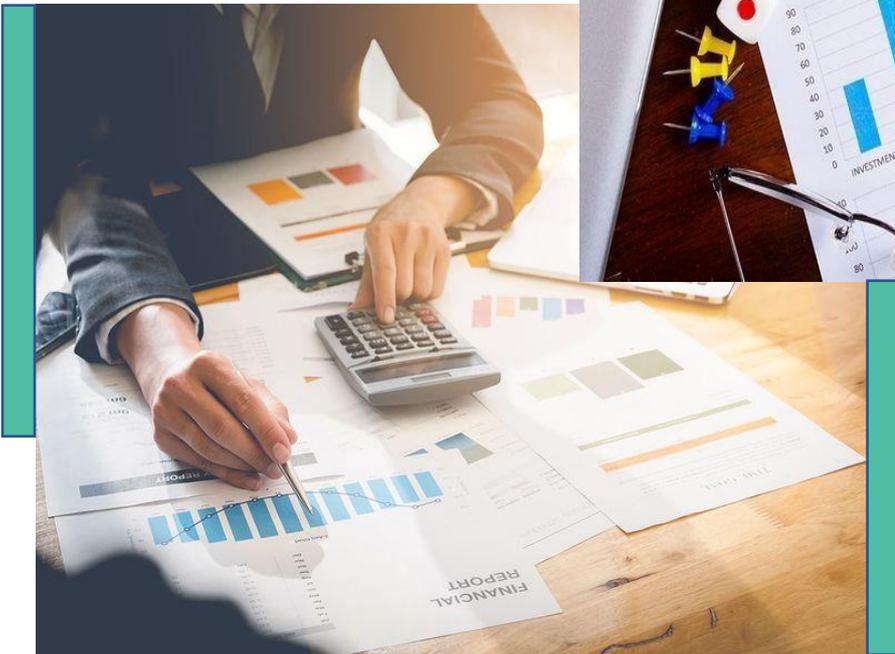


Freezones Tax Incentives



How UAE Corporate Tax is Applicable in UAE Freezone Transactions?

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Introduction:

On 31 January 2022, the Ministry of Finance (MOF) announced that the United Arab Emirates will introduce a Federal Corporate Tax on business profits effective for financial years starting on or after 01 June 2023. On 28th April 2022, a public consultation document ('PCD') was also published with the objective of seeking comments from the stakeholders on the proposed regulations.

There are certain key aspects concerning CT impact on Free Zone businesses in the UAE.

Free Zones as per PCD:

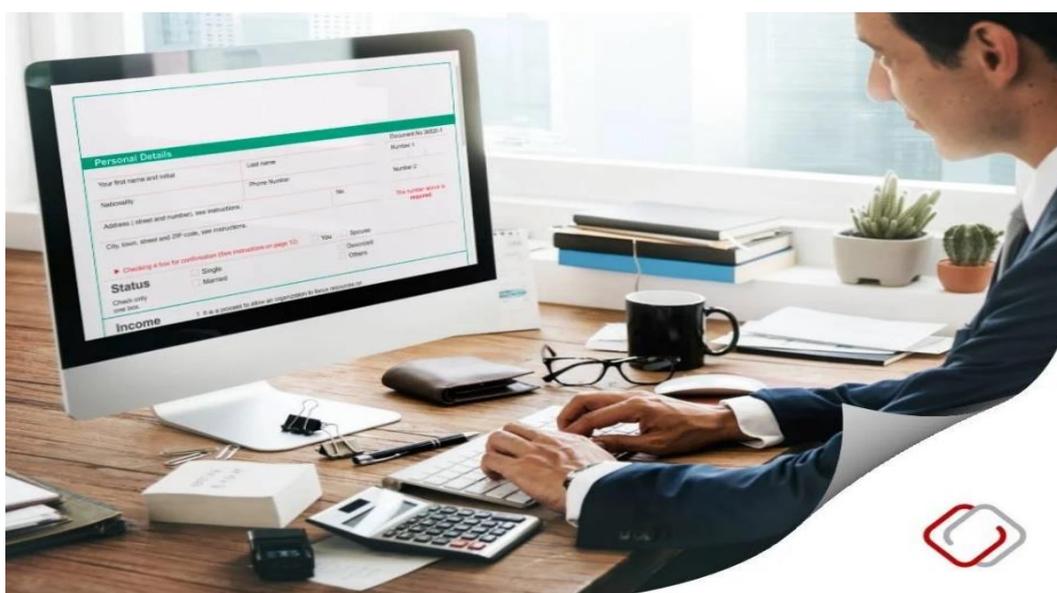
A Free Zone is a designated area that has been established to attract foreign investments into the UAE. In a Free Zone, foreign investors enjoy up to 100% foreign ownership as well as other benefits such as import duty and VAT exemptions (Designated zones) and other tax exemptions.

