



Corporate Tax in **UAE Free Zone**

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CHARTERED ACCOUNTANTS



Today's Agenda!

- ❑ Who is a Free Zone Person ('FZP')?
- ❑ Applicability of Corporate Tax on Certain Transactions by FZP
- ❑ Impact on FZP
- ❑ Way forward



01

Free Zone





Importance of Free Zones in the UAE

- ❑ Free Zones are important part of the UAE economy
- ❑ The UAE's National Economic Register (NER) said around **60,600 companies were registered** in the country's free-zones as of mid- February 2021
- ❑ Free Zones the key sector - achieving the country's aim of encouraging **foreign direct investment**
- ❑ **Ease of doing business** is the most attractive part of Free Zones

Dubai's free zones on track to contribute \$68 billion to emirate's GDP by 2030, Sheikh Ahmed says

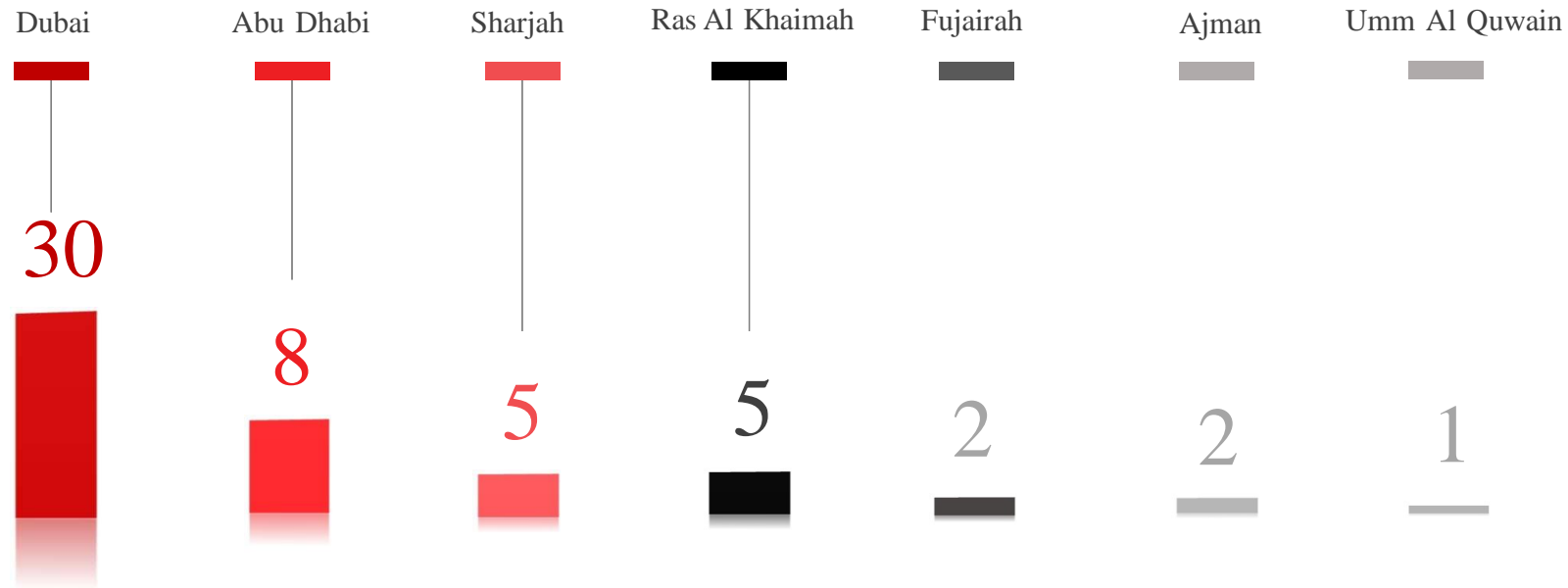
Dubai's free zones have put in place pillars of a flexible economy that help achieve sustainability and accelerate growth, the chairman of the DFZ Council said



<https://www.arabianbusiness.com/politics-economics/dubais-free-zones-on-track-to-contribute-68-billion-to-emirates-gdp-by-2030-sheikh-ahmed-says>



