


UAE Ministry of Finance Corporate Tax Consultation Paper

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3. Qualifying Activities

The following section sets out the proposed scope of each Qualifying Activity. Comments and feedback on the specific questions raised at the end of each Qualifying Activity are welcomed.

3.1 Article 2(1)(a) – Manufacturing of goods or materials

Scope

Manufacturing of goods or materials includes the creation, production, improvement or assembly of products and materials from raw materials or components.

Illustrations

There are various types of manufacturing activities across different sectors such as, for example, food, textiles, consumer electronics, automotive, pharmaceuticals and the chemical industry.

Irrespective of the type of manufacturing and the manufacturing industry, manufacturers can broadly be categorised into those that manufacture their own products or materials and those that manufacture products or materials for and on behalf of another person (contract or toll manufacturing). The anticipated application of the Free Zone CT regime to these two categories of manufacturers is illustrated below.

Contract / toll manufacturing

In the case of contract manufacturing, a Free Zone Person (Manufacturing Co) enters into a contract with a person under which Manufacturing Co manufactures products for and on behalf of that person. In addition to the manufacturing of the product, Manufacturing Co also procures all necessary raw materials.

Irrespective of whether the contractor is based in a free zone, in the mainland UAE or in a foreign country, the compensation Manufacturing Co receives for the manufacturing service provided and the supply and usage of raw materials used in the manufacturing process to the contractor would be considered Qualifying Income.



Although toll manufacturing and contract manufacturing are similar modes of production, in the case of toll manufacturing, the contractor would typically supply Manufacturing Co with the necessary raw materials, designs and production specifications. The income earned by a toll manufacturer based in a free zone would also be considered Qualifying Income.



Fully fledged manufacturing

In the scenario of 'fully fledged' manufacturing, the Free Zone Person (Manufacturing Co) manufactures products in its own name and at its own risk. Manufacturing Co would normally be responsible for procuring the necessary raw materials and may sell the manufactured products or materials to a related party or third-party distributors, retailers or end-customers.

The income derived from the manufacturing of goods or materials by Manufacturing Co would be considered Qualifying Income, irrespective of whether the manufactured products or materials are manufactured for the sale to mainland or foreign juridical persons.

The income (sales profit) that is attributable to the distribution (sale) of the manufactured products or materials would not be considered Qualifying Income from manufacturing, unless the distribution meets the conditions to be treated as a "qualifying distribution activity" (see Section 3.11).

Free Zone to Mainland / Foreign customer



Free Zone to Free Zone customer



✗ Where the revenues attributable to the non-qualifying distribution activity exceed the de-minimis requirement, Manufacturing Co would lose its Qualifying Free Zone Person status and not be able to benefit from the Free Zone CT regime for a period of 5 years.

✓ Qualifying Income

Does your business conduct contract / toll manufacturing or fully fledged manufacturing or a combination of both?

Your answer

Please provide your feedback on the proposed scope of 'Manufacturing of goods or materials' and confirm whether this provides sufficient clarity for your business:

Your answer

3.2 Article 2(1)(b) – Processing of goods or materials

Scope

Processing of goods or materials includes the preparation, treatment, transformation or conversion of goods or materials into another form of material or good for further commercial or industrial use or sale.



Please provide your feedback on the proposed scope of 'Processing of goods or materials' and confirm whether this provides sufficient clarity for your business:

Your answer



3.3 Article 2(1)(c) – Holding of shares and other securities

Scope

Holding of shares and other securities refers to the holding by way of investment or as security, shares, stocks, debentures, and other securities, or other assets or rights for the sole purpose of issuing securities or other financial instruments that directly or indirectly represent an interest in the economic risks and benefits associated with these assets or rights.

“holding of shares”

The holding of shares means the holding of shares of any class in the share capital of another juridical person or the holding of other types of equitable interests that entitle the holder to receive profits and liquidation proceeds, whether as legal or beneficial owner or otherwise.

“holding of other securities, assets or rights”

The holding of “other securities” means the holding of negotiable or non-negotiable financial instruments, including, derivative instruments, financial commodities, and other investment instruments that are or can be traded in a public or private market or that are convertible or exchangeable into a security or which confer a right to purchase a security.

The “active trading” of financial instruments or (non-financial) commodities or conducting any other trade or business activity would not constitute a qualifying holding activity for the purposes of the Free Zone CT regime.

