

Technical Discussion on UAE Tax & Recent Updates





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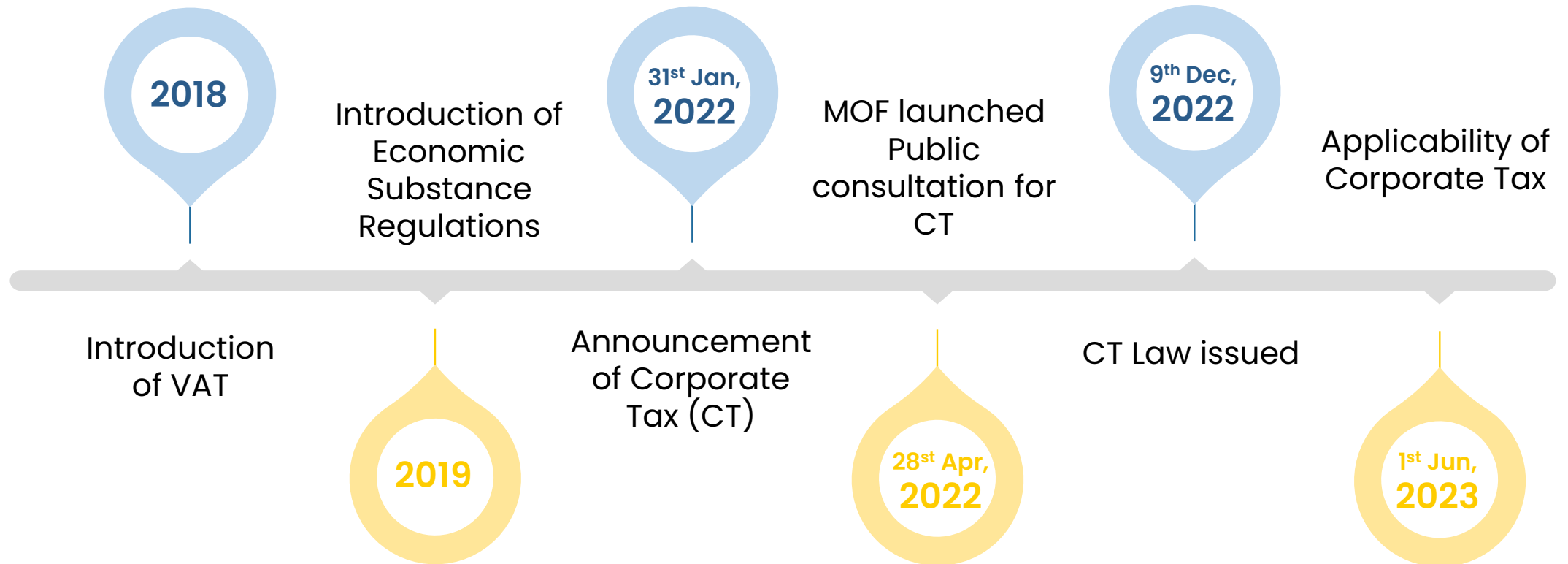
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Insights into the guidance released on Free Zone Persons

Basis of Taxation



Tax Regime - UAE



Effective Dates

The CT Law will apply to businesses on tax periods on or after **1st June, 2023**

Serial Number	Financial Year	Corporate Tax Effective for the first Time for the year Starting
1	January - December	1 January 2024
2	April - March	1 April 2024
3	July - June	1 July 2023

CT Rates

Individuals and Juridical Persons

Taxable Income	Applicable Tax Rate
Up to AED 3,75,000	0%
More than AED 3,75,000	9%

Qualifying Free Zone Persons

Taxable Income	Applicable Tax Rate
On Qualifying Income	0%
Non-Qualifying Income	9%

Taxable Persons

Residents

- ❖ Legal persons **incorporated or established** in the UAE, including Free Zones
- ❖ Natural persons who conduct a **business or business activity** in the UAE
- ❖ Foreign entities effectively **managed and controlled** in the UAE

Non-Residents

Foreign entities –

- ❖ Having a **Permanent Establishment (PE)** in the UAE
- ❖ Earning **State sourced income**
- ❖ Having a **nexus** in the UAE

Basis of Taxation

Residence based CT regime

UAE Residents will be taxable on their **worldwide** income.

