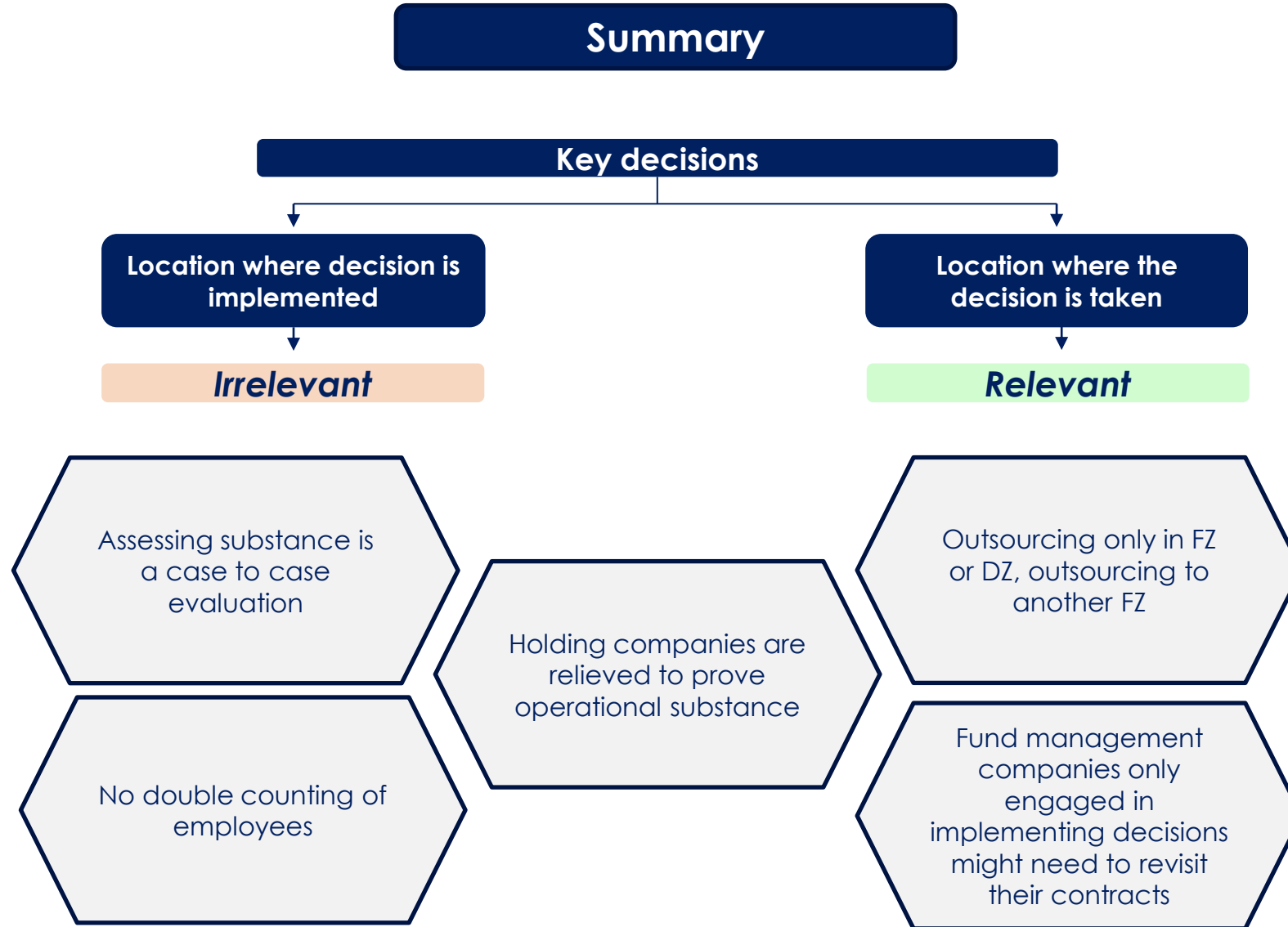
What is adequate substance?



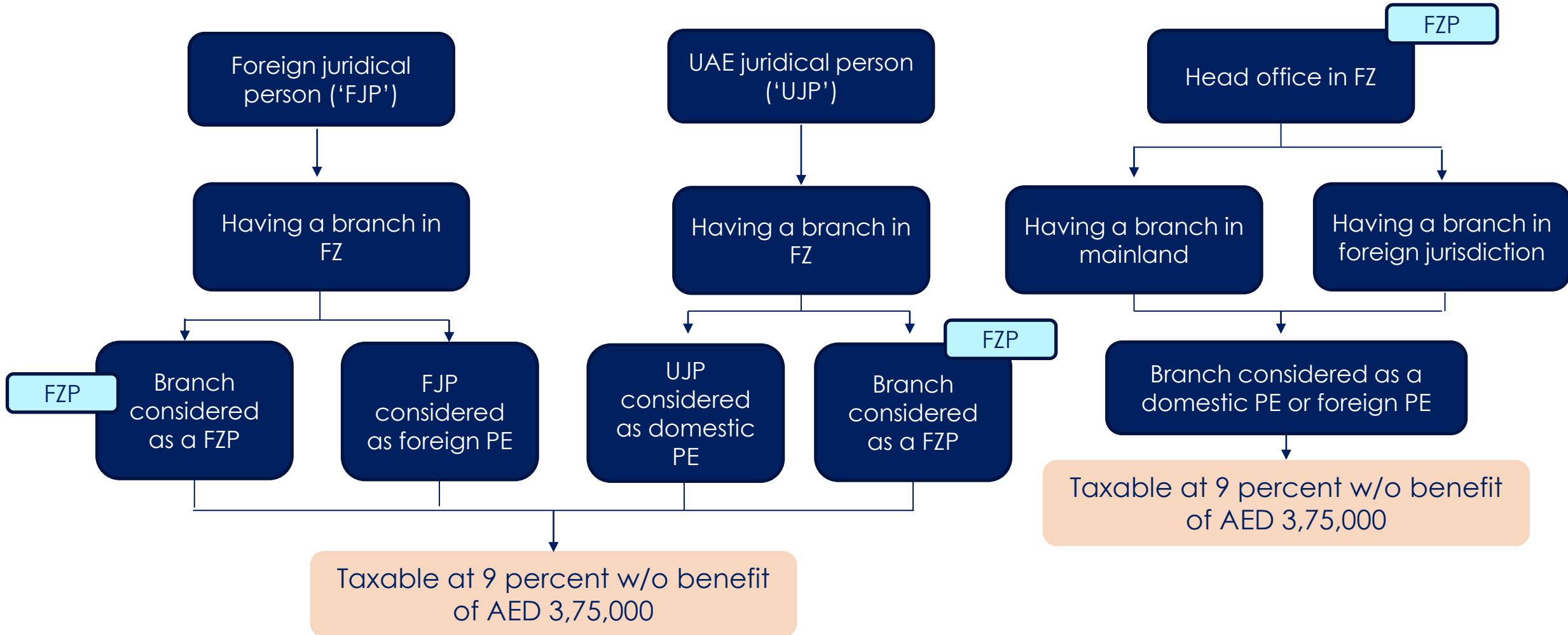
What is adequate substance?