The scope of other securities, assets, or rights specifically does not include real estate and any other assets and activities that are specifically recognised as constituting Excluded Activities.

Qualifying requirements for the “holding of other securities, assets or rights”

The Free Zone Person must be:

- a. directly or indirectly majority owned or controlled by;
 - i. Government Entity or Government Controlled Entity,
 - ii. Qualifying Investment Fund,
 - iii. domestic or foreign pension or social security fund,
 - iv. foreign collective investment vehicle in a Recognised Jurisdiction,
 - v. Family Foundation,
 - vi. Qualifying Public Benefit Entity,
 - vii. any other Free Zone Person that is regulated by the Dubai Financial Services Authority (DFSA) or the Financial Services Regulatory Authority (FSRA), and
 - viii. any other Person as may be specified by the Minister;

Or



- b. used to hold one or more assets or securities or rights thereover for the sole purpose of:
 - i. raising or facilitating the raising or refinancing of capital or debt, or
 - ii. the issuance of securities or other financial instruments representing a beneficial interest in the assets or securities or rights thereover held by the Free Zone Person.

Please provide your feedback on the proposed scope of 'Holding of shares and other securities' and confirm whether this provides sufficient clarity for your business:

Your answer

Please provide your feedback on the proposed qualifying requirements regarding the 'holding of other securities':

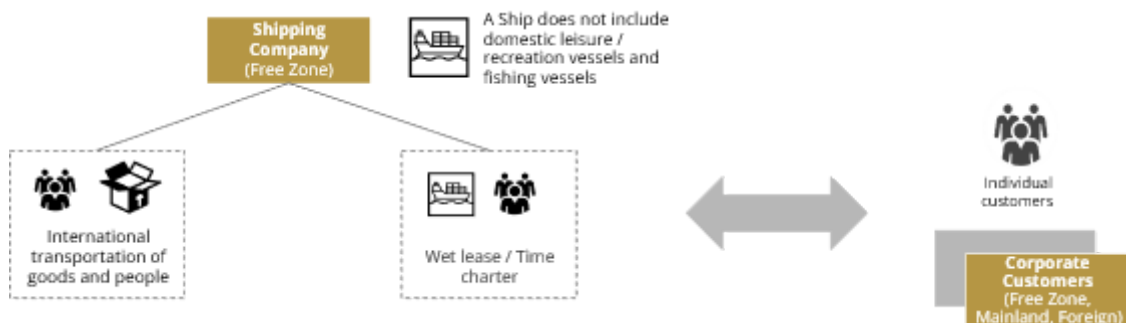
Your answer

3.4 Article 2(1)(d) – Ownership, management and operation of Ships

Scope

The “ownership, management and operation of Ships” includes the ownership, management and operation of Ships used in the international transportation of goods or persons, including the management of the crew of a Ship and the leasing and chartering of Ships on a bareboat basis.

Illustration



Please provide your feedback on the proposed scope of 'Ownership, management and operation of Ships' and confirm whether this provides sufficient clarity for your business:

Your answer

3.5 Article 2(1)(e) – Reinsurance services

Scope

Reinsurance services include the activity of assuming all or part of a risk undertaken by another insurer or reinsurer under a contract or policy of insurance or reinsurance, respectively, provided this is subject to regulatory oversight of a competent authority in the UAE.

Illustrations

(1) Income earned by Reinsurance Co from reinsurance premiums and retrocessions is considered "Qualifying Income" irrespective of the location of the primary insurer and that of the insured person or the insured asset or activity.

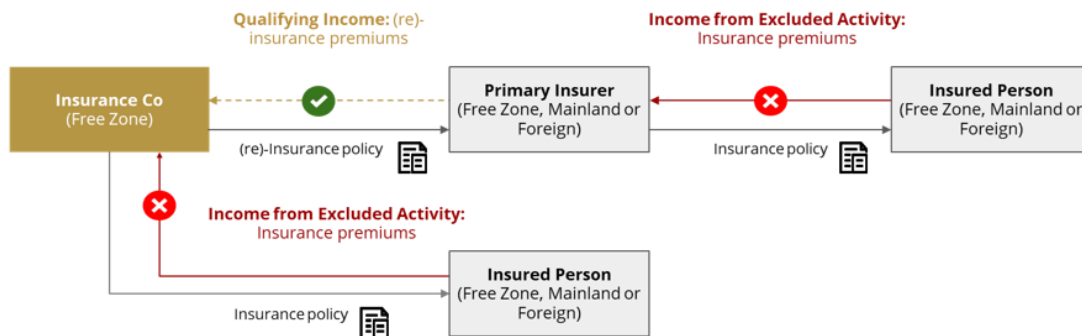


Income earned by Reinsurance Co from reinsurance premiums and retrocessions is considered "Qualifying Income" irrespective of the location of the primary insurer and that of the insured person or the insured asset or activity.

