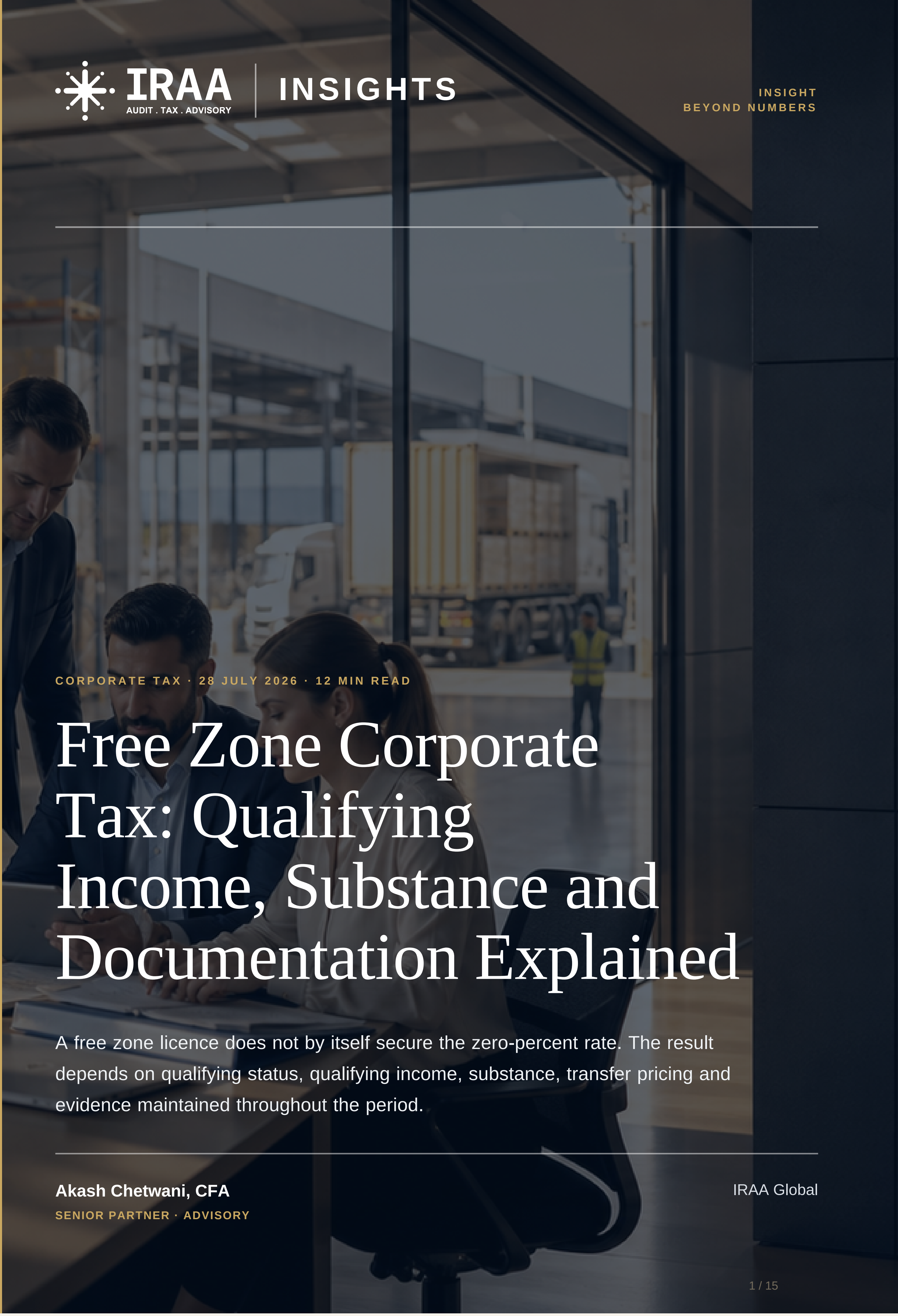

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# Free Zone Corporate Tax: Qualifying Income, Substance and Documentation Explained

A free zone licence does not by itself secure the zero-percent rate. The result depends on qualifying status, qualifying income, substance, transfer pricing and evidence maintained throughout the period.

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> A UAE free zone licence is an operating permission, not an automatic Corporate Tax exemption. The zero-percent rate is available to a Qualifying Free Zone Person only on Qualifying Income and only while all applicable conditions continue to be met.