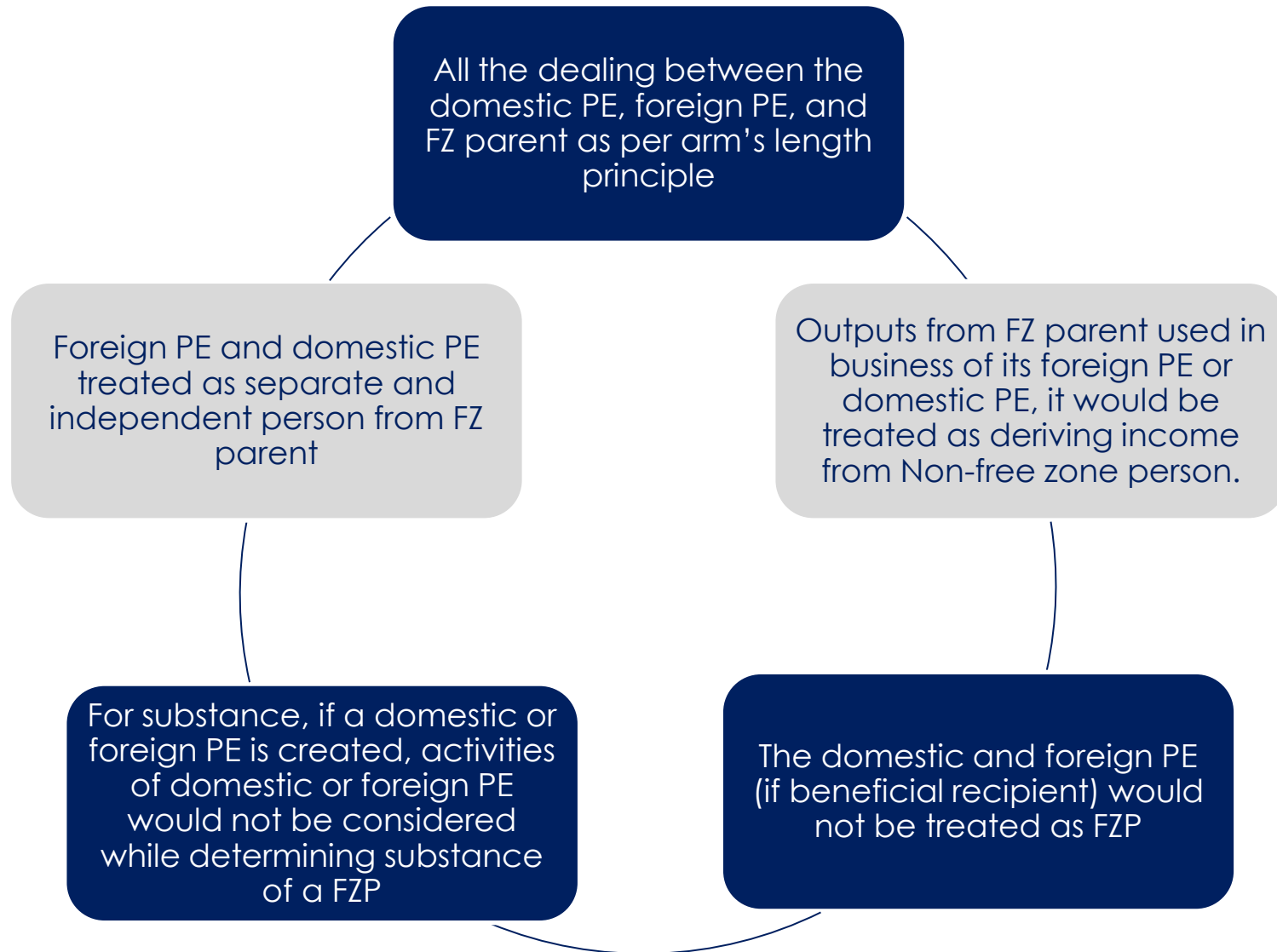
What is adequate substance?