NUMBER OF FREE ZONES IN THE UAE





DUBAI

1. Dubai Academic City
2. Dubai Airport Free Zone
3. Dubai Biotechnology & Research Park (DuBiotech)
4. Dubai Car and Automotive City Free Zone (DUCAMZ)
5. Dubai Design District
6. Dubai Gold and Diamond Park
7. Dubai Healthcare City
8. Dubai Industrial City (DIC)
9. Dubai International Academic City
10. Dubai International Financial Centre
11. Dubai Internet City (DIC)
12. Dubai Knowledge Village
13. Dubai Logistics City
14. Dubai Media City
15. Dubai Multi Commodities Centre or Jumeirah Lakes Towers Free Zone
16. Dubai Outsource Zone
17. Dubai Silicon Oasis
18. Dubai Studio City
19. Dubai Techno Park
20. Dubai Technology and Media Free Zone
21. International Media Production Zone
22. Jebel Ali Free Zone
23. Economic Zones World
24. Dubai World Trade Centre
25. Dubai South Free Zone
26. Dubai Science Park
27. Meydan Free Zone
28. International Free Zone Authority (IFZA)
29. International Humanitarian City
30. Dubai Commerce City

ABUDHABI

I

1. Abu Dhabi Airport Free Zone (ADAFZ)
2. Abu Dhabi Global Markets (ADGM)
3. Twofour54
4. Abu Dhabi Ports Company (ADPC)
5. Industrial City of Abu Dhabi
6. Higher Corporation for Specialized Economic Zones (ZonesCorp)
7. Masdar City Free Zone
8. Khalifa Industrial Zone Abu Dhabi (KIZAD)/ Khalifa Port Free Trade Zone

SHARJAH

1. Hamriyah Free Zone
2. Sharjah Airport International Free Zone
3. U.S.A. Regional Trade Center (USRTC) Free Zone
4. Sharjah Publishing City Free Zone
5. Sharjah Media City Free Zone (Shams)

AJMAN

1. Ajman Free Zone
2. Ajman Media City Free Zone

UMMAL QUWAIN

1. Umm Al Quwain Free Trade Zone (UAQFTZ)

RAS AL KHAIMAH

1. Ras Al Khaimah Economic Zone (RAKEZ)
2. RAK Maritime City Free Zone Authority (RMCFZA)
3. Ras Al Khaimah Investment Authority
4. Ras Al Khaimah Free Trade Zone
5. Ras Al Khaimah Media Free Zone



Source: <https://www.enec.gov.ae/doc/freezone-investor-guide-rev11-5fad25b64c542.pdf>



02

Free Zone Persons



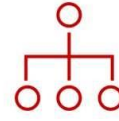
FREE ZONE PERSONS



Who is a
“Free Zone Person?”



Companies and Branches



registered in a Free Zone

Will all Free Zone
Persons be eligible
for Tax Benefits?

Free Zone Persons will be eligible for tax incentives of the Free Zone if it:

- Maintains adequate substance
- Complies with all regulatory requirements of Free Zone



FREE ZONE PERSONS

- Within the Scope of UAE CT
- Filing of Corporate Tax Return - MANDATORY
- Audited Financial Statements - MANDATORY
- Can elect to be subject to Regular Corporate Tax Rate - IRREVOCABLE