However, for a natural person, the scope will be limited to the income earned from their business or business activity (to be specified in the Cabinet decision)

Non-residents will be taxable on-

- ❖ Income attributable to their **PE** in the UAE, or
- ❖ **State-sourced income** not attributable to a PE
- ❖ Income attributable to the **nexus** of the Non-resident.

Place of Effective Management (POEM)



POEM International Perspective

- ❖ Internationally, the concept of PoEM for determining the residency of a company is not new. For instance, countries like Switzerland, Germany, China, South Africa, Italy, Russia, etc. have PoEM as one of the criteria for determining the residency of a company.
- ❖ The **OECD and UN commentary** have also provided clarification and definition on the concept of PoEM.
- ❖ If a foreign company is found to have its PoEM in a country, it will have its own set of tax complications.

Effective Management and Control under UAE CT Law

As per CT Law

Juridical persons that are incorporated, or otherwise established or recognized under the laws of a foreign jurisdiction, but that are effectively managed and controlled in the UAE, will be considered as Resident Persons for Corporate Tax purposes.

As per Explanatory Guide

Key factor for determination of tax residence is where the key management and commercial decisions concerned with broader strategic and policy matters necessary for the conduct of the company's business as a whole are regularly and predominantly made i.e. ordinarily a place where Company's Board of Directors make these decisions

Note:-For a juridical person to be considered effectively managed and controlled in the UAE, it is not necessary for its board members (or equivalent) to be domiciled or resident in the UAE.

Implications of POEM

Key Implication

If a foreign company is treated as **effectively managed and controlled in the UAE then :**

1. It will be treated as a **UAE Tax resident** and accordingly has to file a Corporate Tax return by complying with the Corporate Tax Law
2. Worldwide income will be **subject to Tax @9%**.
3. Such Company will be subject to **Dividend and Capital Gain exemption** (Participation Exemption apply)
4. **Transfer pricing** rules apply
5. It can avail **Foreign Tax Credit** against the Taxes that it paid in an overseas jurisdiction

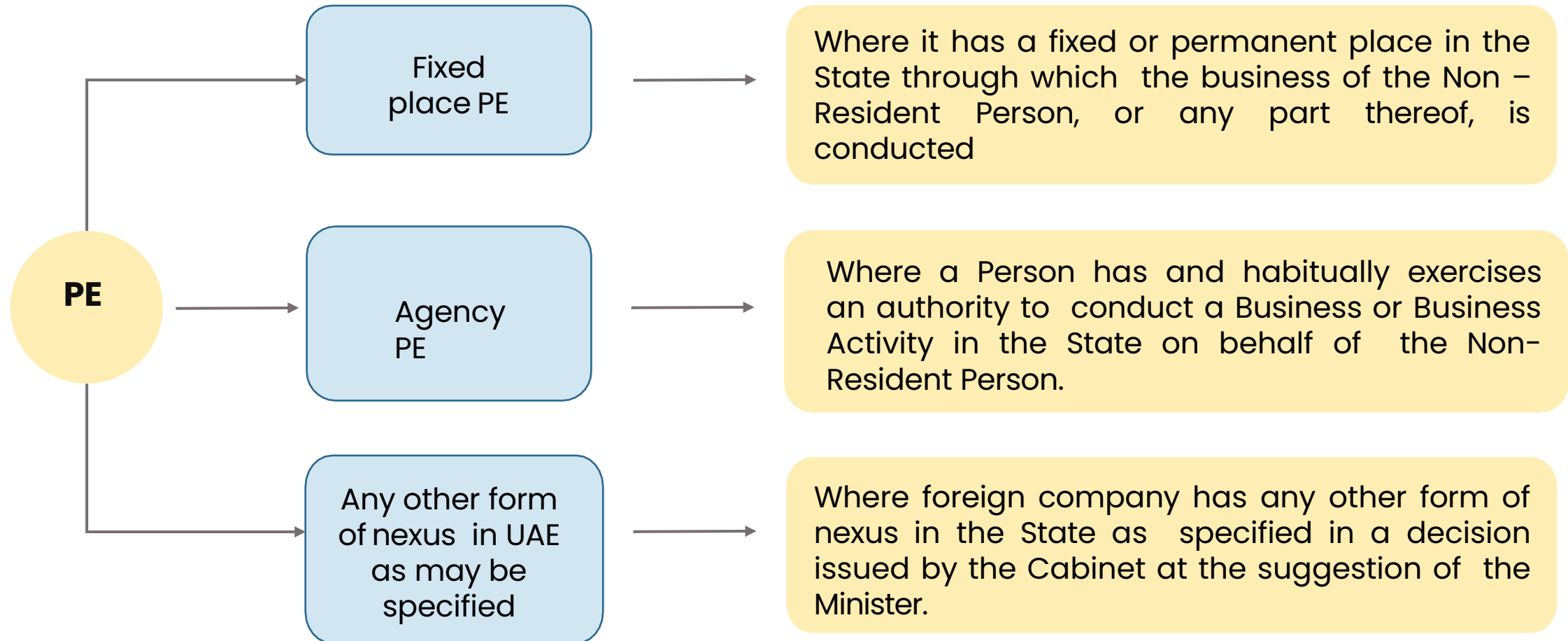
Permanent Establishment (PE)