Domestic PE or Foreign PE

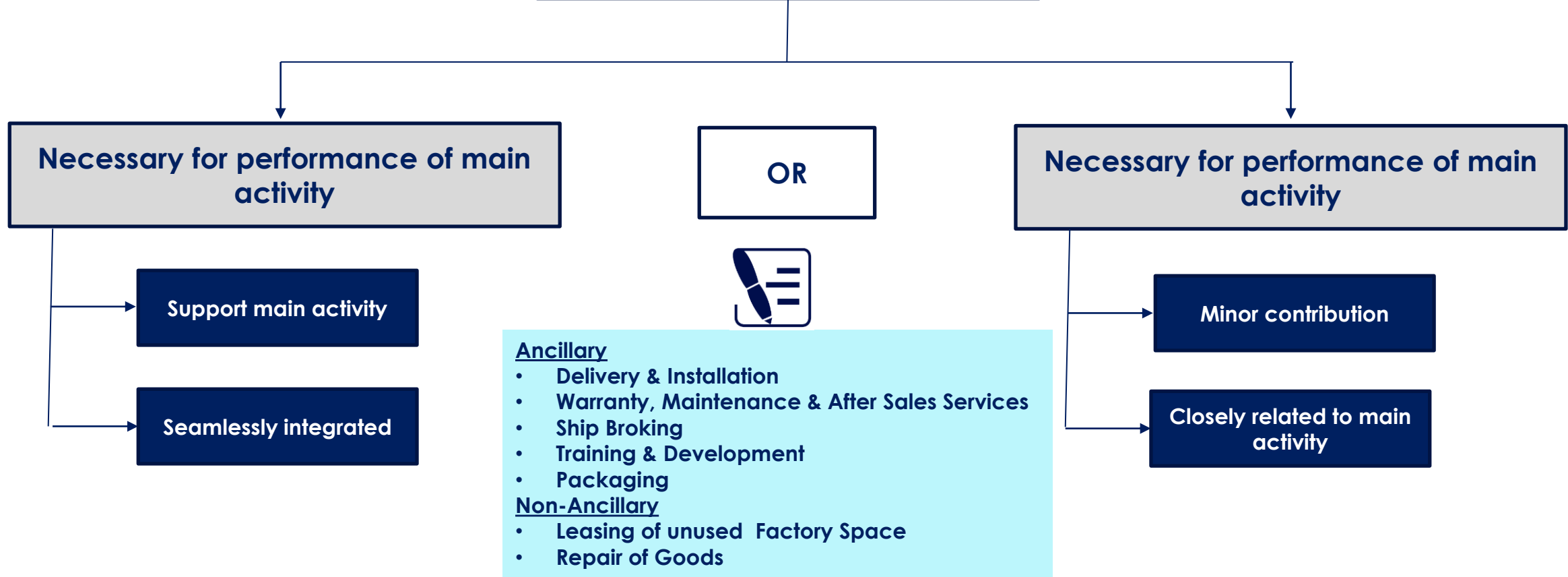


Domestic PE or Foreign PE



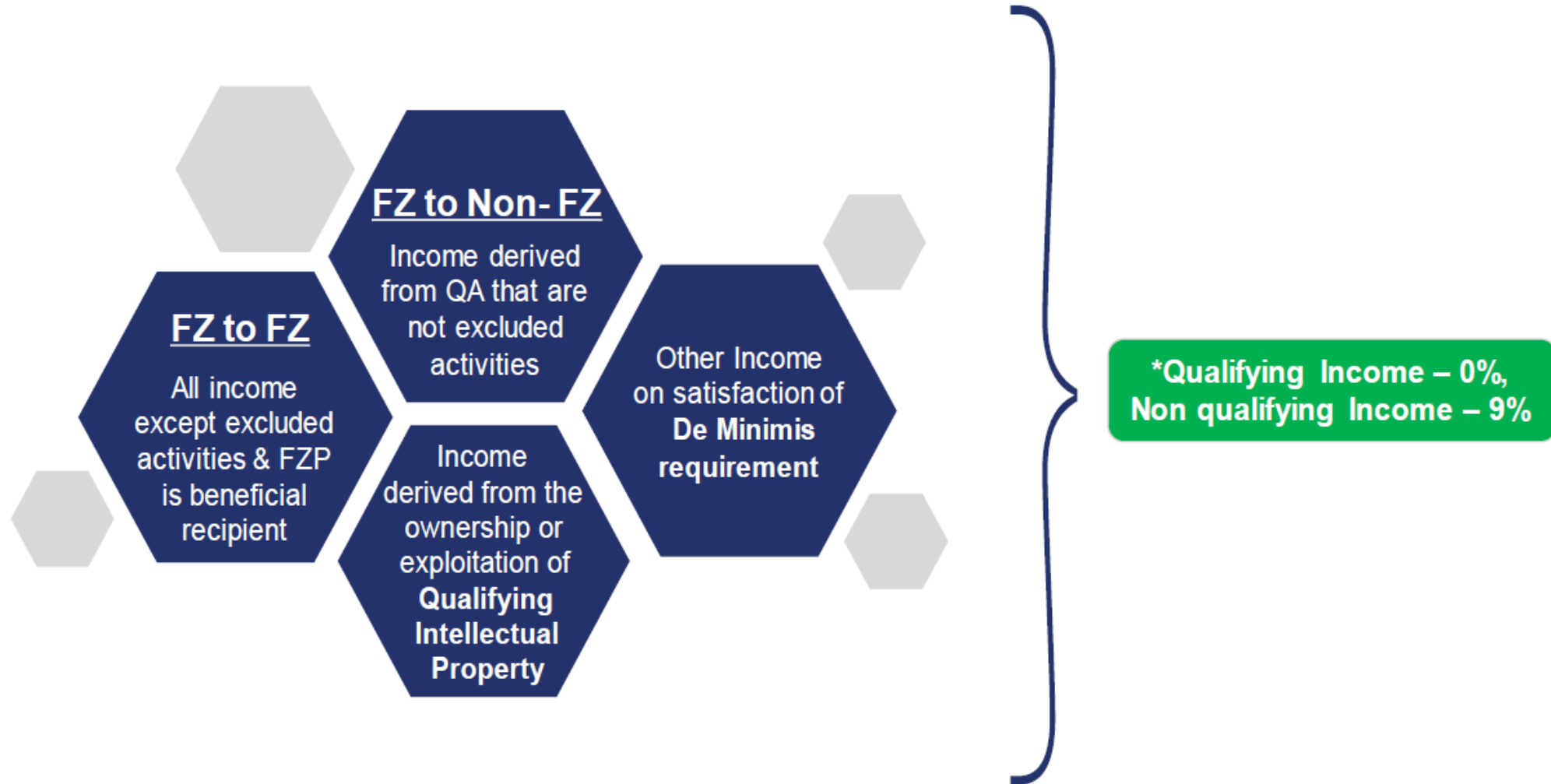
Scope of Ancillary activities

Ancillary activities



Surplus funds: Investments of surplus funds not to be considered as ancillary activity

Qualifying Income



FZ- Free Zone, FZP- Free Zone Person, QI- Qualifying Income, QA- Qualifying Activities

Qualifying Activities

Goods

1. Manufacturing/ Processing of Good or Materials
2. Distribution of Good/materials in or from Designated zone for further sale/resale
3. Trading of qualifying commodities

