

Dear Valuable Client,

Please be informed that on 9 December 2022, the UAE Ministry of Finance ("MoF") published the full text of the law Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the "Corporate Tax Law", the "Law").

This means that **companies licensed by the Economic Department** will be subject to UAE Corporate Tax ("Corporate Tax") from the beginning of their first financial year that starts on or after 1 June 2023. Per the Cabinet of Ministers Decision No. 116 published on 16 January 2023, a standard rate of 9% (nine percent) will apply to taxable income exceeding a threshold of AED 375,000, and a rate of 0% (0 percent) will apply to taxable income not exceeding that threshold.

For companies licensed by any Free Zone Authority the cabinet Decision No 55 of 2023 was issued on 30 May 2023 on Determining Qualifying Income for the Qualifying Free Zone Person 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").

Moreover, the Ministry of Finance issued on 1 June 2023 the Ministerial Decision No. 139 of 2023 regarding Qualifying Activities and Excluded Activities the Purposes of the the CT Law.

The UAE CT Law states that a Qualifying Free Zone Person ("QFZP") will be taxed at the following rates:

0% (zero percent) on **Qualifying Income**.

9% (nine percent) on Taxable Income that is not Qualifying Income.

"Qualifying Income" include:

Income derived from transactions with other Free Zone Persons, except for income derived from **"Excluded Activities"**.

Income derived from transactions with a Non-Free Zone Person, but only in respect of **"Qualifying Activities"** that are not **Excluded Activities**.

Any other income provided that the QFZP satisfies the **de minimis** requirements (5% of total revenue or AED5,000,000, whichever is lower).

Excluded Activities include the following:

Transactions with natural persons (subject to certain exceptions under Qualifying Activities related to shipping and aircrafts plus fund, wealth and investment management);
Regulated banking, finance, leasing and insurance activities;
Ownership or exploitation of intellectual property assets, and
Ownership or exploitation of immovable property, except for transactions with Free Zone Persons in relation to commercial property located in a Free Zone.

Qualifying Activities include the following:

Manufacturing and processing of goods or materials;
Holding of shares and other securities;
Ownership and operation of ships;
Regulated reinsurance and fund /wealth management;
Headquarter and financing services to related parties;
Financing and leasing of aircraft, logistics and
The distribution of goods in or from a designated zone subject to certain conditions.

So, there is no consideration as to whether the revenue is derived from onshore or offshore – what matters is the **activity** and/or whether it is derived from **other companies in Free Zones**.

This will mean that many Free Zone companies will not qualify for the exemption.

· IMPORTANT ·

If a company does not qualify for the Free Zone tax exemption, they will still be able to utilise the Small Business Relief rule which will apply in Tax Periods ending on or before 31 December 2026. This rule provides a tax exemption for a company earning less than **AED 3ML in revenue/turnover**.

It's also possible for a Free Zone person to make an election to be subject to the regular Corporate Tax rate.

Please note that a business subject to Corporate Tax must register with The Authority and obtain a Tax Registration Number at the earliest.

Please confirm your availability for a video conference call to discuss the next steps that need to be taken for your company to comply with the new law.

Best regards,

KeyStrategy UAE Team