PE in UAE Corporate Tax Law

- ❖ The CT regime in UAE may result in **taxing foreign companies** that conduct trade or business in the UAE through a PE.
- ❖ The concept of PE is generally a concept applied through **DTAA, while this has been incorporated in the CT law itself**
- ❖ The creation of a **PE for a foreign company** in the UAE will result in **UAE Tax obligations**.

Types of PE



Fixed Place PE

Non Resident Person has a fixed place **PE if-**

Following **two indicators** will help in determining whether fixed place PE exist or not

(A)

There must be a fixed or permanent place in the UAE

&

(B)

There must be a Business conducted through that fixed or permanent place

It is also not required that the fixed place is owned or used exclusively by the Non Resident Person or is at the disposal of the Non Resident Person for an extended period of time

Fixed Place PE as per UAE CT Law

A Fixed or permanent place in the State includes

01

A mine, an oil or gas well, a quarry or any other place of extraction of natural resources, including vessels and structures used for the extraction of such resources.

02

An installation or structure for the exploration of renewable or non renewable natural resources.

03

Land , Building and other real estate property

04

Workshop

05

A Place of Management where management and commercial decisions that are necessary for the conduct of the Business are , in substance, made

06

An Office

07

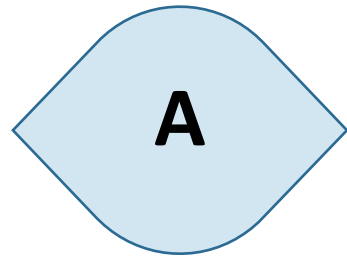
A Branch

08

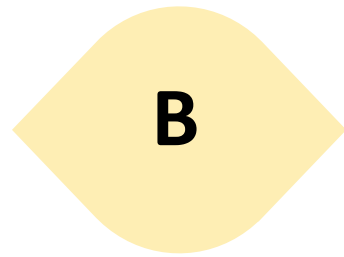
A Factory

Specific Exclusions – Fixed Place PE

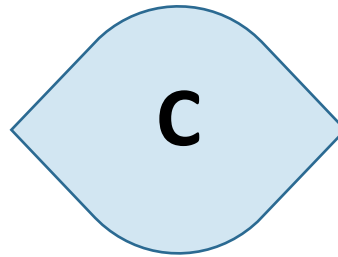
UAE Corporate Tax law contains a **list of following activities** which taken in isolation **do not amount to a PE** of the Non resident person, similarly to the exclusionary provision of the OECD MC :-



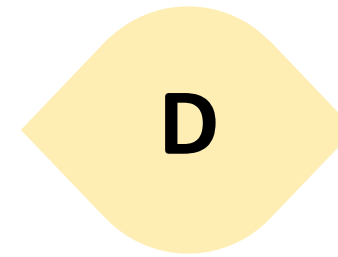
Storing, displaying or delivering of goods or merchandise belonging to that person.



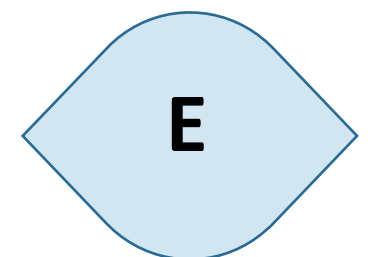
Keeping a stock of goods or merchandise belonging to that person for the sole purpose of processing by another person.



Purchasing goods or merchandise or collecting information for the Non – Resident Person.



Conducting any other activity of a **preparatory or auxiliary nature*** for the Non Resident Person.



Conducting any combination of activities mentioned in paragraphs (a), (b),(c) and (d) provided that the overall activity is of preparatory or auxiliary nature.

