

# FTA Audit Readiness for Qualifying Free Zone Persons

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The UAE Corporate Tax regime provides a significant benefit to a Qualifying Free Zone Person (QFZP) by allowing qualifying income to be subject to Corporate Tax at 0%, subject to the conditions prescribed under the Corporate Tax legislation.

However, the 0% rate is not simply a consequence of holding a Free Zone licence. A Free Zone Person must satisfy the conditions applicable to a QFZP, including maintaining adequate substance, deriving Qualifying Income, complying with transfer pricing requirements and maintaining the required records and documentation.

The Federal Tax Authority (FTA) has increasingly focused on the substance and operational reality of Free Zone businesses. This is particularly relevant in light of FTA Decision No. 6 of 2026 on Determining the Additional Procedures for the Compliance of QFZP.

For businesses benefiting from the 0% regime, the key question is therefore no longer:

**“Do we have a Free Zone licence?”**

The more important question is:

**“Can we demonstrate, through contemporaneous evidence, that the business genuinely satisfies the conditions for QFZP status?”**

## Understanding the FTA's current approach

The FTA request for information examined for this article provides a useful indication of the documentation that may be requested when the Authority reviews a QFZP's adequate substance and Core Income-Generating Activities (CIGAs).

The request goes beyond financial statements and tax computations. It seeks evidence covering the company's governance, business activities, group structure, employees, premises, assets, expenditure, outsourcing arrangements and decision-making.

This reflects an important practical reality: QFZP compliance needs to be demonstrated through the entire operating model of the business, not merely through the Corporate Tax return.

## 1. Start with an independent QFZP assessment

Before an FTA review begins, management should conduct a structured assessment of whether the entity satisfies the conditions for QFZP status for each relevant Tax Period.

the nature of the business; the activities actually performed; the source and nature of income; Qualifying and non-qualifying income; Core Income-Generating Activities; location where the activities are performed; employees and their functions; assets used in the business; operating expenditure; related-party arrangements; outsourcing arrangements; transfer pricing compliance; and the applicable de minimis requirements.

## **2. Understand the significance of FTA Decision No. 6 of 2026**

FTA Decision No. 6 of 2026, Determining the Additional Procedures for the Compliance of QFZP, was issued on 2 June 2026 and published on 14 July 2026.

Its introduction is an important development in the administration of the Free Zone Corporate Tax regime. Businesses claiming the 0% rate should therefore ensure that their QFZP compliance file is sufficiently robust to support the position taken in their Corporate Tax returns.

The practical message for taxpayers is straightforward: QFZP compliance should be treated as an ongoing process rather than a year-end tax computation exercise.

## **3. Document what the business actually does**

One of the most important documents a QFZP should maintain is a clear description of its actual business model.

Management should be able to explain what products or services the company provides; who its customers are; how revenue is generated; what functions are performed internally; what functions are outsourced; which activities constitute CIGAs; where each significant activity is performed; and how the activities ultimately generate the company's income.

A business process flowchart can be particularly useful: Customer enquiry → Contracting → Procurement/Production → Service delivery → Quality control → Invoicing → Collection.

Each stage should identify where the activity takes place and who performs it.

A business description that exists only for tax purposes but does not correspond with the company's actual operations may create difficulties during an FTA review.

## **4. Demonstrate that strategic decisions are made in the Free Zone**

The FTA request specifically seeks evidence of strategic decision-making, including board meeting minutes and resolutions.

Companies should maintain appropriate records demonstrating where important decisions are actually made, such as approval of budgets, business strategy, major contracts, investment decisions, appointment of senior personnel, financing decisions, significant expenditure, expansion plans and other major commercial decisions.

The minutes should reflect real decisions, rather than simply creating documents retrospectively for tax compliance purposes.

## **5. Maintain a complete group and related-party structure**

For companies belonging to an international or UAE group, the FTA may require a comprehensive group structure showing the parent entity, ultimate beneficial owner, subsidiaries, associates, joint ventures, related parties, UAE branches and overseas entities.

The QFZP should also identify transactions and arrangements with related parties, particularly where related parties provide services or perform activities connected with the QFZP's income generation.

A clear group chart accompanied by a related-party transaction schedule can significantly improve audit readiness.

## **6. Pay particular attention to mainland activities and branches**

A Free Zone company may have employees, customers, suppliers, branches or other activities outside the Free Zone. These arrangements should be carefully analysed.

Where a company has a mainland UAE branch or conducts activities outside the Free Zone, management should be able to clearly explain the nature of the activity, personnel involved, location, Permanent Establishment considerations, Corporate Tax treatment and interaction with the QFZP's qualifying activities.

The mere existence of a mainland activity does not by itself answer the tax analysis. What matters is understanding and documenting the nature and tax treatment of the activity.

## **7. Related-party outsourcing requires particular attention**

Outsourcing is not necessarily inconsistent with maintaining adequate substance. However, the QFZP must be able to demonstrate appropriate supervision and control over outsourced activities, subject to the applicable rules.

Where CIGAs are outsourced to a related party, the QFZP should maintain written agreements, scope of services, identification of outsourced activities, service provider details, evidence of personnel performing the services, invoices, payment records, correspondence, performance monitoring and evidence of supervision.

The critical question is not simply "Was the work outsourced?" It is: "Can the QFZP demonstrate that the outsourced activity is appropriately managed and supervised and that the arrangement is consistent with the applicable substance requirements?"