This distinction matters because the business model, customer type, location of assets, employee activity, contracts and financial records can all affect the result. A company may be incorporated in a Free Zone and still have income taxed at 9%. It may also lose Qualifying Free Zone Person status if it fails a condition, with consequences that extend beyond the year in which the failure occurs.

## Free Zone Corporate Tax essentials

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| ZERO-PERCENT TREATMENT | A Qualifying Free Zone Person can benefit from 0% Corporate Tax on Qualifying Income. Other Taxable Income is generally subject to 9%. |
| DE MINIMIS LIMIT | Non-qualifying Revenue must generally not exceed the lower of AED 5 million or 5% of total Revenue, subject to the detailed exclusions and calculation rules. |
| FAILURE CONSEQUENCE | Failure to meet the conditions can cause the person to cease being a Qualifying Free Zone Person from the start of that Tax Period and for the following four Tax Periods. |

## Begin with the person, not the licence label

The Free Zone regime applies to a Free Zone Person, meaning a juridical person incorporated, established or otherwise registered in a Free Zone, including a branch of a non-resident person registered there. The first task is to confirm the legal entity, its licences, its locations and whether each establishment forms part of the same Taxable Person.

Management should not rely on marketing descriptions such as “tax free” or on the treatment that existed before the UAE Corporate Tax regime. The Corporate Tax Law, Cabinet and Ministerial Decisions, FTA Decisions and official guidance determine the result. The Free Zone authority can confirm licence and geographic matters, but the Taxable Person remains responsible for its Corporate Tax position.

## Understand the conditions for qualifying status

Article 18 of the Corporate Tax Law sets the framework. A Qualifying Free Zone Person must maintain adequate substance in the UAE, derive Qualifying Income, not elect to be subject to the ordinary Corporate Tax rules, comply with the arm’s-length principle and transfer pricing documentation requirements, and satisfy other conditions prescribed by the Minister.

Ministerial Decision No. 229 of 2025 also requires the non-qualifying Revenue to remain within the de minimis limit and requires audited financial statements in accordance with the applicable Ministerial Decision. The FTA’s 2026 legislation list includes Decision No. 6 of 2026 on additional procedures for the compliance of a Qualifying Free Zone Person. Businesses should therefore review the current legislation and filing instructions for the relevant Tax Period rather than using an old checklist.

These are continuing conditions. A company does not establish eligibility once and keep it indefinitely. New activities, customers, assets, contracts or premises can change the analysis during the year.

## Map Revenue by transaction and counterparty

The term Qualifying Income is defined through the Corporate Tax Law and Cabinet decisions. Broadly, the analysis considers income from transactions with other Free Zone Persons, income from transactions with Non-Free Zone Persons arising from Qualifying Activities, and certain other income, while applying exclusions and special rules.

The business should map Revenue at transaction level. For each stream, identify the legal counterparty, its status, activity performed, place of performance, relevant asset, contract and amount. A customer address or invoice description is not always enough to establish whether the counterparty is a Free Zone Person or whether the activity is qualifying.

Revenue from a domestic or foreign Permanent Establishment and certain income connected with immovable property are subject to specific treatment. They should be separately identified rather than blended into a general “free zone sales” account.

## Know the qualifying and excluded activities

Ministerial Decision No. 229 of 2025 replaced Ministerial Decision No. 265 of 2023 and clarified the scope of Qualifying Activities and Excluded Activities. Qualifying Activities include specified manufacturing, processing, holding, shipping, regulated fund and wealth-management activities, headquarters services, treasury and financing services, aircraft financing and leasing, logistics, distribution from a Designated Zone and related ancillary activity, provided the detailed conditions are satisfied.

The 2025 changes expanded and clarified Qualifying Commodity Trading to cover specified metals, minerals, industrial chemicals, energy and agricultural commodities and associated by-products where the required quoted price exists. They also clarified treasury and financing services, including self-investment for the taxpayer’s own account.

Excluded Activities include specified transactions with natural persons, certain regulated financial activities, ownership or exploitation of immovable property and intellectual-property income, subject to the exceptions and detailed wording in the Decision. A business must test the exact transaction. It is unsafe to conclude that an entire industry is qualifying because one activity within it appears on the list.

> *Free Zone eligibility follows the income and the operating facts. It does not follow the trade licence description alone.*

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## Monitor the de minimis threshold continuously

A Qualifying Free Zone Person can earn a limited amount of non-qualifying Revenue without immediately failing the regime. The de minimis requirement is generally satisfied when non-qualifying Revenue does not exceed the lower of AED 5 million or 5% of total Revenue for the Tax Period.