Other

Holding of Shares or other securities

Services

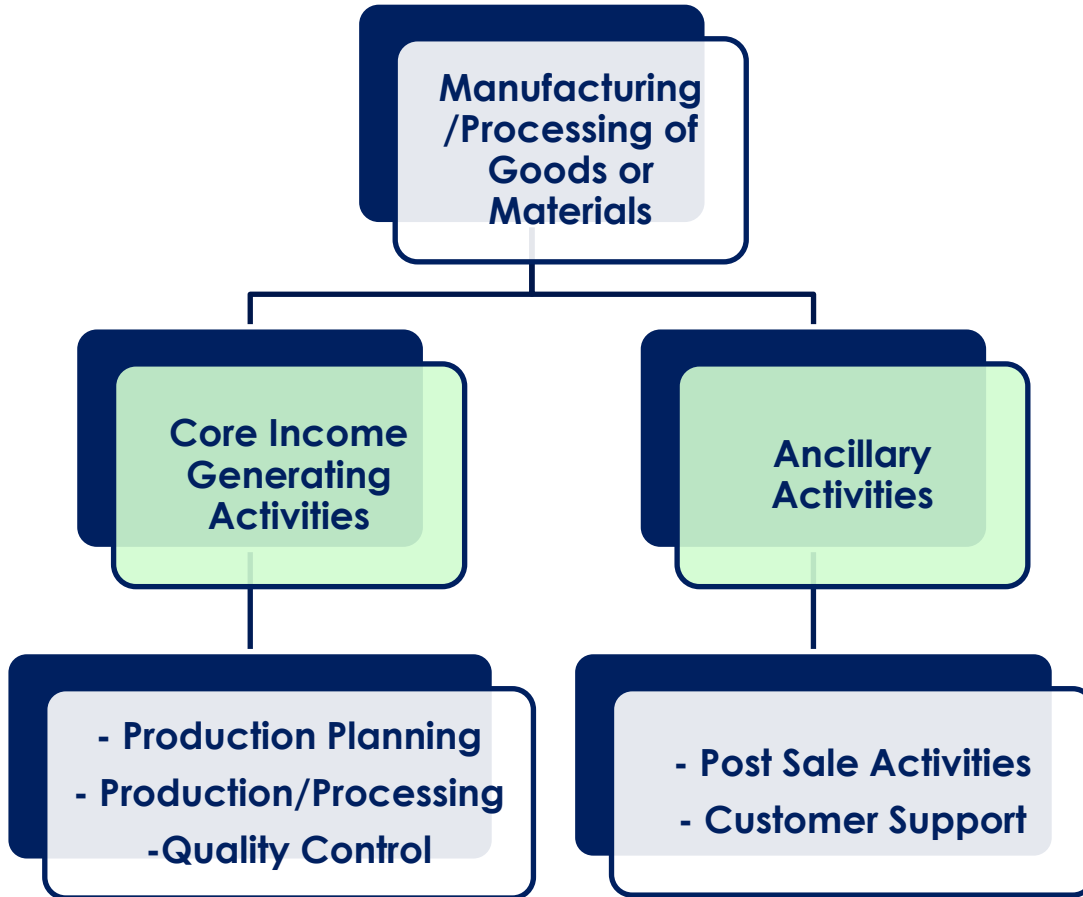
1. Logistics services
2. Fund Management, Wealth & Investment Management Services subject to regulatory oversight
3. Headquarter, Treasury & Financing services to related parties
4. Ownership, management & operation of ships
5. Financing & Leasing of Aircrafts, including engines & rotatable components
6. Reinsurance services subject to regulatory oversight

Any activities that are ancillary to the Qualifying Activities.

- ***Are necessary for performance of main activity OR***
- ***Make minor contribution and closely related to the main activity not to be seen as separate activity***

Qualifying Activities

Manufacturing /Processing of Goods or Materials

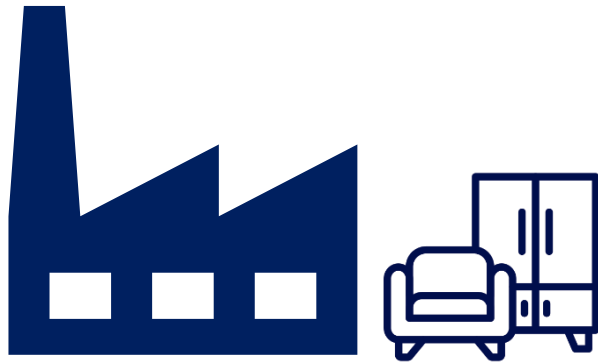


- Types of Manufacturing include: Toll / Contract Manufacturing, Full Fledged Manufacturing
- Manufacturing does not include Repairs
- Processing need not result into a new product.
- Scope of Ancillary Activities to be analyzed case to case basis
- **If a FZP performs a solitary activity not naturally/ integrally forming part of a coherent Business of the FZP – not considered as qualifying activity.**
- **Creation of software, ERPs, automation tools, etc, are not considered as goods.**
- Software embedded in hardware can be considered as goods.

Qualifying Activities

Manufacturing /Processing of Goods or Materials

Manufacturer performing core and ancillary activities



Company R : Contract Manufacturer of different types of Furniture located in Dubai South (no transaction with Natural Person)



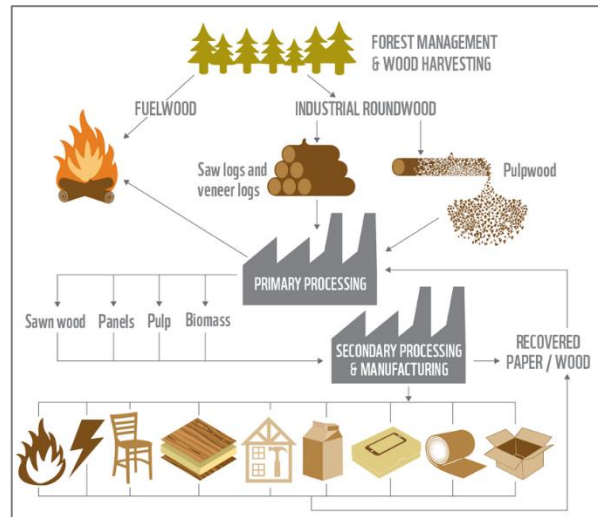
Revenue Earned in 2024



Qualifying Activities

Manufacturing / Processing of Goods or Materials

Substantial Revenue from non-core activities



Processing 3 factories in JAFZA

Revenue Earned in 2024

AED 10 mn : Timber Processing

→ **Processing: Qualifying Activity**

AED 0.7 mn : Renting of unused factory space

→ **Neither main activity nor ancillary activity. As Property located in FZ, maybe QI**

AED 0.1 mn : Dividend from Investment (held for more than 12 months)

→ **Non Qualifying Income. However, maybe exempt or QI from holding of shares/securities**

Qualifying Activities

Distribution of Goods/ Materials in or from Designated Zones



Key Points to remember

- Distribution to be performed for customer to further resells or processes for further resale
- **If distributed to end user (i.e. uses /consumes the product) then not a Qualifying Activity**
- KYC : Seek confirmation by way of an undertaking, declaration, etc., to ensure the customer is not the end user.
- Distributor v/s Sales Agent :
 - Distributor – Holds title and bears financial risk
 - Sales Agent – Does not hold title and bear financial risk
 - **Sales Agent will not qualify for exemption**

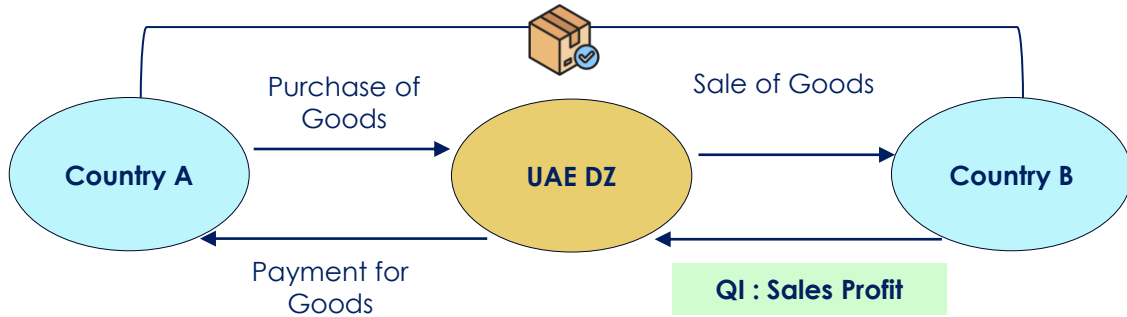
- **Distribution of Goods/ Materials to include :**
 - Purchase and resale of Goods or Materials
 - Warehousing
 - Transportation, delivery and logistics
 - Inventory Management
 - Order Processing
 - Packaging and Repackaging
- **Ancillary Activities to include :**
 - Marketing and Advertising
 - Quality control and inspection
 - Customer Support Services
- **If a company purchases laptops for its employees use, the company is the end user of such laptops.**