## **8. Be able to explain management fees and group overheads**

Group companies frequently allocate management, administrative, IT, finance, HR or other overhead costs to a Free Zone entity. These allocations should not be treated as routine accounting entries.

Management should maintain a clear explanation of the nature of the services, why they are required, who performs them, where they are performed, how costs are calculated, the basis of allocation, the benefit received by the QFZP and the transfer pricing treatment, where applicable.

The FTA request specifically seeks a narrative explaining the economic rationale for management fees and overheads allocated by a parent or group entity.

## **9. Build an employee-by-employee substance file**

One of the strongest ways of demonstrating substance is to show what the people working for the business actually do.

The QFZP should maintain a detailed employee schedule containing, where relevant, employee name, designation, qualifications, job responsibilities, department, employment status, location of work, specific involvement in CIGAs, remuneration, payroll records and WPS evidence, where applicable.

For key management and technical personnel, CVs and evidence of relevant qualifications should also be retained.

Where employees are shared with related parties, timesheets or other reliable evidence of the allocation of their working time may become particularly important.

## **10. Physical presence must be demonstrable**

A Free Zone company should be able to demonstrate that it has an appropriate physical operating presence having regard to its business activities.

Relevant evidence may include Free Zone lease agreement, Ejari where applicable, office or warehouse agreements, photographs of premises, utility bills, access records, fixed asset register, equipment records and other evidence demonstrating actual use of the premises.

The question is not simply whether an office exists. The question is whether the premises, assets and people are consistent with the scale and nature of the business activities being carried out.

## **11. Analyse operating expenditure**

Adequate substance also requires consideration of operating expenditure.

The QFZP should prepare a detailed analysis of expenditure incurred in relation to its activities, including employee costs, rent, utilities, professional fees, technology costs, operational costs, equipment-related costs, outsourced services and other business expenditure.

A useful approach is to prepare a QFZP substance expenditure schedule reconciling the relevant expenditure to the general ledger and audited financial statements.

## **12. Maintain proper outsourcing documentation**

Where activities are outsourced, the documentation should establish both the commercial arrangement and the QFZP's involvement in supervising the outsourced activity.

The file should ideally contain a signed agreement, description of outsourced functions, service provider details, invoices, payment evidence, correspondence, deliverables, evidence of review and approval, and evidence of ongoing supervision.

This creates an audit trail demonstrating that outsourcing is part of a controlled business process rather than a mechanism for transferring the substance of the business elsewhere.

## **13. Reconcile the tax position with the accounting records**

A QFZP audit is unlikely to be limited to the Corporate Tax return.

The information provided to the FTA should be capable of being reconciled to audited financial statements, trial balance, general ledger, revenue analysis, payroll, fixed asset register, related-party schedules, intercompany accounts, transfer pricing documentation and Corporate Tax return.

Any unexplained difference between these records can create unnecessary questions. A QFZP reconciliation file should therefore be prepared for each Tax Period.

## **14. Prepare management for an FTA interview**

The FTA request indicates that, following its initial review, the Authority may conduct a site visit or arrange a follow-up interview with key personnel.

Management should therefore be prepared to explain the business without relying entirely on the tax adviser.

Key personnel should understand the company's business model, principal customers and suppliers, revenue-generating activities, CIGAs, location of activities, personnel performing them, outsourced functions, related-party arrangements and the reason the company considers its income to be Qualifying Income.

The explanation given by management should be consistent with the accounting records, contracts, website, organisational structure and supporting documentation.

## 15. Conduct a mock FTA QFZP review

One of the most effective preparation exercises is to conduct a mock review before receiving an FTA request.

People: Who performs the CIGAs? How many employees are involved? Are employees shared with group companies?

Premises: Where are the employees working? What premises does the company maintain? Are the premises appropriate for the business?

Activities: What are the company's actual revenue-generating activities? Which activities are CIGAs? Where is each activity performed?

Outsourcing: What has been outsourced? To whom? How is the activity supervised?

Financials: Can revenue be traced to contracts and invoices? Can operating expenditure be reconciled to the financial statements? Can related-party charges be explained?

Governance: Where are strategic decisions made? Who makes them? Is there documentary evidence?

If the company cannot answer these questions clearly, the QFZP compliance file may need strengthening.

## A practical QFZP audit-readiness framework

A useful way for management to approach QFZP compliance is to maintain five interconnected pillars:

### **PEOPLE**

Qualified employees performing meaningful functions.

### **PREMISES**

Appropriate physical presence and assets in the relevant Free Zone or Designated Zone.

### **ACTIVITIES**

Actual CIGAs and qualifying activities performed or appropriately outsourced and supervised.

### **EXPENDITURE**

Adequate operating expenditure consistent with the nature and scale of the business.

### **EVIDENCE**

Contemporaneous documentation supporting every important conclusion.

The fifth pillar—evidence—is often the difference between having substance and being able to demonstrate substance.

## Conclusion

The UAE Free Zone Corporate Tax regime offers a valuable 0% Corporate Tax rate for qualifying income. However, businesses benefiting from the regime should recognise that QFZP status carries continuing compliance responsibilities.

The recent FTA focus on adequate substance, together with FTA Decision No. 6 of 2026, reinforces the importance of maintaining a well-organised and evidence-based QFZP compliance framework.

**The best time to prepare the QFZP file is during the Tax Period—not after the FTA audit begins.**

Ultimately, QFZP audit readiness is about being able to demonstrate a simple proposition:

**“ Genuine qualifying activities, maintained appropriate substance, made its commercial decisions through the business, and has reliable contemporaneous evidence to support its position.”**

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