03

Applicability of Corporate Tax

**On 10 types of Transactions
Conducted by Free Zone
Persons**



1



0%

**Income earned
from transactions
with businesses
located outside of the
UAE**





FREE ZONE



0%

Income from trading with businesses located in the same Free Zone



SAME FREE ZONE





3



FREE ZONE



0%

**Income from
trading with
businesses located in
another Free Zone**



ANOTHER FREE ZONE

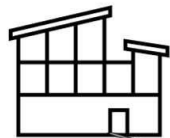




4



DESIGNATED
ZONE



0%

**Income from the sale
of goods to the UAE mainland
businesses that are importer on
record of those goods.**

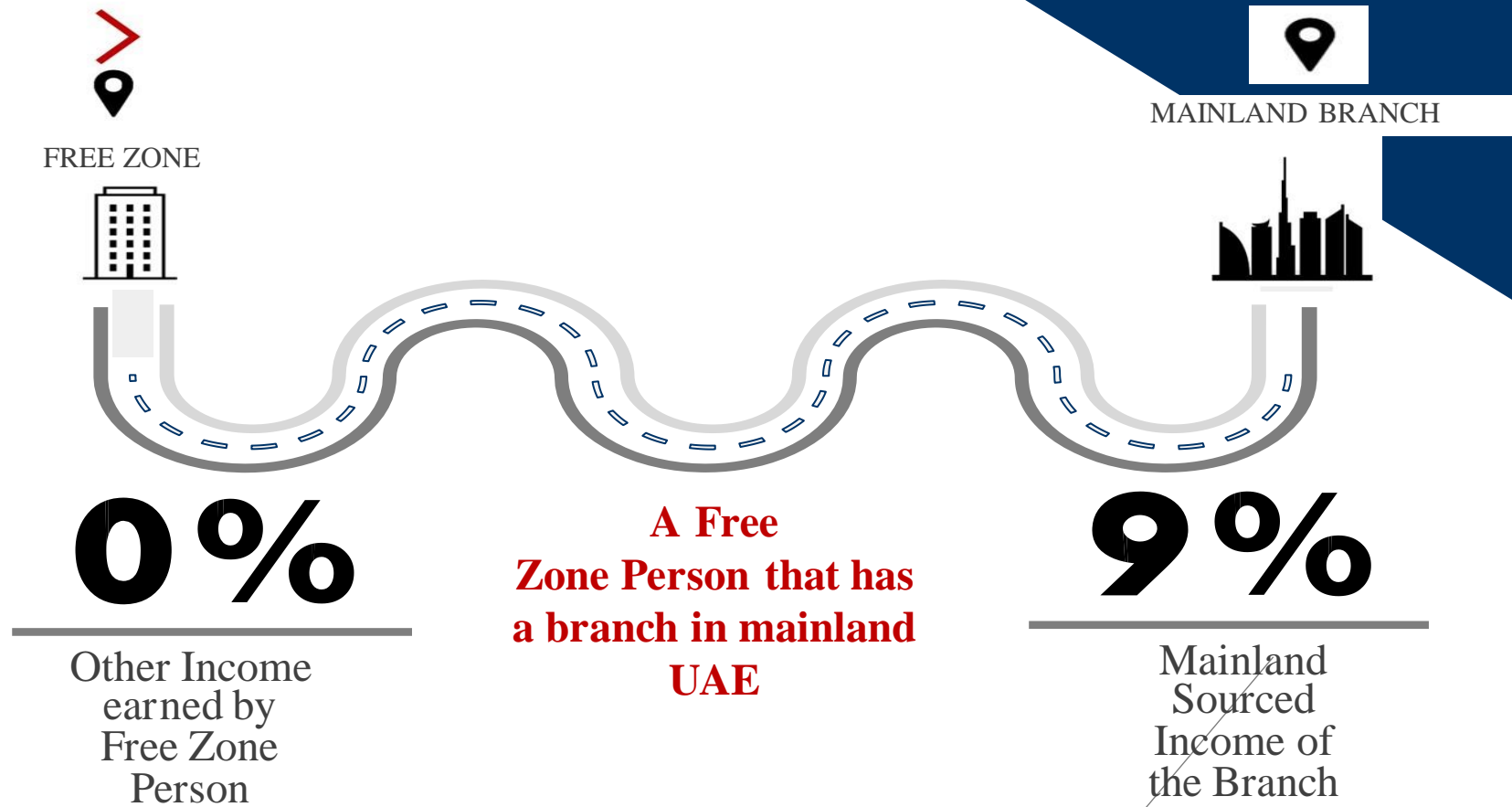


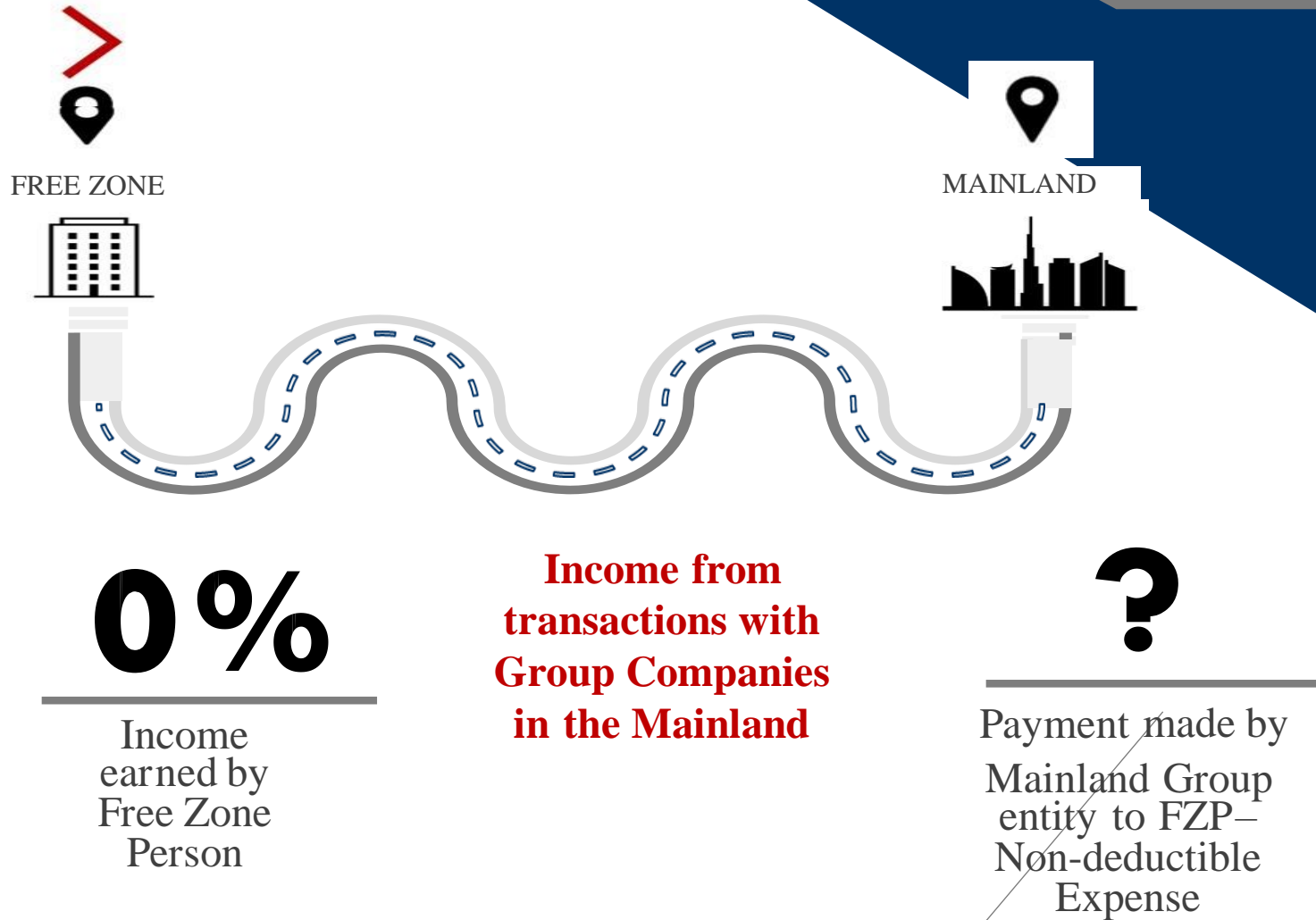
MAINLAND





5





EXAMPLE

ABC FZCo. [FZP] supplies goods to XYZ LLC [Mainland Co.]



ABC FZCo

Purchased from India [1,000 KG]	9,000,000
Sales	
Sold to Europe [500 kg]	5,000,000
Sold to XYZ LLC - in Mainland [500 kg]	5,000,000
Total Sales	10,000,000
Gross Profit	1,000,000
Indirect Expenses (Allowable)	500,000
Profit/ Taxable Profit	500,000
If FZP is eligible to get 0% Tax Rate	0%
Tax Liability	0



XYZ LLC

Purchased from FZP [500 kg]	5,000,000
Sold in the UAE local market [500 kg]	6,000,000
Gross Profit	1,000,000
Indirect Expenses (Allowable)	500,000
Profit	500,000
Disallowance of payment to FZP	Nil
Taxable Profit	500,000
Tax Rate	9%
Tax Liability [500,000 - 375,000] X9%	11,250

TOTAL TAX LIABILITY

11,250

EXAMPLE

IF ABC FZCo [FZP] & XYZ LLC [Mainland] are Group Companies



ABC FZCo

Purchased from India [1,000 KG]	9,000,000
Sales	
Sold to Europe [500 kg]	5,000,000
Sold to XYZ LLC - in Mainland [500 kg]	5,000,000
Total Sales	10,000,000
Gross Profit	1,000,000
Indirect Expenses (Allowable)	500,000
Profit/ Taxable Profit	500,000
If FZP is eligible to get 0% Tax Rate	0%
Tax Liability	-