Qualifying Activities

Distribution of Goods/ Materials in or from Designated Zones

Third Port Shipment/High Seas Sales

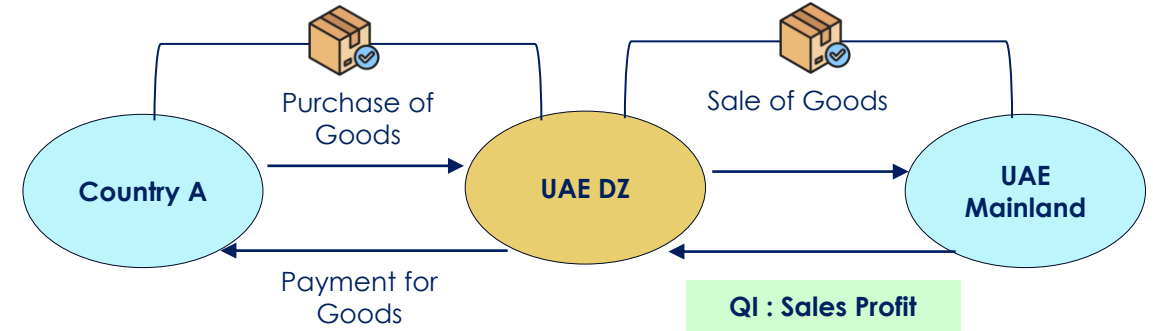
Movement of Goods directly from Country A to B
(without entering UAE)



Import into UAE DZ

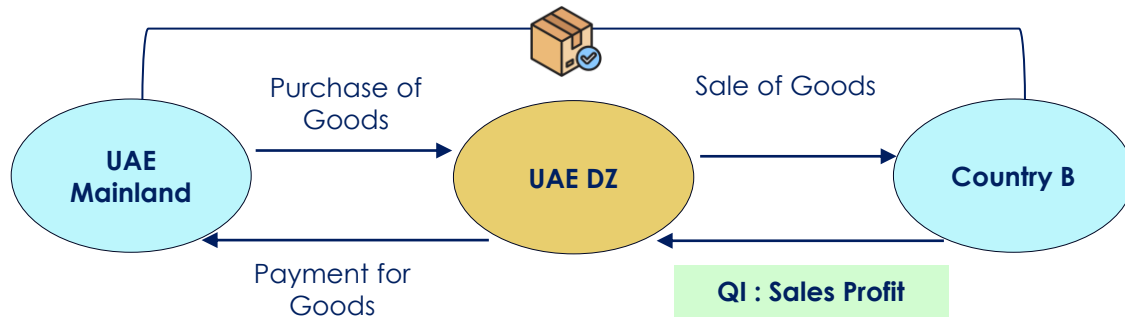
Distributor takes delivery in DZ

Goods imported from DZ in the UAE



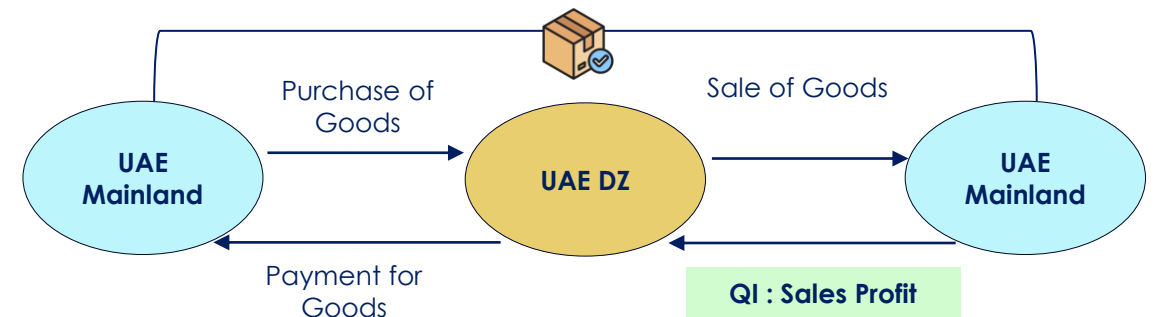
Export from UAE Mainland

Movement of Goods directly from UAE Mainland to Country to B
(without passing through DZ)



