

## Overview of UAE CT Regime

The UAE federal Corporate Tax ("CT") Law is effective for financial years starting on or after 1 June 2023 and levied at 9%(\*) on the Taxable Income of Resident Persons. It is also levied on Non-Resident Persons with a Permanent Establishment ("PE") or nexus in the UAE.

The law provides exemptions for certain entities such as public benefit entities, qualified investment funds, and extractive industries. Importantly for DIFC member companies, Qualifying Free Zone Persons ("QFZP") are subject to 0%(\*) on Qualifying Income.



## Free Zone Person vs. QFZP<sup>1</sup>

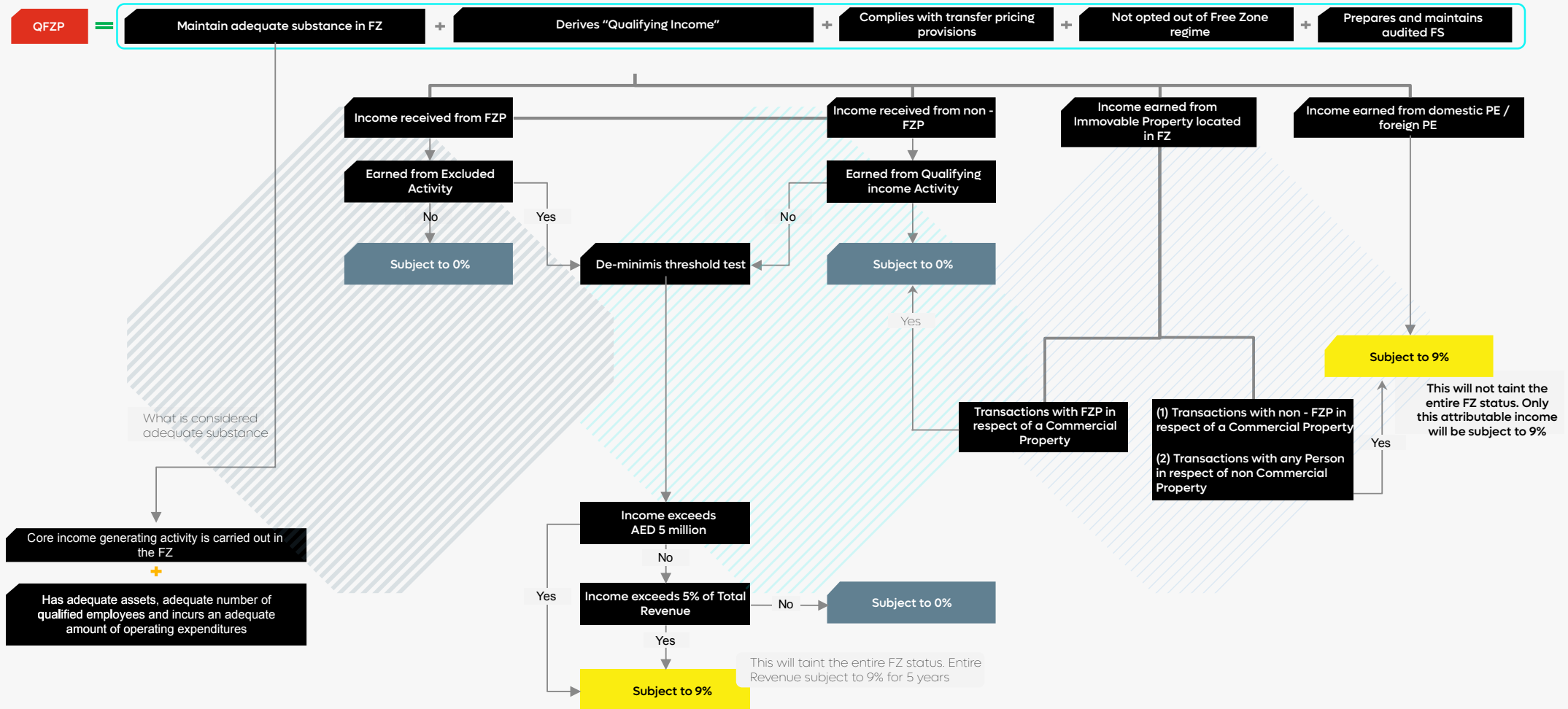
Free Zone Person ("FZP") refers to an entity that is incorporated, established or otherwise registered in a Free Zone, such as the DIFC. This includes the Free Zone branch of a UAE mainland or foreign juridical entity.