XYZ LLC

Purchase from FZP [500 kg]	5,000,000
Sold in the UAE local market [500 kg]	6,000,000
Gross Profit	1,000,000
Indirect Expenses (Allowable)	500,000
Profit	500,000
Disallowance of payment to FZP	5,000,000
Taxable Profit	5,500,000
Tax Rate	9%
Tax Liability [9% of {5,500,000 – 375,000}]	461,250

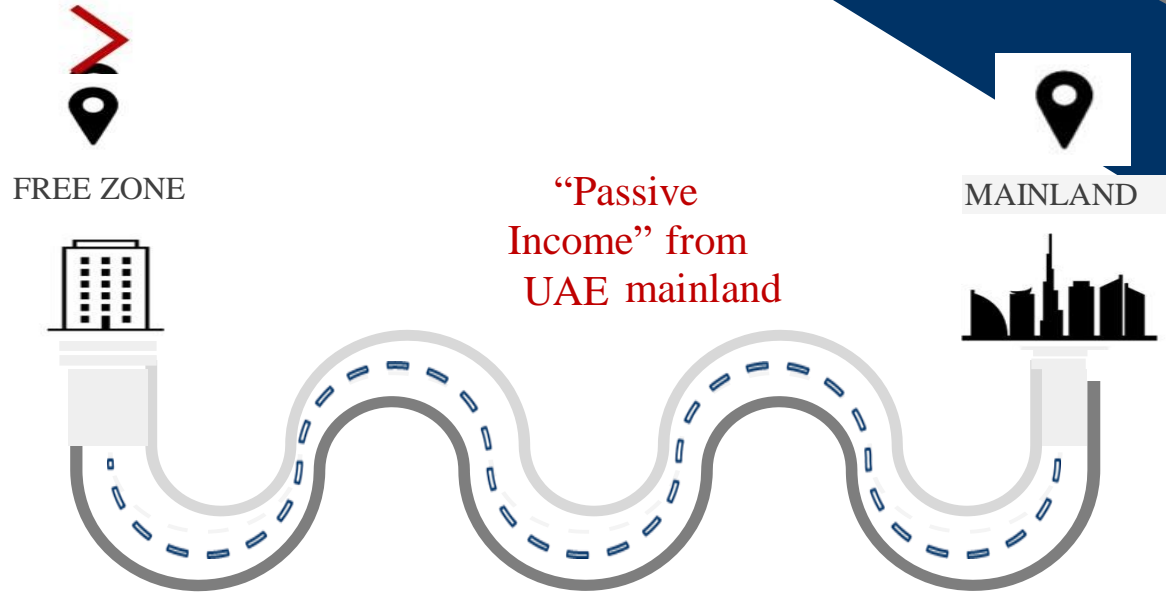
TOTAL TAX LIABILITY

461,250



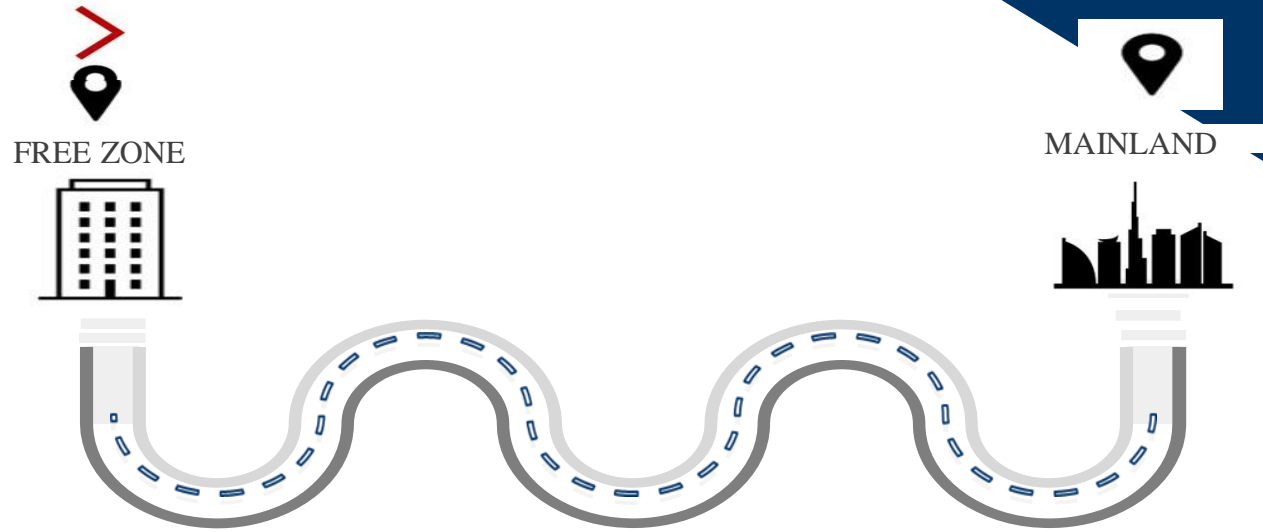
0%

**Income from certain
regulated financial
services directed at
foreign markets**



0%

“Passive Income” includes interest, royalties, and dividends and capital gains from owning shares in mainland UAE companies