(2) Insurance Co provides

reinsurance services to a primary insurer and also provides insurance direct to consumers (e.g. the Insured Person) resulting in Insurance Co earning both Qualifying Income and non Qualifying Income. Unless the insurance revenues do not exceed the de-minimis requirement, Insurance Co would not be eligible to benefit from the Free Zone CT regime on either the income derived from reinsurance and insurance services.





Revenues from the Excluded Activity of providing insurance would count towards the de-minimis requirement and may result in Insurance Co not being considered a Qualifying Free Zone Person that can benefit from the Free Zone CT regime.



Qualifying income

Please provide your feedback on the proposed scope of 'Reinsurance services' and confirm whether this provides sufficient clarity for your business:

Your answer

3.6 Article 2(1)(f) – Fund management services

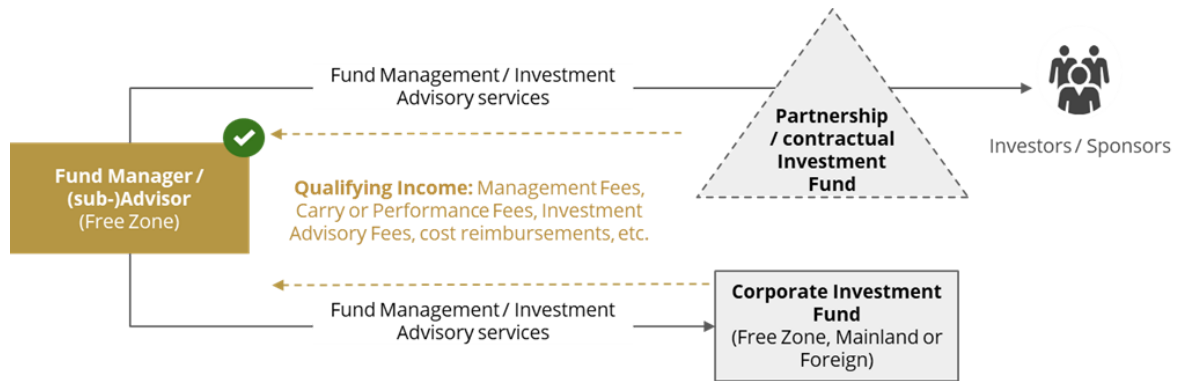
Scope

Fund management includes the activity of providing portfolio management, risk management and other services relating to the day-to-day management and operation of an investment fund by a fund manager that is appointed by the investment fund or its investors, including those activities that are delegated by an investment fund or its fund manager to an investment advisor or sub-advisor.

The reference to competent authority in Article 2(1)(f) requires the Free Zone Person to be appropriately licensed as an investment fund manager or investment advisor by the Dubai Financial Services Authority (DFSA), the Financial Services Regulatory Authority (FSRA) or any other regulatory authority as may be prescribed by the Minister.



Illustration



Please provide your feedback on the proposed scope of 'Fund management services' and confirm whether this provides sufficient clarity for your business:

Your answer

3.7 Article 2(1)(g) – Wealth and investment management services

Scope

Wealth and investment management includes the activity of providing discretionary and non-discretionary portfolio management and wealth and investment advisory services.

Qualifying requirements for wealth and investment management services

The Free Zone Person must be:

- established under the applicable Free Zone Single Family Office (SFO) or Multi Family Office (MFO) regulations of the Free Zone; or
- appropriately licensed by the Dubai Financial Services Authority (DFSA), the Financial Services Regulatory Authority (FSRA) or any other regulatory authority as may be prescribed by the Minister.

To ensure that the Free Zone CT regime only applies to appropriately licensed and regulated wealth and investment managers, the Free Zone Person must be regulated by the DFSA or FSRA or Securities and Commodities Authority or another regulatory authority of equivalent standing that may be prescribed by the Minister.