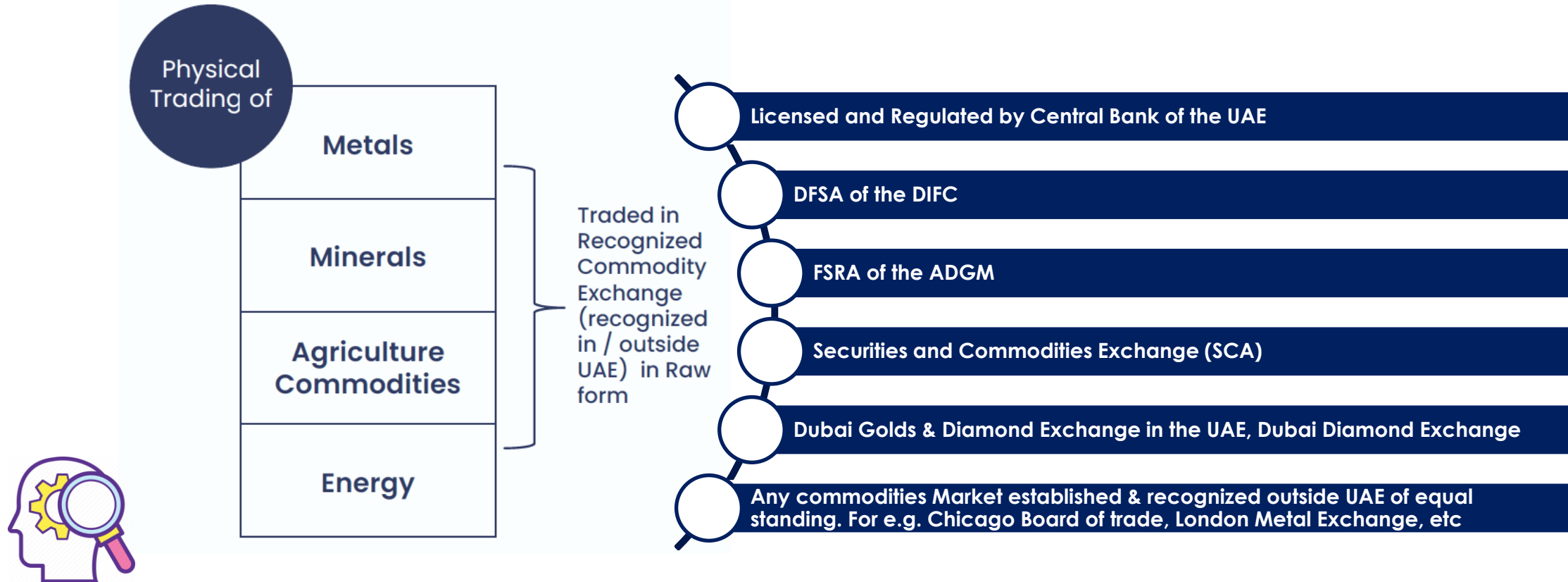
Local Distribution

Movement of Goods directly from UAE Mainland to UAE Mainland
(without passing through DZ)



Qualifying Activities

Trading of Qualifying Commodities



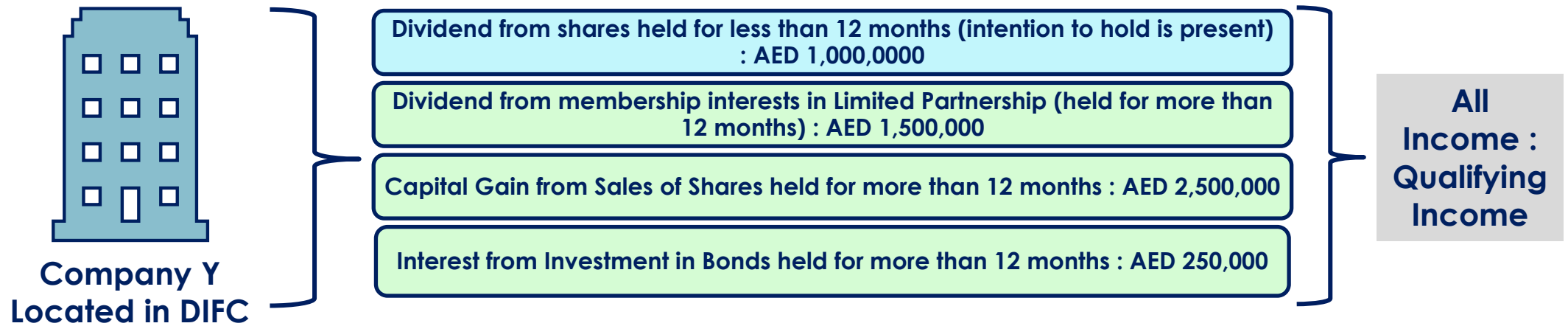
- Trading itself does not need to be performed through Recognized Commodities Exchange Market (RCEM) i.e., can be off-market
- “Raw Form” means:
 - Commodities in their natural and unprocessed state
 - Commodities undergone minimal processing (e.g. cleaning, sorting, grading and minor refining) to meet the quality and uniformity standards for trading on RCEM

Qualifying Activities



Holding of Shares and Securities for Investment Purpose

- Shares of any class in the share capital or other types of Equitable interests that entitle holder to receive profits and liquidation proceeds as legal or beneficial owner
- **Cryptocurrency are specifically mentioned in “Qualifying” financial instruments**
- Investment purpose = Uninterrupted holding period of 12 months or intention to hold for the same period (must be demonstrated)
- **Royalty or management fees derived by a Holding company from a subsidiary are not qualifying income**
- Examples of income from Ancillary activity : indemnity claim, compensation of financial damages related to investments



Qualifying Activities

Fund Management Services

Core Income generating Activities :

Investment Planning & Strategy

Investment Diversification

Asset Allocation

Fund Management

Performance Monitoring



Ancillary Activities :