9%

**If Free Zone
Person has a PE in the
mainland**



DISQUALIFY FROM 0%

If the Free Zone Person earns any other mainland sourced income[other than explained 9 cases]





04

Impact on Free Zone Persons





IMPACT ON FREE ZONE PERSONS

- 01 Large MNEs' may have to pay higher rate of tax
- 02 Service sectors in the FZ
- 03 Who is a FZP ? - companies and branches that are registered in a Free Zone called "Free Zone Persons"
- 04 Free Zone Entity supplying to mainland group entity – Huge cost for the group entity
- 05 Evaluation of PE implications of FZPs conducting business in mainland
- 06 PE Implications for freelancer/sole owner of Free Zone business conducting business from mainland
- 07 Offshore Companies - properties in mainland and earning rental income
- 08 High Sea Sales - Mainland Vs. FZP



05

Way Forward





**Review now and
get ready to
implement the **Corporate Tax****





06

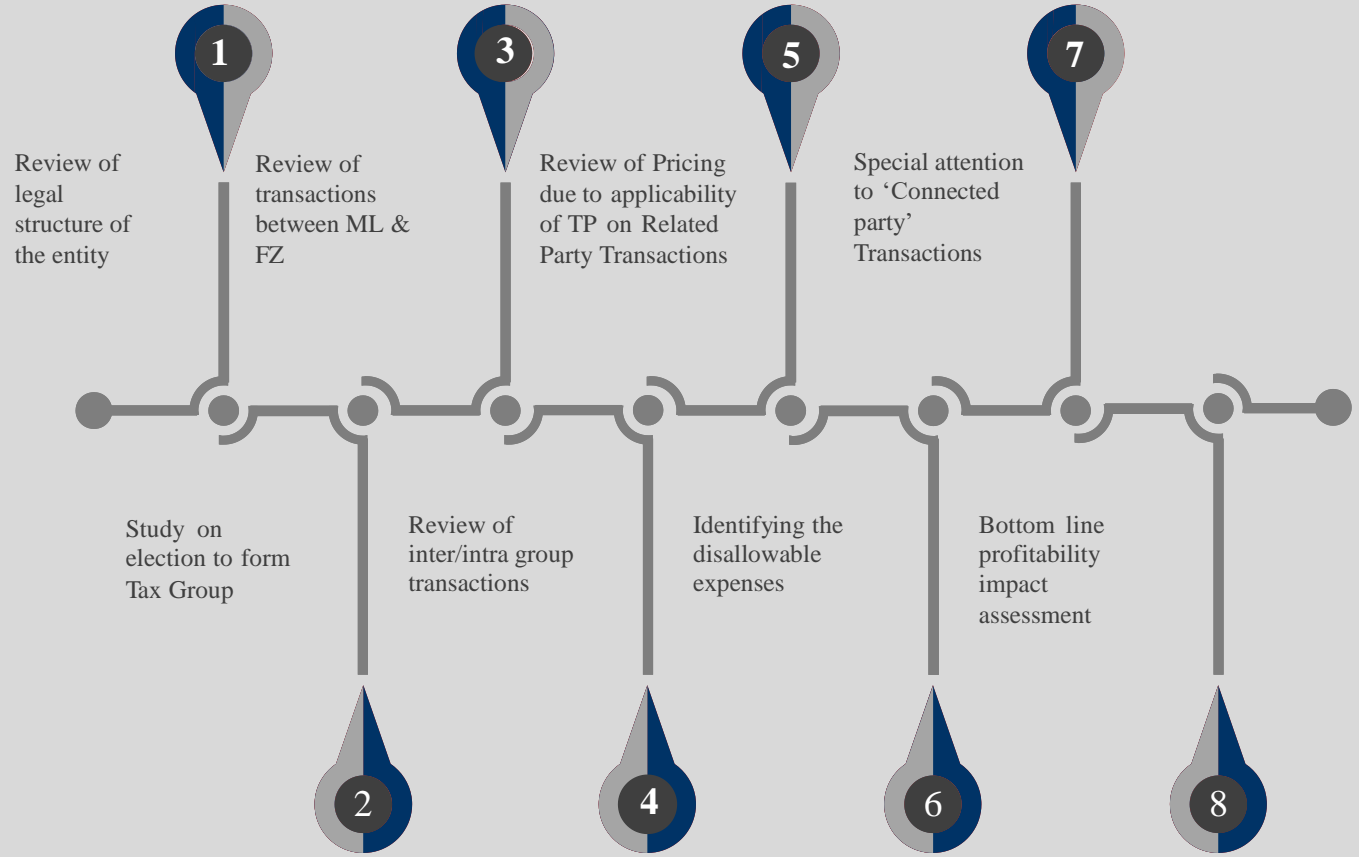
REVIEW STEPS

Prior to Implementation
of Corporate Tax



REVIEW - prior to implementation of CT

8
STEPS





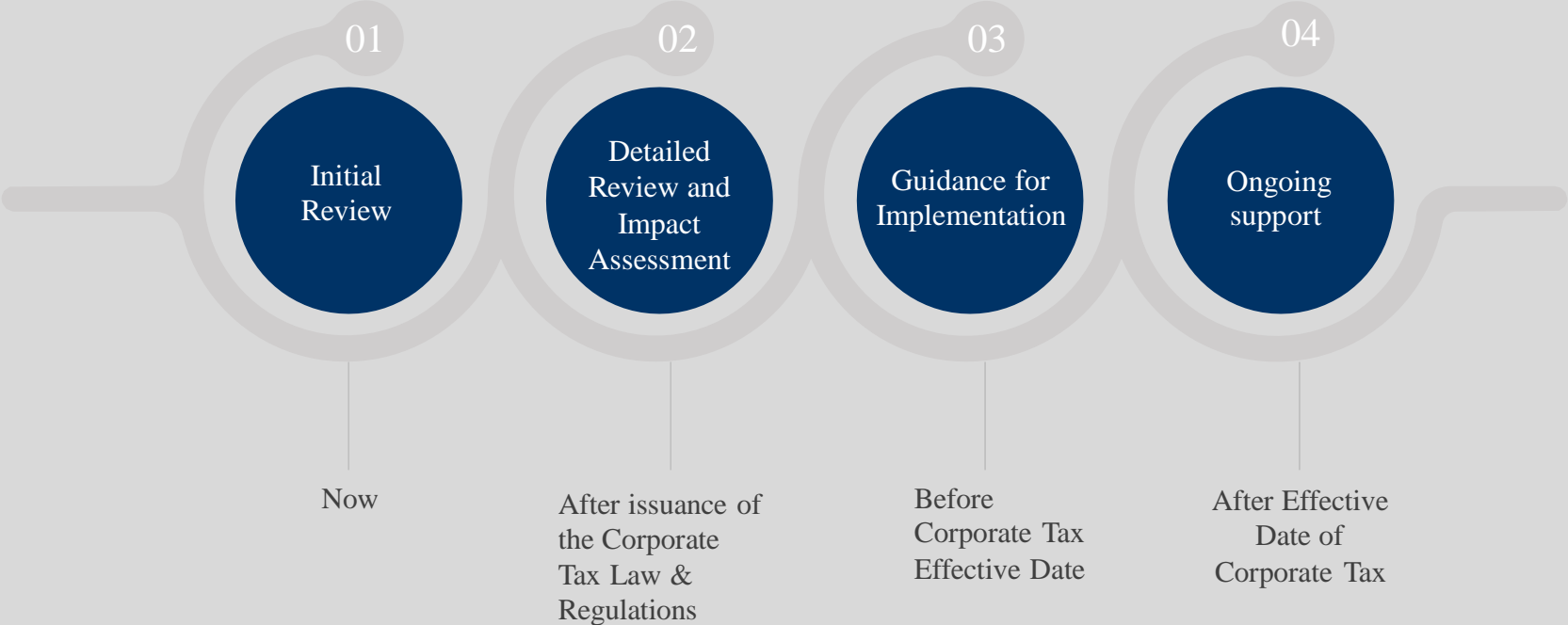
07

METHODOLOGY ADOPTED





METHODOLOGY ADOPTED by ECAG





Thank You!



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