Additionally, appropriately licensed SFOs and MFOs that provide wealth and investment management services to, for example, Family Foundations, may also be eligible to benefit from the Free Zone CT regime.



Please provide your feedback on the proposed definition and scope of 'Wealth and investment management services' and confirm whether this provides sufficient clarity for your business:

Your answer

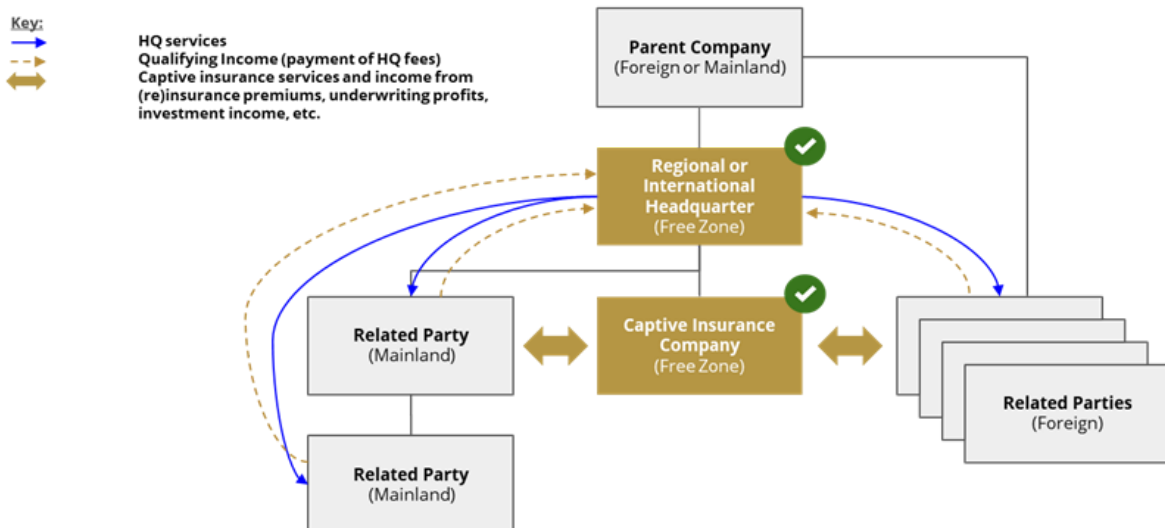
3.8 Article 2(1)(h) – Headquarter services to Related Parties

Scope

Headquarter services includes the administering, overseeing and managing of business activities of Related Parties, including the provision of senior and general management, captive insurance services, administrative services, business planning and development, risk management, coordination of group activities, procurement and in general incurring expenditures on behalf of Related Parties and providing other support services to Related Parties.

The reference to "Related Parties" for the purposes of the Qualifying Activity of providing headquarter services shall be limited to juridical persons and branches of juridical persons as per Articles 35(1)(c) and Article 35(1)(d) of the Corporate Tax Law.

Illustration



Please provide your feedback on the proposed scope of 'Headquarter services to Related Parties' and confirm whether this provides sufficient clarity for your business:

Your answer

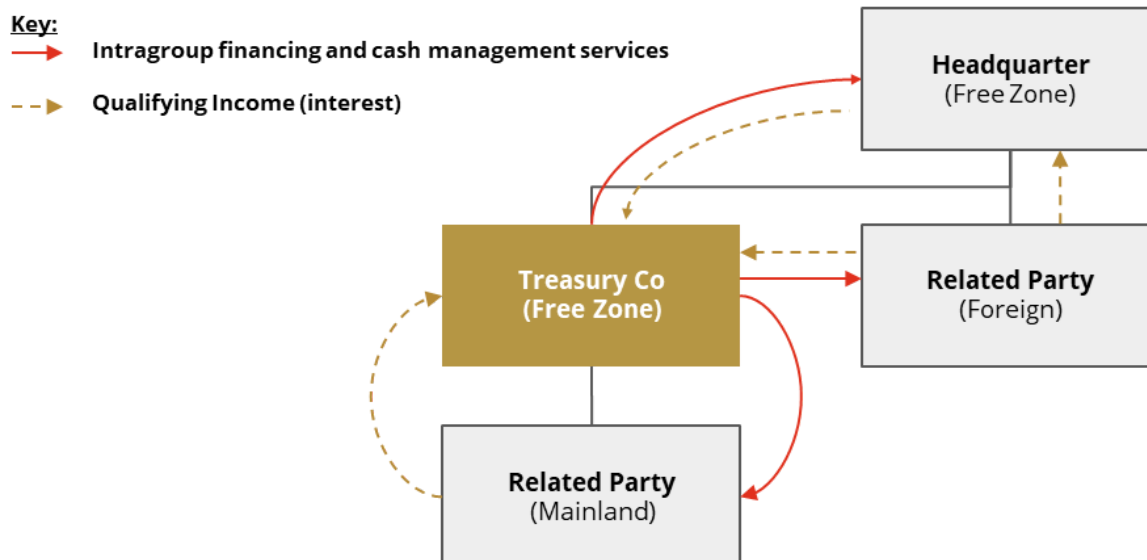
3.9 Article 2(1)(i) – Treasury and financing services to Related Parties