Preparatory Activities means an activity undertaken for a shorter period of time before the main activity is carried out

Auxiliary Activities means an activity to support the essential or significant part of the activity of the enterprise

Construction or Installation PE

A Fixed or permanent place in the State also includes :-

A **building site, a construction project or place of assembly or installation or supervisory activities** in connection therewith, but only if such site, project or activities, whether separately or together with other sites, projects or activities **last more than 6 months** including connected activities that are conducted at the site or project by one or more Related Parties of the Non – Resident Person.

Fixed Place PE – Anti-Fragmentation Rule

Specific exclusion provision does not apply to a fixed or permanent place in the State that is used or maintained by a Non – Resident Person if the same Non-Resident Person or its Related Party carries on a Business or Business activity at the same place or at another place in the State **where all of the following conditions are met:-**

- A. Where the **same place or the other place constitutes a Permanent Establishment** of the Non – Resident Person or its Related Party.
- B. The **overall activity resulting from the combination of the activities** carried out by the Non- Resident Person and its Related Party at the same place or at the two places **is not of a preparatory or auxiliary nature** and **together would form a cohesive Business operation**, had the activities not been fragmented.

If all of the above conditions are met, then Permanent Establishment (PE) exists and therefore, any income attributable to PE in UAE will be subject to Corporate Tax

Agency PE

A Person shall be considered as having and habitually exercising an authority to conduct a Business or Business activity in the State on behalf of a Non Resident Person if any of the following conditions are met :

- **The Person habitually concludes contracts on behalf of the Non Resident Person**
- **The Person habitually negotiates contracts that are concluded by the Non – Resident Person without the need for material modification by the Non Resident Person.**

This **Agency PE rule shall not apply where the Person conducts a Business or Business Activity in the State as an Independent Agent and acts for the Non Resident Person in the ordinary course of that Business or Business Activity**, unless the Person acts exclusively or almost exclusively on behalf of the Non Resident Person, or where that Person cannot be considered legally or economically independent from the Non Resident Person.

Key Factors in determining Agency PE

Factors in determining Agency PE :-

- Is agent having a status of **Independent Agent**
- Is agent acting in **ordinary course of business**
- Are activities **exclusively or almost exclusively** performed by Agent on behalf of Non Resident Person
- Is Agent **negotiates the contracts** on behalf of Non Resident Person
- **Mere attention or participation in the negotiation** of a contract by a Person in the UAE would generally, by itself, **not trigger a Permanent Establishment.**
- PE of Non Resident Person would arise **regardless** of whether the **contracts are concluded in the name of Non Resident Person or in the name of relevant Person.**

Non-Resident Person's Nexus in the UAE

As per Cabinet Decision No. 56 of 2023, any juridical person that is a Non Resident Person shall have a nexus in the State if it earns income from any Immovable Property in the State.

Foreign Companies and other overseas juridical persons will be subject to **Corporate Tax** on income derived from **Immovable Property located in UAE**

Foreign Companies will be required to **register** in the UAE for Corporate Tax purpose and need to obtain a Tax Registration Number.

This applies to both immovable property that is **held or used in a business** or immovable property that is held for **investment purposes** in the UAE

Differences in the PE definition

Corporate Tax Law	OECD Model Tax Convention
<p>1. Definition of Fixed Place PE includes–Place of Management where management and commercial decisions that are necessary for the conduct of the business are ,in substance made. As per Explanatory Guide , decisions related to day to day operations of the business.</p>	<p>1. Place of Management</p>
<p>2. It is also not required that the fixed place is owned or used exclusively by the Non-Resident Person or is at the disposal of the Non-Resident Person for an extended period of time.</p>	<p>2. Fixed place should be at the disposal of the Non-Resident Person.</p>
<p>3. 6 months threshold for a 'Construction PE'.</p>	<p>3. 12 months threshold for a 'Construction PE' .</p>
<p>4. Anti-fragmentation provisions exist in CT law.</p>	<p>4. Anti-fragmentation not provided</p>
<p>5. Services PE specifically not defined but employees covered under Agency PE</p>	<p>5. Service PE specifically defined</p>
<p>6. A 'Nexus PE' included specifically</p>	<p>6. A 'Nexus PE' has not been provided</p>

FOREIGN TAX CREDIT (FTC)



FTC

- Foreign source income, for the purposes of the CT Law, is any income which is originated in a foreign jurisdiction and is earned or received by a Person in the UAE.
- The income which is subject to UAE CT in the hands of a Taxable Person depends on that Person's legal status (i.e. juridical person or natural person), and their residence status (i.e. Resident Person or Non-Resident Person).
- The residence status together with the legal status determine
 - (a) whether foreign source income is subject to CT in the hands of a Taxable Person, and
 - (b) the extent to which such income is subject to CT.