In order to be a QFZP, a FZP must meet the following conditions.

- Maintain adequate substance in the UAE
- Derive Qualifying Income
- Comply with the transfer pricing rules & documentation requirements
- Prepares audited financial statements in accordance with IFRS
- Non-Qualifying Income is not above a de-minimis threshold



# Simplified flow chart on QFZP



## QFZP Conditions

### 1. Adequate Substance<sup>1</sup>

The FZP is considered to have adequate substance in the UAE if: its core incoming generating activities are undertaken in the FZ

- it has adequate assets
- it has adequate qualified employees
- it has incurred adequate operating expenses

What is considered “adequate” will be based on type and level of activities. Core income generating activities may be outsourced to another FZP, provided the QFZP exercises adequate supervision over the outsourced activity.

### 2. Qualifying Income<sup>1</sup>

Qualifying Income includes:

- Income from transactions with other FZP except from “**Excluded Activities**”
- Income from transactions with non-FZP only in respect of “**Qualifying Activities**”
- Any other income that falls below de minimis

Income should not be attributable to a mainland branch (a “Domestic PE”) or to a foreign PE, nor to the ownership or exploitation of **Immovable Property**,

### 3. De Minis Requirements<sup>1</sup>

Non-Qualifying revenue derived in a tax period could be classified as Qualifying Income, if it does not exceed the lower of:

- 5% of the total revenue in that tax period; or
- AED 5 million.

The following revenue should be excluded from the calculation of non-Qualifying and total revenue:

- Revenue attributable to immovable property located in a FZ.
- Revenue attributable to a domestic or foreign PE of the QFZP.

<sup>1</sup>Cabinet Decision 55 of 2023 sets out the qualifying income and substance requirements

## Qualifying Activities<sup>2</sup>

- Manufacturing of goods or materials
- Processing of goods or materials
- Holding of shares and other securities
- Ownership, management and operation of Ships
- Reinsurance services subject to the regulatory oversight of the UAE competent authority
- Fund management services subject to the regulatory oversight of the UAE competent authority
- Wealth / investment management services subject to regulatory oversight of UAE competent authority
- Headquarter services to Related Parties
- Treasury and financing services to Related Parties
- Financing and leasing of aircraft, including engines and rotables
- 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
- Logistics services
- Activities that are **ancillary (\*)** to activities noted in (a) to (l) above

## Excluded Activities<sup>2</sup>

- Transaction with natural persons, other than in respect of the Qualifying Activities mentioned under (d), (f), (g) and (j) of Qualifying Activities
- Banking activities subject to the regulatory oversight of the UAE competent authority
- Insurance activities subject to the regulatory oversight of the UAE competent authority other than the Qualifying Activity mentioned under paragraph (e) of Qualifying Activities
- Finance and leasing activities subject to the regulatory oversight of the UAE competent authority, other than those services mentioned under (i) and (j) of Qualifying Activities
- Ownership or exploitation of immovable property, other than Commercial Property located within a Free Zone where the transaction in respect of such Commercial Property is conducted with another Free Zone Person
- Ownership or exploitation of intellectual property assets
- Activities that are ancillary (\*) to any of the above excluded activities

### \* **Ancillary Activities**

Shall include activities that are necessary for the performance of the main Qualifying or Excluded Activity.

## Global Minimum Tax Rate

The UAE is a signatory to the OECD's BEPS Pillar 2 framework and has stated it intends to implement a higher rate of tax for entities that are part of large multinational groups. No further details have been released, but this is expected to mean entities which are part of a multinational group with consolidated global revenue above EUR 750m could be subject to a 15% rate of tax in the future.

<sup>2</sup> Ministerial Decision 139 of 2023 sets out the list of Qualifying Activities