Scope

Intra-group financing and treasury services includes the provision of cash and liquidity management, financing, debt management, and financial risk management and related advisory services to Related Parties, including centralised payment and collection activities for or on behalf of Related Parties.

The reference to “Related Parties” for the purposes of the Qualifying Activity of providing treasury and financing services shall be limited to juridical persons and branches of juridical persons as per Articles 35(1)(c) and Article 35(1)(d) of the Corporate Tax Law.

Illustration



Please provide your feedback on the proposed scope of 'Treasury and financing services to Related Parties' and confirm whether this provides sufficient clarity for your business:

Your answer

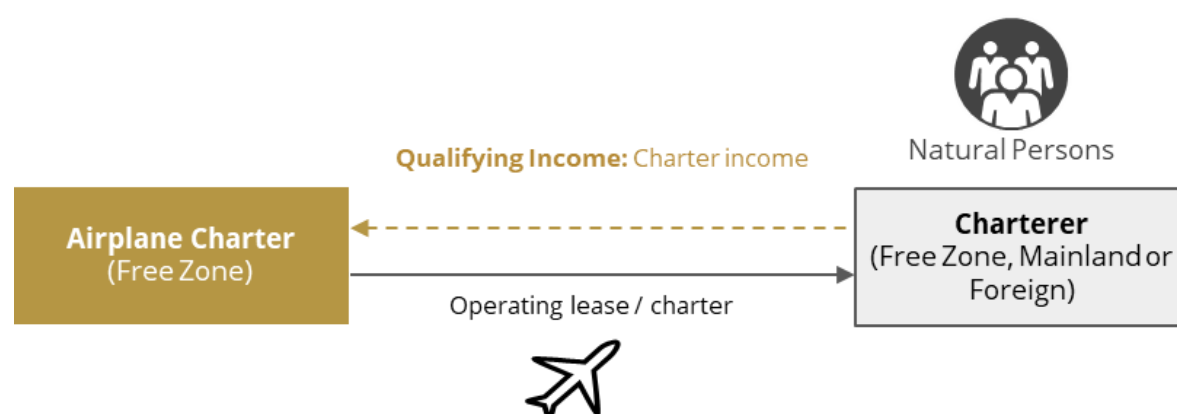
3.10 Article 2(1)(j) – Financing and leasing of Aircraft

Scope

The financing and leasing of Aircraft includes the financing, leasing and securitisation of the financing and leasing of Aircraft and Aircraft engines or rotatable components, including the letting, hiring out or otherwise granting the right to use Aircraft, Aircraft engines or rotatable components in exchange for rental or other consideration pursuant to a finance lease, operating lease or other arrangement, and any related advisory, agency, management and brokerage services in relation to the financing or leasing activity undertaken by the Qualifying Free Zone Person.

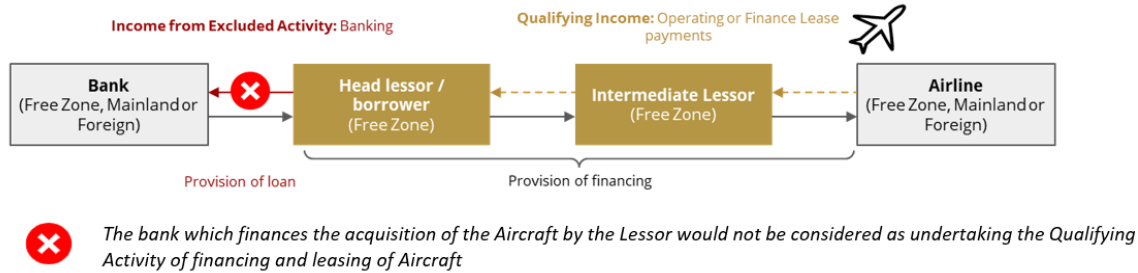
Illustrations

(1) Leasing / charting of an aircraft – Free Zone Person (Airplane Charter) charters an aircraft to natural persons. The income derived from charting the aircraft is Qualifying Income.