CT Treatment of FTC

TREATMENT

CT Payable may be reduced by any available Foreign Tax Credit for the same Tax Period.

FTC is the amount of foreign taxes paid on foreign-sourced income which has not been exempted.

In order to apply for FTC, the pre-tax **foreign income must be included in the Taxable Income** of the UAE Resident Person.

FTC can then be deducted from the amount of CT Payable.

The amount of FTC cannot exceed the amount of CT due on the foreign source income, and any FTC cannot be carried forward

Calculation of FTC

The amount of FTC to be claimed shall be **lower** of the following:-

- The actual **amount of tax paid** on foreign source income in the foreign jurisdiction, or
- The **CT due on foreign source income** determined on a weighted average basis.

**CT due on the total
Taxable Income of the
Taxable Person before
any FTC**

×

**Relevant foreign source
income**

**Total Taxable Income
of the Taxable Person**

Illustration

Particulars	Amount in AED
Company A, net taxable Income during the relevant Tax Period	10,000,000
Net Interest income earned from Country X, i.e. foreign source income	1,000,000
In Country X, Company A has paid withholding tax	50,000

What shall be calculation of Corporate Tax Payable and Foreign Tax Credit?

Illustration

Particulars	Amount in AED
Taxable Income (including foreign source income of AED 1 million)	10,000,000
Corporate Tax due on Taxable Income [(10,000,000 - 375,000) * 9%]	866,250
Less: Foreign Tax Credit: [lower of the following:- • AED 50,000 (being the actual amount of foreign tax paid in the foreign jurisdiction) • AED 86,625 [866,250 * 1 million / 10 million] (being the amount of the UAE Corporate Tax due on the foreign source income)]	(50,000)
Corporate Tax Payable	816,250

Impact of Double Taxation Agreements

FTC is allowed even if foreign tax is paid in a jurisdiction with which the UAE does **not have a Double Taxation Agreement**.

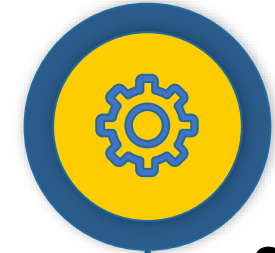
Sometimes a **Double Taxation Agreement** to which the UAE is a party may **specify a method of providing relief from double taxation which is different to the FTC rules**.

Article 66 of the CT Law provides that to the extent the terms of a **Double Taxation Agreement are inconsistent with provisions of the CT Law, the terms of the Double Taxation Agreement shall prevail**.

Overview Of Recent Developments



Overview of Recent Developments on Free Zones



09 December 2022

Corporate Tax (CT)
Law issued



19 July 2023

Public Consultation
Paper on Free Zones

01 June 2023

**Ministerial Decision
No.139 of 2023-**
Qualifying Activities and
Excluded Activities
**Cabinet Decision no.55 of
2023-**Determination of
Qualifying Income



03 November 2023

**Ministerial Decision
No.265 of 2023**
Qualifying Activities
and Excluded
Activities
**Cabinet Decision
no.100 of 2023-**
Determination of
Qualifying Income

20 May 2024

FTA Guide on Free
Zone Persons



FREE ZONE PERSON

Article No. 18 of CT Law

Cabinet Decision No. 100 of 2023

Ministerial Decision No. 265 of 2023

FTA Guide on Free Zone Persons

Definition as per CT law

Free Zone

- ❖ **Free Zone** is a defined geographic area within the UAE that is specified in a decision issued by the Cabinet at the suggestion of the Minister.

Free Zone Person(FZP)

- ❖ The definition of a Free Zone Person under the UAE CT Law refers to juridical person incorporated, established or otherwise registered in a Free zone including branch of a Non-Resident Person registered in a Free Zone and branch of mainland entity in a free zone.

CT Rate for Qualifying Free Zone Person(QFZP)

Corporate Tax shall be imposed on a QFZP at the following rates:-

0% on Qualifying Income

9% on Taxable Income that is not Qualifying Income

Condition specified under Article 18 for QFZP



Maintain **adequate substance in UAE**



Deriving **Qualifying Income**



Has **not elected** to be subject to Corporate Tax



Complies with **Arm length principle** and **transfer pricing documentation**



Meets **any other conditions** as may be prescribed by the Minister.

