

Updated UAE Corporate Tax Rules for Free Zones - Cabinet and Ministerial Decisions Released on 3 November 2023

Key Takeaways



November 2023



New Decisions on Free Zones

The previously issued **Cabinet Decision No 55** of 2023 and **Ministerial Decision No. 139** of 2023 regarding UAE Free Zones (FZ) have been **repealed and are now replaced by**:

- **Cabinet Decision No. 100** of 2023 on Determining Qualifying Income (QI) for the Qualifying Free Zone Person (QFZP); and
- **Ministerial Decision No. (265)** of 2023 Regarding Qualifying Activities (QA) and Excluded Activities (EA) for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (hereinafter referred to as the "CT Law").

Both new Decisions came into effect on **1 June 2023**.

Key highlights

The new Decisions have incorporated important additional rules and clarifications for FZ entities. We have summarised some initial insights below:

- Definition of Qualifying Income expanded to include 'Income derived from the ownership or exploitation of Qualifying Intellectual Property'. The inclusion of this definition seems to be targeted for companies who generate income from intellectual property but not trademark royalty, and actually carry out research and development themselves or via 3rd parties.
- Definition of Qualifying Activities expanded to include 'Trading of Qualifying Commodities', meaning the physical trading activities of Qualifying Commodities and associated derivative trading. Commodities must be traded on a commodity exchange. This activity can be carried out at any FZ approved for CT, not just Designated Zones.
- For the purposes of FZ substance requirements, core income-generating activities (that are to be undertaken in the FZ) were explained to mainly consist of those significant functions that drive the business value for each activity carried out by a QFZP and are not exclusively or mostly support activities.
- The Qualifying Activity of 'Holding of shares and other securities' was changed to 'Holding of shares and other securities for investment purposes'. The Decision clarifies that investment purposes means holding for an uninterrupted period of at least 12 months.
- The meaning of 'Headquarter Services to Related Parties' explained to include the administering, overseeing and managing of Business Activities of Related Parties, including the provision of senior and general management, captive insurance services, administrative services, procurement services, business planning and development, risk management, coordination of group activities, and in general incurring expenditures on behalf of Related Parties and providing other support services to Related Parties.
- The meaning of 'Ownership, management and operation of Ships' explained to also include towing activities and the provision of general assistance to Ships at sea, dredging activities at sea.
- Reference to 'incidental' income as part of Qualifying Income removed. 'Ancillary' activity being part of a Qualifying or Excluded Activity defined as an activity where it serves no independent function but is necessary for the performance of the main Activity.
- Other Qualifying Activities were also explained, in line with the Public Consultation Document issued in July 2023.

Next steps

As this legislation is fresh off the press, we are in the process of analyzing its implications and gaining a comprehensive understanding of its provisions. Our team is working to gather all the necessary information, interpret the changes, and assess their impact.

If you have any urgent questions or concerns related to this new legislation, please do not hesitate to reach out to your PWC UAE CT team contact or via CT.UAE@pwc.com. Our team is ready to assist you.

New Decisions on Free Zones

PwC UAE Corporate Tax team



Camiel Van der Meij
Senior Executive Advisor
UAE CT Leader



Driaan Ruppung
Partner
UAE CT



Charles Collett
Partner
UAE CT



David van der Berg
Director
UAE CT



Muzaffar Salaev
Director
UAE CT

Scan the code to
know more





Thank you



www.pwc.com/me

©2023 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.