(2) Provision of aviation

financing – Free Zone Person (“Lessor”) provides financing to an Airline to acquire an aircraft and aircraft engines in the form of a finance lease. The financing is secured over the aircraft and aircraft engines. The finance lease payments from the Airline to the Lessor and the income derived by the head lessor from the intermediate lessor are Qualifying Income.



Please provide your feedback on the proposed scope of 'Financing and leasing of Aircraft' services and confirm whether this provides sufficient clarity for your business:

Your answer



3.11 Article 2(1)(k) – Distribution of goods or materials

Scope

The distribution of goods or materials includes the buying and selling of products, materials, component parts or any other items that are tangible or movable, but not including financial assets and instruments, in or from a Designated Zone*.

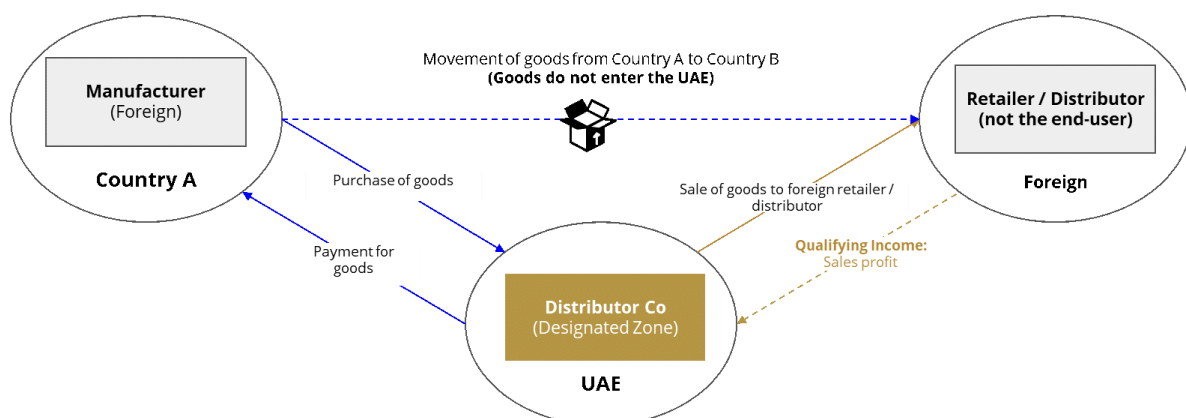
The Qualifying Activity of distributing goods or materials may include functions such as the importation, storage, inventory management, handling, transportation and exportation of those goods or materials.

* A designated zone as defined in Federal Decree-Law No. 8 of 2017 referred to above, and which has been specified as a Free Zone for the purposes of the Corporate Tax Law.

The distribution of goods or materials does not include the distribution of intangible products and services such as licenses, software and financial products / services.

