

UAE CORPORATE TAX LAW

CT Alert - 19 JULY 2023

Updated Frequently Asked Question (FAQs) for Free Zone Companies

The Ministry of Finance (MOF) has added/updated frequently asked questions (FAQs) on the Free Zone tax regime pursuant to the announcement made during the awareness sessions held last month. Updated FAQs are available at <https://mof.gov.ae/corporate-tax-faq/>.

A few important FAQs have been reproduced below for quick reference:

FAQ 118 [Where can I find the list of Free Zones that are part of the Free Zone CT regime?](#)
Contact your Free Zone Authority to confirm the eligibility of the Free Zone in which you operate for the 0% Corporate Tax rate.

FAQ 119 [Is there a difference between a Designated Zone and a Free Zone?](#)
A Designated Zone is a Free Zone that is recognised as a Designated Zone for UAE VAT purposes. Qualifying Free Zone Persons can benefit from the 0% CT rate on income derived from the wholesale distribution of goods or materials (i.e., not to the end consumer) from a Designated Zone to domestic and foreign businesses.

FAQ 122 [Can a foreign company benefit from the Free Zone Corporate Tax regime?](#)
Yes, a foreign company can register a branch in a Free Zone and benefit from the Free Zone CT regime in respect of the Qualifying Income that can be attributed to that Free Zone branch. Additionally, there are no ownership restrictions or requirements that would prevent a Free Zone company benefiting from the Free Zone CT regime if it was wholly or partially owned by a foreign person.

FAQ 129 [Are there any minimum investment or employment requirements in order to benefit from the Free Zone CT regime?](#)
No minimum investment, job creation or business expansion requirements are applicable as an eligibility for the 0 per cent rate. However, a qualifying free zone person must have adequate staff and assets and incur adequate operating expenditure in a free zone relative to the qualifying income it earns.

FAQ 131 [Does the Free Zone Corporate Tax regime apply automatically?](#)
Yes. A Qualifying Free Zone Person that continues to meet all relevant conditions will automatically benefit from the Free Zone Corporate Tax regime. There is no need to make an election or submit an application to the Federal Tax Authority.
A Qualifying Free Zone Person that does not want to benefit from the Free Zone Corporate Tax regime can elect to apply the standard UAE CT regime instead.

FAQ 140 [Will a Qualifying Free Zone Person need to file a Notification & Economic Substance Report?](#)
Further information on the transition from the existing Economic Substance Regulations after the UAE Corporate Tax regime comes into effect and any substance related reporting and compliance obligations for Qualifying Free Zone Persons will be provided in due course.

FAQ 151 [What is the relevance of being located in a Designated Zone for a distribution business?](#)
A Qualifying Free Zone Person that is established in a Free Zone that is a Designated Zone can earn Qualifying Income from the wholesale distribution (i.e., not to the end consumer) of goods and materials to domestic and foreign businesses.
A Qualifying Free Zone Person that is established in a Free Zone that is not a Designated Zone, on the other hand, can only earn Qualifying Income from the sale of goods and materials to other Free Zone Persons.

FAQ 152 [Will there be more guidance on the scope and meaning of each of the Qualifying Activities?](#)
More details and guidance regarding the scope and meaning of each Qualifying Activity will be provided as required in due course.

Key Takeaways

- As indicated, further guidance regarding the scope of each activity can be expected.
- As indicated, the ESR requirements are likely to undergo changes with the advent of CT.
- The updated FAQs serve as a valuable resource for free zone companies, helping them navigate the complexities of tax regulations & make informed decisions regarding their operations, ultimately enhancing their ability to anticipate & manage potential tax consequences.
- Failure to comply with tax regulations or meet eligibility requirements can have serious consequences, including the accumulation of tax arrears and penalties. Therefore, it is imperative for companies to actively pose relevant inquiries and seek the appropriate responses from authorities. By doing so, they can ensure compliance, minimize the risk of penalties, and maintain a healthy financial standing.

Disclaimer

The above seeks to summarise the update from the relevant authority. The same may not be construed to be a written opinion on matters that may require specific examination of the Decree on a case-to-case basis.

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