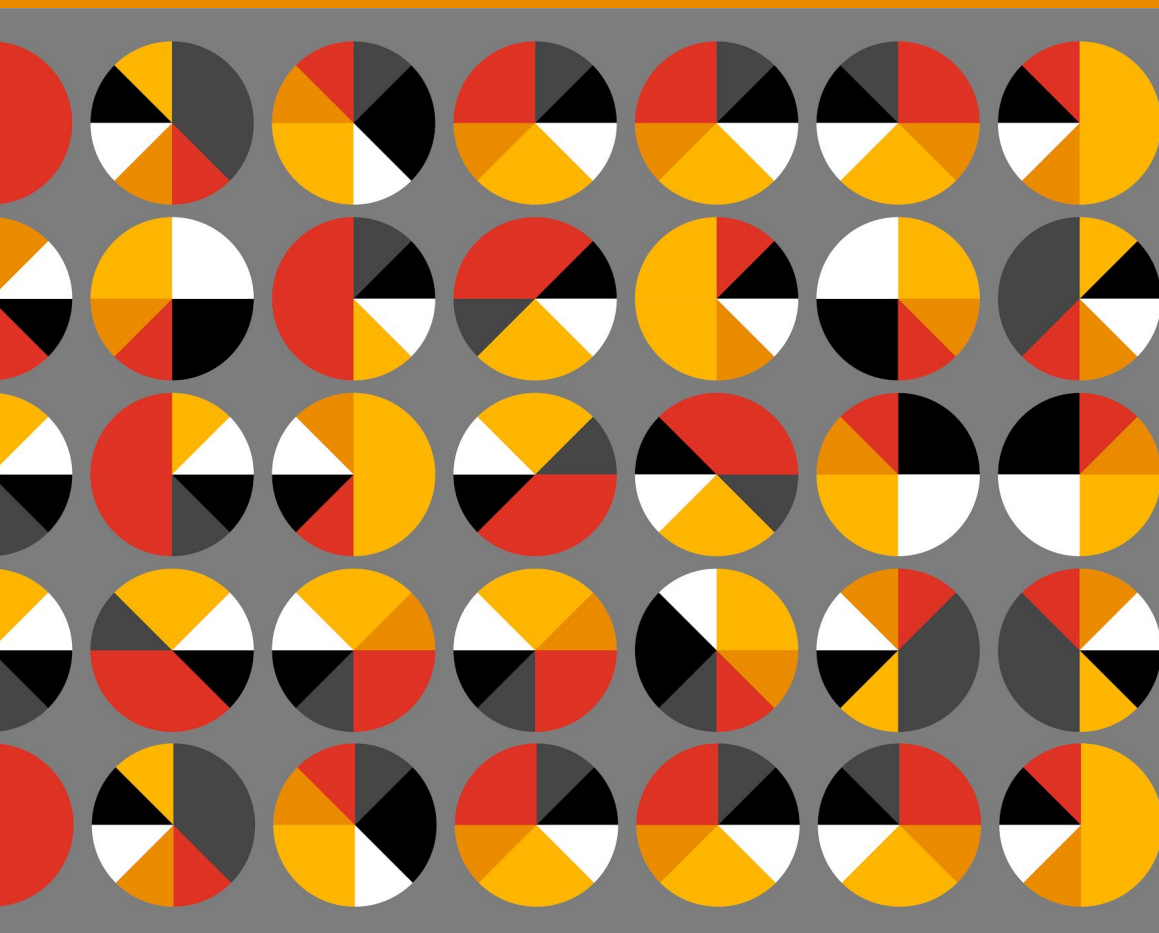


UAE: New customs compliance requirements in Dubai free zones

October 2020



In brief

On 22 October 2020, Dubai Customs issued Customs Notice No. 17/2020 to enhance the control of the stock maintained by businesses operating in Dubai free zones, establishing new compliance requirements to ensure the clearance of goods consumed or used within the free zones. The new rules entered into force on 25 October 2020, and include a mandatory “consumption goods” declaration to be submitted at least on a quarterly basis. Businesses established in both fenced and unfenced free zones are encouraged to assess the impact of the new requirements on their activities to avoid potential penalties in case of a customs audit.

In detail

On 22 October 2020, Dubai Customs issued Customs Notice No. (17/2020) to implement new controls on goods consumed or used within Dubai free zones. A new set of customs procedures has been introduced to improve control, simplify the clearance process, and reduce the risk of penalties for businesses in the event of a customs audit.

Types of goods consumed in free zones: non-dutiable vs. dutiable

The new rules segregate the goods consumed/used in free zones into two categories: non-dutiable (i.e. goods that are not subject to customs duty when consumed/used) and dutiable (goods that are subject to customs duty when consumed/used), as follows:

- **Non-dutiable goods:** goods consumed/used for the establishment, operation and maintenance of projects and facilities (i.e. for the operation of a business), and for the production of goods and services within the free zones. **Examples** include:
 - Building equipment and materials used in construction projects
 - Packaging materials
 - Machinery, equipment and spare parts necessary for the operation and maintenance of facilities
 - Petrol, oil, lubricants and materials used in manufacturing and operations conducted within the free zones
 - Office equipment and supplies, and laboratory devices and equipment for scientific research
 - Damaged materials, waste and similar goods that are not suitable for sale, use or recycling
- **Dutiable goods:** goods sold to the local market, whether at wholesale or retail level within the free zones, or goods consumed/used in cases other than those specified for non-dutiable goods. **Examples** include:
 - Electronics, tires, perfumes, foodstuff, etc. sold to the local market
 - Damaged or worn items, oil residues from vessels and factories or recycling waste that is suitable for sale, use or recycling

How to declare goods consumed/used within free zones to Dubai Customs in order to comply with the new requirements

All free zone businesses that consume, use or sell the goods described in the Dubai Customs Notice No. (17/2020) shall follow a specific customs procedure, which includes the submission of a request for approval to the customs office responsible for the relevant free zone. It is important to note that the goods to be consumed/used may be subject to inspection and/or additional controls.

The new customs procedure includes the mandatory submission of a “**consumption goods**” declaration to report to Dubai Customs the consumption/use of both non-dutiable and dutiable goods. This new declaration shall be submitted at least on a quarterly basis, and shall be accompanied by the following documents:

- Invoices, including the value of the goods for customs purposes
- Customs inspection report, if applicable
- Approvals and required reports from the competent authorities
- Any other documents that may be requested by Dubai Customs

The new compliance and reporting obligations detailed in this document came into force on 25 October 2020, and are applicable to all businesses conducting economic activities in the Dubai free zones, both fenced and unfenced.

The takeaway

The new rules to declare goods consumed or used by free zone businesses represent a landmark decision taken by Dubai Customs to further control the stock of this particular type of goods, with the ultimate goal of ensuring that adequate customs clearance procedures (and payment of customs duty, where applicable) are followed according to the customs rules and regulations.

As Dubai Customs enhances its audit controls, it is critical that businesses urgently assess the impact of the new rules on their business activities and are ready for further scrutiny. A strong customs function within the organization will help free zone companies navigate the Dubai Customs' inventory tracking and customs reporting requirements, and ensure readiness in case of a potential audit.

It is important to remember that while goods are not generally subject to customs duty in Dubai free zones, non-compliance with the described procedures may lead Dubai Customs to impose penalties and levy customs duty on goods that are not properly reported and accounted for.

Let's Talk

For a deeper discussion of how this issue might affect your business, please contact:

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