Financial Advisory

Training and Education

Financial Planning

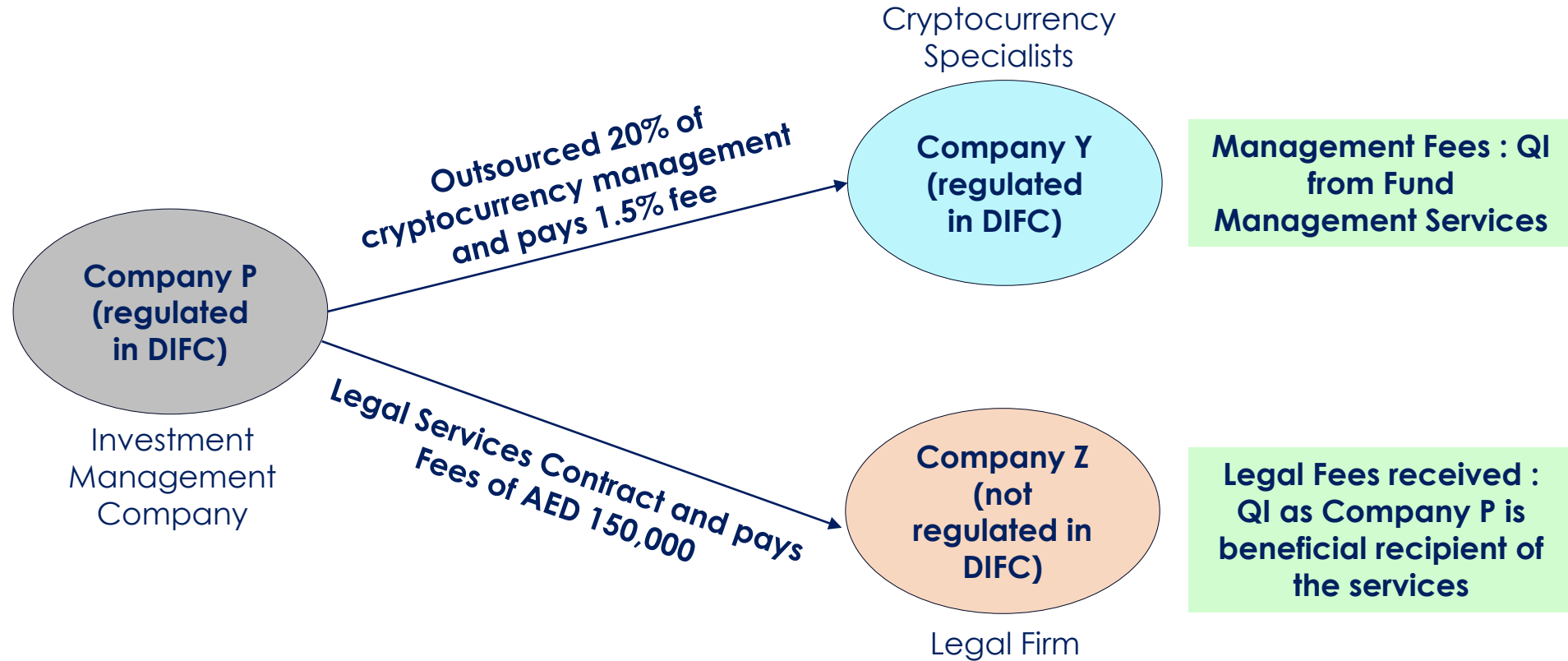
Technological Support



- Fund Management primarily include mutual fund, hedge fund, pension fund and typically restricted to handling investments in specific funds
- Includes Discretionary and Non Discretionary Fund Management Services
- Fund Manager to be regulated or subject to regulatory oversight of relevant competent authority in the UAE like Central Bank of the UAE, DFSA, FSRA, SCA.
- Fund Management Services provided to natural person being not an excluded activity, treated as Qualifying Income

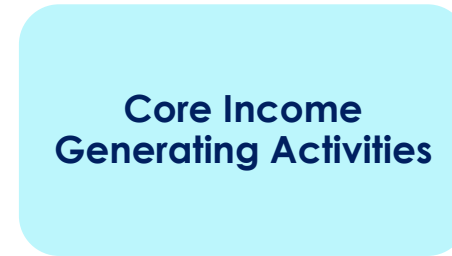
Qualifying Activities

Fund Management Services

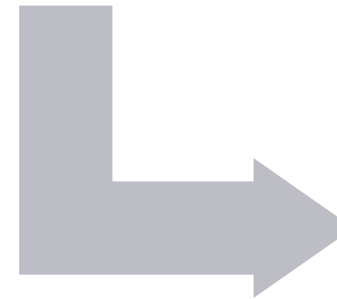


Qualifying Activities

Wealth & Investment Management Services



- Portfolio Management
- Financial Planning
- Asset Allocation



- Risk Management
- Market Research
- Investment Analysis
- Family Governance



- Such Services to be regulated or subject to regulatory oversight of relevant competent authority in the UAE like Central Bank of the UAE, DFSA, FSRA, SCA.
- **Single Family Office and Multi Family Offices, will not be considered as Wealth and Management Companies**

Qualifying Activities

Services to Related Parties

Headquarter Services to Related Parties

**Core
Income
generating
Activities**

- Taking relevant management/strategic decisions
- Incurring Operating Expenditures on behalf of group entities
- Co-ordinating Group activities
- Financial Management
- Central Procurement Services
- Human Resource Management
- Technical Support
- Legal & Compliance Services
- Intellectual Property Management
- Training & Development



Related Parties limited to Juridical Persons and branches of Juridical Person as per Article 35 of the CT Law. Will include Foreign & Domestic PE

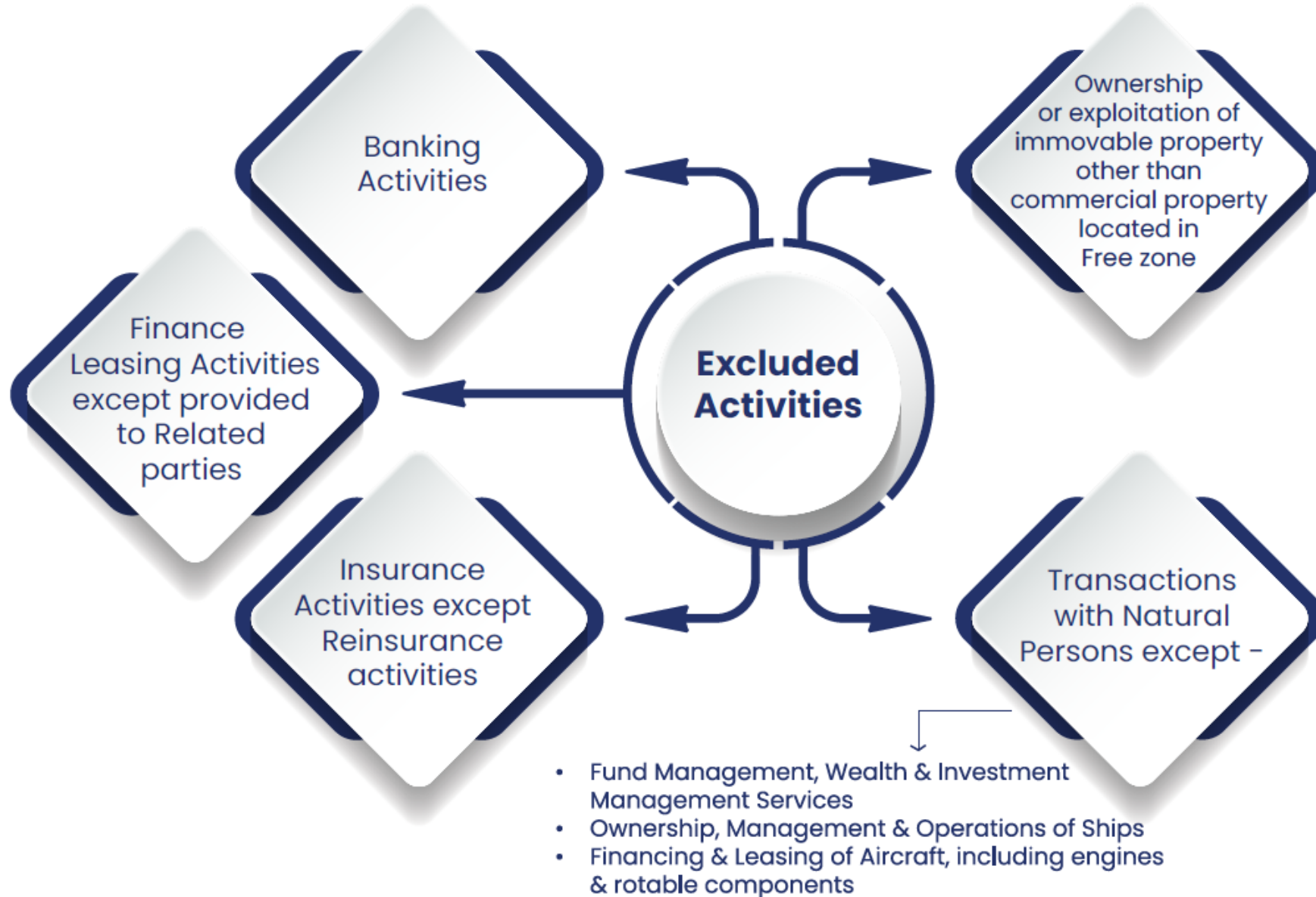
Treasury & Financing Services to Related Parties