There are over 40 Free Zones in the UAE, each administered by its own rules and regulations and authorities which are responsible for licensing and registration matters in relation to foreign entities looking to establish their business in the given Free Zone. Free Zones in the UAE have typically been established in order to accommodate specific industries. For example, there are dedicated Free Zones in Dubai focusing on companies from the technology, media, finance, and import/export industries.

Entities which solely operate in free zones (in compliance with the regulatory requirements) are expected to retain the existing tax holidays, although there will still remain a filing obligation for free zone entities. Freezone entities will have a registration and filing obligation under the UAE CT law. However existing tax holidays offered by freezones are expected to be retained provided that the freezones entity (ies) maintain adequate substance and comply with all the regulatory requirements.

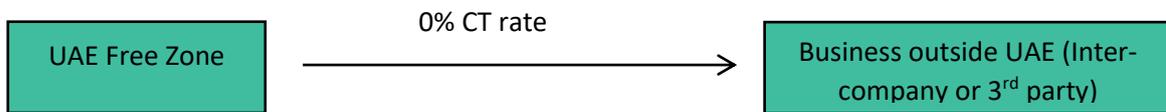
Corporate Tax on Free Zone Entities:

As per PCD, Companies or branches registered in the Free Zones are known as Free Zone Persons. Such free zone persons will be within the scope of new UAE Corporate Tax and are required to file their Tax Returns annually.

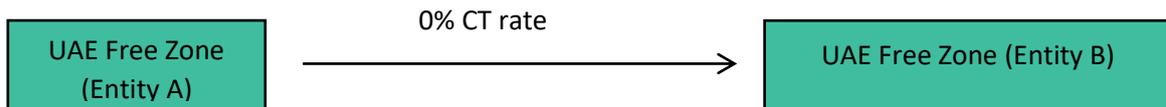


Proposed applicability of UAE Corporate Tax on Free Zone Entity:

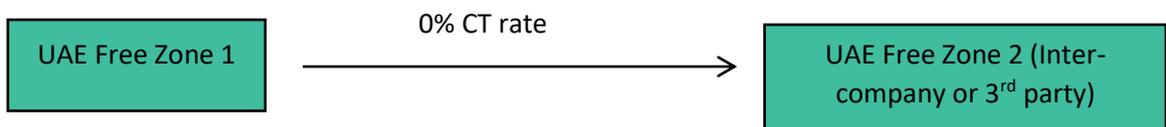
- Transactions done by a free zone company with a business located outside the UAE will be taxed at 0%.



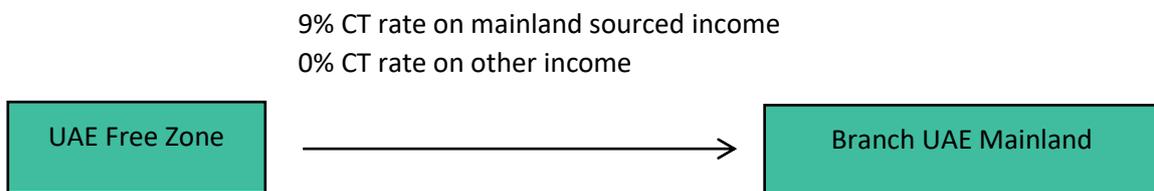
- Profit earned from trading within the same Free Zone will be taxable at 0% only.



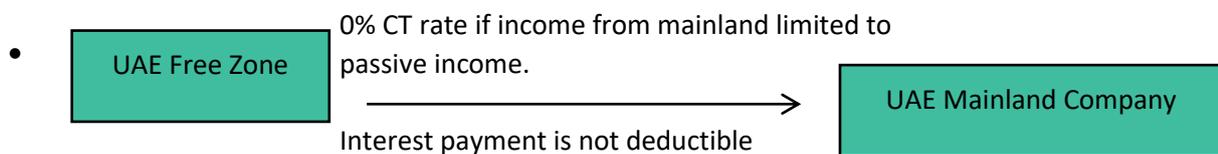
- Similarly, profit earned from trading with entities in another Free Zones in the UAE will also be taxed at 0%.