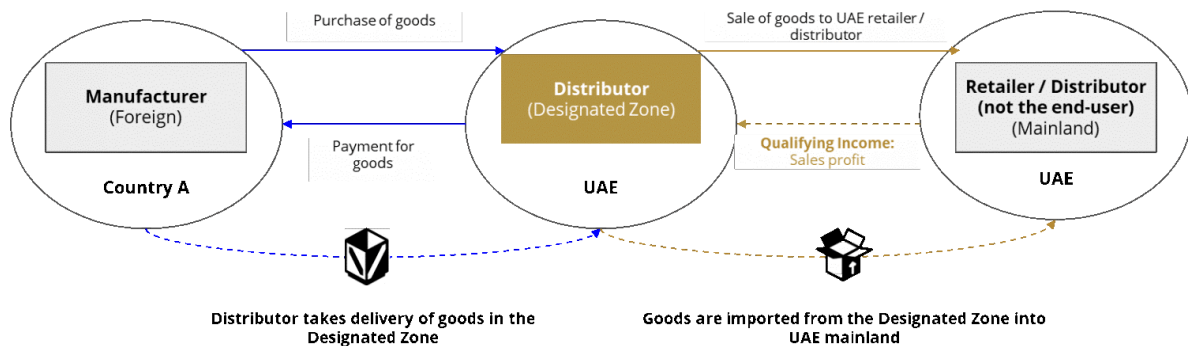
Illustrations

(1) Distribution of goods or materials outside of the UAE – Designated Free Zone Person (Distributor Co) buys goods from a manufacturer in Country A, and sells these goods to a retailer in Country B. Distributor Co earns a profit / margin on the goods sold to the retailer in Country B. The goods are shipped directly from the Manufacturer in Country A to the Retailer in Country B.



(2) Distribution of goods or materials in the UAE – The

Designated Free Zone Person (Distributor Co) buys goods from Country A, and sells these goods to a retailer in the UAE. Distributor Co earns a profit / margin on the goods sold to the retailer. The goods are shipped by the Manufacturer in Country A to Distributor Co in the Designated Zone from where they are imported into the UAE.



Please provide your feedback on the proposed scope of 'Distribution of goods and materials' and confirm whether this provides sufficient clarity for your business:

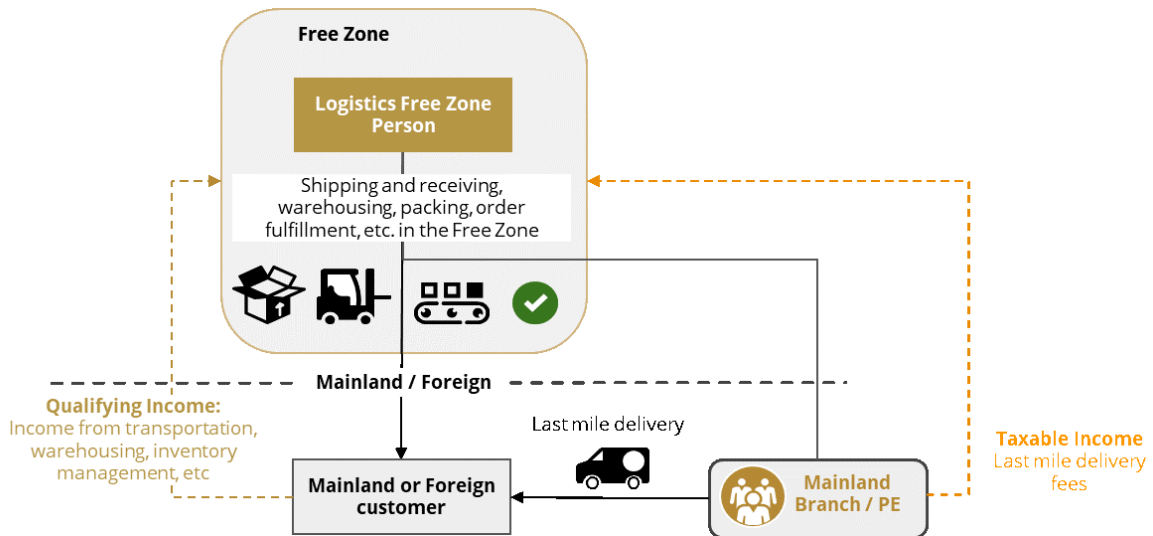
Your answer

3.12 Article 2(1)(I) – Logistics services

Scope

Logistics services includes the storage and transportation of goods or materials on behalf of another Person without taking title to the good or material of that other Person, including cargo handling, warehousing, container storage, transport agency services, customs brokerage services, order and inventory management, freight forwarding and brokerage services, document preparation, packing and unpacking and other related services.

Illustration



Where the Logistics Free Zone Person performs its logistics services within the Free Zone, but provides last mile delivery and other services outside of the Free Zone in the mainland UAE or in a foreign country, the income attributable to the activities performed outside of the free zone may be subject to the regular 9% Corporate Tax rate or foreign Corporate Tax if they give rise to a permanent establishment or are carried on through a branch in the UAE or overseas respectively.

Is the distinction between 'Distribution of goods and materials' and 'Logistics services' clear based on the above-mentioned scope:

Your answer

Please provide your feedback on the proposed scope of 'Logistics services' and confirm whether this provides sufficient clarity for your business:

Your answer

Google Forms



