



## Corporate Tax in the United Arab Emirates (UAE) and the requirements for Free Zone Companies

– What Free Zone Businesses need to know! –

The UAE introduced its first-ever federal **Corporate Tax (CT)** effective from **1 June 2023**, marking a significant shift in the region's tax landscape. While the standard tax rate is **9%**, businesses established in **Free Zones** can still benefit from a **0% tax rate** – but only if strict conditions are met.

### Who must comply?

All businesses, including **Free Zone Persons (FZPs)**, must:

- **Register** with the **Federal Tax Authority (FTA)**,
- **File annual corporate tax returns**,
- Maintain **accurate financial and tax records**.

Even if your business expects a 0% tax liability registration and compliance with reporting requirements remain mandatory.

### What is a Qualifying Free Zone Person (QFZP)?

A **QFZP** is a Free Zone business that meets the following criteria:

- Is **incorporated in a UAE Free Zone**
- Maintains **adequate substance** (e.g. staff, office, operations)
- Earns **Qualifying Income** from permitted activities
- Has **not elected** to be taxed at the standard 9% rate
- Complies with **transfer pricing rules and documentation**

### What qualifies for the 0% Tax Rate?

**Qualifying Income** includes:

- Transactions with **other Free Zone entities**
- Export of goods/services to **foreign customers**
- Certain activities like **manufacturing, logistics, IP management, fund administration**
- **Passive income** such as dividends or capital gains from shares

### What is taxed at 9%?

Certain income streams are subject to the standard 9% tax, including:

- Dealing with **mainland UAE customers**, unless part of qualifying activities
- **Excluded activities** (e.g. banking to individuals, property rentals to non-Free Zone entities)

Important to know: A **de minimis rule** applies - if non-qualifying income exceeds **AED 5 million** or **5% of total revenue** (whichever is lower), the company **loses its 0% status** for that tax year.

### Key compliance requirements for Free Zone Businesses

To maintain tax benefits and avoid penalties, Free Zone entities must:

- File their Corporate Tax returns within **9 months** of the financial year-end

- Prepare **audited financial statements** if revenue exceeds AED 50 million or when claiming QFZP status
- Maintain **transfer pricing documentation** for related-party transactions
- Monitor income streams closely to distinguish qualifying vs. non-qualifying revenue

### **Final Note!**

The UAE's Corporate Tax framework offers Free Zone businesses an attractive 0% tax rate, but only if they strictly adhere to substance, income, and compliance rules. Staying informed and organized is crucial to maximizing tax benefits and maintaining compliance.

If you and your business **need help navigating the UAE Corporate Tax system**, [contact us](#) for tailored advice and support.

Dubai, July 2025

Verena Nosko

#### **Contact Info**

Park Place Tower,  
Office No. 503,  
P.O. Box 9353,  
Dubai,  
United Arab Emirates

+971 4 331 7110  
+971 506449026  
[dubai@meyer-reumann.com](mailto:dubai@meyer-reumann.com)

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