

From June 2023, a corporate tax of 0% or 9% may be subjected to Free Zone Businesses and Qualifying Free Zone Persons based on their **Qualifying income**. However, Mainland Businesses had to face a standard 9% tax rate based on their taxable income which exceeds AED 375,000. The UAE is all to execute this new tax policy introduced by the Federal Tax Authority (FTA) and the Ministry of Finance- **Corporate Tax in UAE**, which will be in effect from June 2023.

UAE Corporate Tax in Free Zones

A free zone is a recognized and defined geographic region within the state that is stated in a Cabinet decision made at the Minister's request. The UAE, to be specific, the Emirates of Dubai and Abu Dhabi are home to various **Free Zones**. Most Free Zones influence companies and have seen many multinational as well as small and medium-sized companies registering 100% foreign-owned subsidiaries, not depending on a domestic shareholder. Understanding the corporate tax in the UAE Free Zones is crucial for businesses operating in these areas, as they may have different tax structures compared to mainland businesses. It is important for companies to stay informed about corporate tax in UAE to ensure compliance with regulations and optimize their tax planning strategies.

Most UAE corporate tax 2024 Free Zone companies have been considered vital motives for international trade. Free Zones enjoy umpteen exemptions, such as 100% foreign ownership, 100% customs and VAT exemptions, 100% returns on capital and profits, corporate tax exemptions, etc.

The new Corporate Tax Law enables the UAE government to accomplish the agenda of economic transformations with growth, as tax exemptions to certain Free Zones play the role of a multiplier, making sure the specific conditions are met.

The conditions on tax exemptions in Free Zones might collide with other amenities of the existing laws, such as the effect on the existing Economic Substance Regulations (ESR). It is still being determined about further changes in the UAE ESR following the implementation of Corporate Taxes.

Tax rates for Free Zones

Ministry of Finance pointed out that businesses registered in Free Zones would be impacted by the new **Corporate Tax in UAE**. However, it was observed that the tax incentives provided by the **UAE Free Zones** would be honored by the new system for businesses that meet the compliance requirements and do not conduct domestic businesses with the **Mainland UAE** companies or entrepreneurs.

Will Free Zones Be Affected By Corporate Tax?

Corporate Tax will affect the businesses in the free zones of the UAE. However, the free zone businesses adhering to the regulatory requirements and not conducting business in the Mainland UAE would enjoy the corporate tax benefits.

UAE Free Zones are required to register themselves and file corporate returns. As per the Federal Decree Law on Corporate Income Tax,

A **Qualifying Free Zone Person** must pay Corporate Tax at the following rates:
0% (zero percent) on Qualifying Income.

9% (nine percent) on Taxable Income that is not Qualifying Income.

The specific qualifying income for a free zone person or a Free Zone entity is defined and determined by the regulations of FTA. However, the corporate tax for businesses on Mainland becomes precise and is calculated based on the taxable income earned by the business.

Corporate Tax for Free Zone Person

Who is a Qualifying Free Zone Person? A Qualifying Free Zone Person is one who fulfills the conditions of a Free Zone Person in this Decree-Law and is liable to Corporate Tax of 0% taxable income.

Conditions for Qualifying Free Zone Person

Let's see about Article 18 of **Corporate Tax law** below which covers the conditions for one to become a Qualifying Free Zone Person.

1. A Qualifying Free Zone Person meets all of the following conditions:
 - Maintains adequate substance in the State.
 - Derives Qualifying Income as specified in a decision issued by the Cabinet at the suggestion of the Minister.
 - Has not elected to be subject to Corporate Tax under this Decree-Law.
 - Complies with Arm's Length Principle and Transfer Pricing Documentation of this Decree-Law
2. A Qualifying Free Zone Person who fails to fulfill any of the standards set forth in the above points at any point during a Tax Period ceases to be a Qualifying Free Zone Person as of the start of that Tax Period.
3. In the event that a person fails to fulfill the preceding criteria, the Minister may prescribe the conditions or circumstances under which a person may continue or cease to be a Qualifying Free Zone Person as of a different date.
4. The 9% taxable income to a Qualifying Free Zone Person shall apply for the remainder of the tax incentive period stipulated in the applicable legislation of the Free Zone in which the Qualifying Free Zone Person is registered, which period may be extended in accordance with any conditions as determined in a decision issued by the Cabinet at the Minister's suggestion, but no one period shall exceed (50) fifty years.

Corporate Tax Rates for Mainland & Free Zones

| All companies other than free zone entities | Free zone entities |
|--|----------------------------------|
| Nil for taxable income upto AED 3,75,000 | Nil on Qualifying Income |
| 9% on taxable income exceeding AED 3,75,000 | 9% on Non - Qualifying Income |

Activities of Qualifying Free Zone Persons

According to the **Ministerial Decision No. 139 of 2023**, The following business activities are considered to be **Qualifying Activities** doing which a person is considered to be a Qualifying free zone person,

Qualifying Activity

- 1.Fund management services that are subject to the regulatory oversight of the competent authority in the State.
- 2.Treasury and financing services to Related Parties.
- 3.Manufacturing of goods or materials.
- 4.Ownership, management and operation of Ships.
- 5.Holding of shares and other securities.
- 6.Logistics services.
- 7.Financing and leasing of Aircraft, including engines and rotatable components.
- 8.Reinsurance services that are subject to the regulatory oversight of the competent authority in the State.
- 9.Processing of goods or materials.
- 10.Headquarters services to Related Parties.
- 11.Wealth and investment management services are subject to the regulatory oversight of the competent authority in the State.
- 12.Any activities that are ancillary to the Manufacturing, treasury and financing services of related parties
- 13.Distribution of goods or materials in or from a Designated Zone 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.