The calculation contains exclusions. Certain Revenue attributable to a domestic or foreign Permanent Establishment and specified immovable-property Revenue are not included in the numerator or denominator because their associated Taxable Income is dealt with separately. The detailed rules should be applied to the actual ledger.

Do not wait until year-end. A monthly dashboard should show qualifying Revenue, non-qualifying Revenue, excluded amounts and headroom under both limbs of the threshold. A single large contract can change the result, and the commercial team should understand the tax consequence before the contract is signed.

## Demonstrate adequate substance

A Qualifying Free Zone Person must undertake its core income-generating activities in a Free Zone or Designated Zone, depending on the activity. It must maintain adequate assets, an adequate number of qualified full-time employees and an adequate amount of operating expenditure in relation to the activities performed.

Outsourcing is possible within the prescribed framework, but the Qualifying Free Zone Person must have adequate supervision and the outsourced activity must be conducted in the relevant permitted area. Substance is therefore an evidence question. Useful records include employee roles and work locations, payroll, leases, asset registers, operating expenditure, decision records, service-provider agreements, supervision evidence and activity-level financial information.

Board meetings in the UAE do not, by themselves, prove that the core activity is carried on here. The substance file should show where the people who create the income actually work, what they do and how the company controls the process.

## Apply transfer pricing and maintain segmented accounts

The arm’s-length principle applies to transactions with Related Parties, and a Qualifying Free Zone Person must comply with the applicable transfer pricing documentation requirements. Intercompany services, financing, distribution arrangements, intellectual property and cost allocations should be priced and evidenced consistently.

Segmented financial information is essential. The company should be able to distinguish Qualifying Income, Taxable Income subject to 9%, Permanent Establishment results, immovable-property income and non-qualifying Revenue used for the de minimis calculation. Shared costs need a reasonable allocation method. Without segmentation, the return can become dependent on unsupported year-end estimates.

## Prepare for an audited financial statement requirement

Ministerial Decision No. 229 of 2025 links qualifying status to audited financial statements under the applicable rules. Audit readiness should begin with the opening balances and continue through the year. Management must provide a complete ledger, reconciliations, supporting documents and clear Revenue segmentation.

The statutory audit and the Corporate Tax analysis serve different purposes, but they rely on the same underlying data. Engage the auditor and tax adviser early enough to resolve classification and evidence issues before the filing deadline.

## Operate a Free Zone control file

| | |
|---|---|
| 01 | **Entity:** Confirm the legal Free Zone Person, branches, licences and locations. |
| 02 | **Revenue:** Classify each material stream by counterparty, activity and applicable rule. |
| 03 | **Threshold:** Monitor non-qualifying Revenue against both de minimis limits monthly. |
| 04 | **Substance:** Retain evidence of people, assets, expenditure, premises and supervision. |
| 05 | **Pricing:** Apply arm’s-length terms and reconcile related-party transactions. |
| 06 | **Accounts:** Maintain segments that support each tax-rate and income category. |

| | |
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| 07 | **Audit:** Plan the financial statement audit and tax review well before filing. |

The commercial decision comes first. Some businesses may decide that operational flexibility under the ordinary Corporate Tax regime is more valuable than preserving Qualifying Free Zone Person status. The law allows a Free Zone Person to elect to be subject to the standard rules, but that decision has consequences and should be modelled before it is made.

For companies seeking the Free Zone benefit, the objective is consistency: the licence, people, premises, contracts, invoices, ledger and tax return should describe the same qualifying business. When they do, the position becomes easier to manage and explain. When they do not, the zero-percent assumption can become a material risk.

# Official sources

**SOURCE CHECK** Official UAE government references. Links verified 4 August 2026.

1. **UAE Ministry of Finance: Ministerial Decision No. 229 of 2025**
2. **UAE Ministry of Finance: 2025 Free Zone Corporate Tax Update**
3. **Federal Tax Authority: Corporate Tax Guide on Free Zone Persons**
4. **Federal Tax Authority: Corporate Tax Legislation**

Online edition: **https://iraaglobal.com/insights/uae-free-zone-corporate-tax-qualifying-income-substance/**

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1. Confirm the responsible legal entity and registration position.
2. Reconcile the accounts, tax adjustments and supporting evidence.
3. Document ownership, review and approval before filing.

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