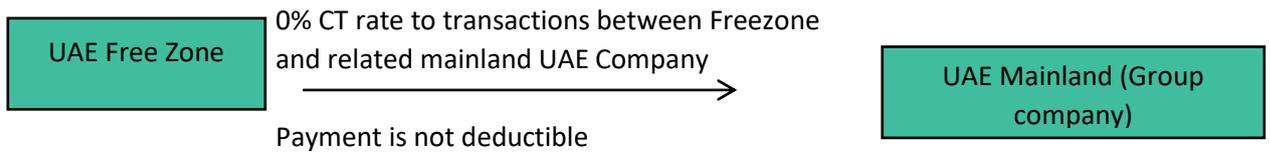
- Freezone person with mainland branch



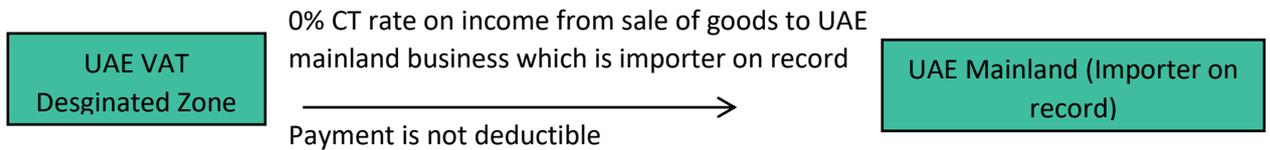
- Passive income from Mainland Company. The passive income includes interest, royalties and dividends, and capital gains from owning shares in mainland UAE companies.



- Transactions between freezone person and related mainland UAE company



- Freezone person located in a Designated zone for VAT



- PCD mentions that to prevent Free Zone businesses from gaining an unfair competitive advantage compared to businesses established in mainland UAE, any other mainland sourced income will disqualify a Free Zone Person from the 0% CT regime in respect of all their income.
- Freezone persons will also have an option to opt for 9% CT rate (irrevocable option)

CT REQUIREMENTS FOR FREEZONE PERSONS:

- Maintain adequate substance
- Comply with all regulatory requirements of freezones
- Audited financial statements
- Filing of Corporate tax return



Tax Holidays for some UAE Free Zones:

Freezone	Description	Tax holiday period	Source of information on tax holiday
Dubai Multi Commodity Centre (DMCC)	DMCC is one of the world's largest free trade zones, with more than 16,000 businesses registered in a wide range of industries and sectors, from agribusinesses, energy and financial services, to diamonds, gold and base metals.	50 years	DMCC website (www.dmcc.ae)
Dubai Airport Free Zone (DAFZ)	DAFZ was established in 1996. DAFZ is located within the boundary of Dubai International Airport. DAFZA is an ideal location for high-tech/IT products, luxury items, jewelry, light industry and activities related to the aviation industry.	15 years with option to extend for another 15 years	Media report - https://gulfnews.com/uae/tax-holiday-to-be-a-benchmark-1.439367
Dubai International Financial Centre (DIFC)	DIFC is a federal financial freezone, offering a platform of choice for leading financial institutions and service providers looking to do business in the region.	40 years	DIFC website (www.difc.ae)
Jebel Ali Free Zone (JAFZ)	JAFZ was established in 1985 and is located in the Emirate of Dubai. Jebel Ali was initially seen as the ideal base for multinationals to warehouse and distribute their products in the Gulf. Over the years, the range of industries has grown from distribution to include the whole spectrum of manufacturing, trading	50 years	JAFZ website (www.jafza.ae)

	and services and the market has grown to cover regions well beyond just the Middle East.		
Abu Dhabi Global Market (ADGM)	ADGM is a federal financial free zone located in Abu Dhabi that was established in 2013 as a strategic initiative of the Government of Abu Dhabi with a mandate to provide the physical, market and financial infrastructure required to establish Abu Dhabi as a global financial and business center.	50 years	ADGM website (www.adgm.com)

NEXT STEPS FOR FREEZONE PERSONS:

Freezone persons should analyse all their transactions to understand the CT impact as the impact may differ depending on the nature of transactions and also whether transactions are with a group company in mainland or with a third party.

Following action should be taken to prepare in advance for the CT implementation:

- Review the legal structure and business model of the freezone entities
- Analyze the business activities to understand what could be subject to 9% CT rate and what will be at 0% CT rate
- Adequacy of proper accounting records should be checked and also the requirement of audited financial statements should be looked into
- Adequacy of substance maintained should be looked into

Even though Free Zone companies might be subject to a 0% CT rate, they would still be within the scope of the UAE CT. Free Zone companies would be required to register for CT, file tax returns annually, maintain adequate substance and comply with all other regulatory requirements.



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