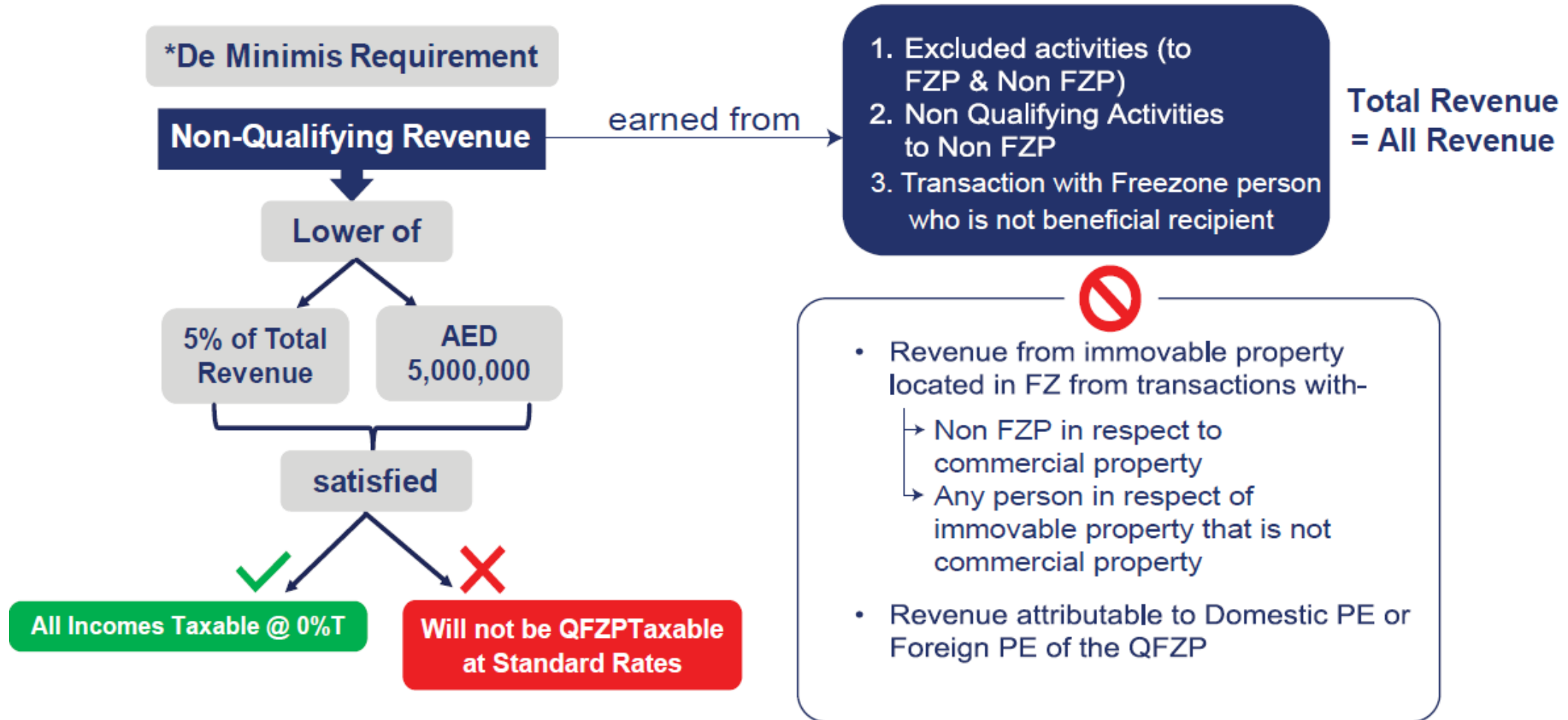
Related Parties limited to Juridical Persons and branches of Juridical Person as per Article 35 of the CT Law. Domestic PE as well as Self Investment

Transactions should be at Arm's Length Price as per TP rules and should be documented

Excluded Activities



De minimis Requirement Calculation



Revenue Calculation

B

Revenue taxable @9% without any deduction and not included while calculating De minimis requirement satisfaction

- Revenue attributable to Domestic/ Foreign PE
- Revenue derived from Immovable Property located in Free Zone other than Commercial Property
- Revenue derived from ownership and exploitation of Intellectual Property other than QI from QIP

**Taxable @ 9%
(without exemption)**

C

**Balance
Qualifying &
Non
Qualifying
Revenue**

Check if Non Qualifying Revenue as below is less than AED 5 million or 5% of Total Revenue excluding as calculated in 'B'

- Revenue from Excluded Activities
- Revenue from Non Qualifying Activities with Non Free Zone Persons
- Revenue from Transactions with Free Zones where such Free Zone person is not a beneficial recipient



**QFZP = QI = 0%
(entire Income)**



**Non QFZP = 9%
(Standard rates)**

A

**Total
Revenue**



Transfer Pricing

Key Points

- Transactions between Related Parties at Arms Length Price (ALP)
- Applicable to UAE businesses having transactions with Related parties or connected persons, located in the UAE–Mainland/Free Zone or Foreign jurisdiction
- ALP derived by using Transfer Pricing methods as per OCED Regulations (5 methods defined)
- Maintain Master File and Local File
- Applicable on intra group loan arrangements as well
- Transactions in Tax Group need not comply with TP Rules unless a member of Tax Group needs to compute its stand alone taxable Income
- Submit documents if requested within 30 days of request



Related Parties



For an Individual

- Two or more individuals related (fourth degree of kinship/affiliation/adoption/guardianship)
- Controlling ownership interest (more than 50% shares of company) in the company- alone or together with related parties



For Juridical Person

- Company alone or with others- controlling ownership interest (more than 50% share of company)
- Two or more partners in same unincorporated partnerships
- Person who is trustee, founder, settlor, beneficiary of trust, foundation, and its related parties



Connected Persons

- Owner of the taxable person
- Director or officer of the business
- Related Party of any of the above

* NA to taxable persons whose shares are listed on Recognized stock exchange

Ministerial Decision No.82 of 2023

- Taxable Persons with Revenue exceeding AED 50,000,000
- Qualifying Free Zone Person*



Tax Registration

- All Taxable Persons register in form, manner & timeline prescribed & obtain Tax Registration number
- ***No Registration Threshold except Natural Person with Revenue upto AED 1 million**

Tax De-Registration

- Apply to authority on cessation of business
- Not deregistered unless all CT liability paid & returns filed

Financial Records

- To be maintained for 7 years
- Unincorporated Partnerships : may be required to show total assets, liabilities, income & Expenditure and partners distributive share

Violations & Penalties

- Self Assessment
- Non Filing / submission of CT Return/ Liability

(no penalties/ fees yet declared by the Cabinet)

Contact us



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