Additional Condition for QFZP

Ministerial Decision No. 265 of 2023 specified two additional conditions that Free Zone has to comply with :-

Non –qualifying revenues do not exceed the **de-minimis requirements**.

Prepares **Audited Financial Statements** in accordance with the Law.

✘ If any of the conditions as outlined in Article 18 and Ministerial Decision No. 265 of 2023 are not met, the taxpayer's status as a QFZP will be revoked starting from the beginning of the relevant Tax Period and for the following four Tax Periods.

Highlights of CT guide on FZP

Confirmation from Free Zone Authority

Every FZP should **check with their respective Free Zone Authority** to confirm if they operate in a Free Zone or Designated Zone to avail the benefit of CT@0%. There is **no separate list of Free Zones/Designated zones** issued for CT purposes.

Election

- i) A FZP will be **deemed to be a QFZP** unless they **fail to meet one of the QFZP conditions or elect to be subject to tax.**
- ii) A QFZP that **elects to be subject to standard CT (i.e. 9%), or fails to meet the QFZP criteria** for a specific Tax Period, **will lose its QFZP status starting from the beginning of the Tax Period** in which it elects to pay CT or fails to meet the criteria, as well as for the **following four Tax Periods. After this period, a new election can be made** if the entity wishes to continue not being treated as a QFZP unless it no longer meets the criteria of QFZP in a particular tax period.
- iii) The said election can be made at any point during the Tax Period in question or in the subsequent Tax Return after the Tax Period ends. This **election cannot be made after the tax return filing deadline** for the concerned tax period.

Highlights of CT guide on FZP

Allocation of expenses

If a FZP generates both **Qualifying Income and Taxable Income**, it must **allocate expenses between the two and also maintain sufficient documentation** that the profits attributed are commensurate with the functions performed, assets used, and risks based on the arm's length principle

Transaction between free zone persons

In case of Qualifying Income derived from transactions between FZP, the seller **may obtain a written statement or undertaking from the purchaser affirming their role as a Beneficial Recipient** and their intention to utilize the services or goods for their free zone business

No income during start up phase

A FZP who **hasn't earned any Qualifying Income in a Tax** Period because they haven't commenced revenue generation **won't lose eligibility as a QFZP**, as long as they do not derive any non-qualifying revenue and fulfill all other obligations outlined in the CT Law.

Highlights of CT guide on FZP

Treatment of Tax losses

- i) Tax Losses incurred by a QFZP on their **Taxable Income can be carried forward** to offset against future Taxable Income, except for income from intellectual property.
- ii) **Losses related to Qualifying Income cannot be used to offset** Taxable Income, transferred, or carried forward. Further, **QFZPs cannot transfer or receive Tax Losses** from other Taxable Persons.

Treatment of Mixed use property

In the case of mixed use of property, **revenues should be allocated between commercial and non-commercial units** on an arm's length basis.

Ancillary activities

Qualifying Activities include ancillary activities, which are **those necessary for the performance of the main activity or contributing minorly to the main Qualifying Activity and are closely related to it.**
If an ancillary activity is conducted **independently of the main Qualifying Activity**, it will not be considered a Qualifying Activity.

Highlights of CT guide on FZP

Income from Qualifying Intellectual Property

i) In order to benefit from the 0% rate on Qualifying income from Qualifying Intellectual property (QIP), a QFZP must be able to **demonstrate a nexus between Qualifying expenditure and income from QIP**. In such cases, a QFZP must set up an appropriate tracking system in order to avail the benefit.

ii) While calculating the Qualifying income from Intellectual Property, the sum of **Qualifying expenditure and Uplift expenditure shall be lower of the following-**

- 130% of Qualifying Expenditure
- Overall Expenditures

Compliances

i) A QFZP is **not required to prepare separate Financial Statements for its Qualifying Income and its other income** and should have sufficient documentation to demonstrate the calculation of Qualifying Income.

ii) A QFZP is **not required to prepare separate Financial Statements for any of its branches.**

Highlights of CT guide on FZP– Adequate Substance

- ❖ To qualify as a QFZP for a Tax Period, a FZP must maintain sufficient substance in a Free Zone (or in a Designated Zone for distribution activities) **throughout the Tax Period**. This **entails the following requirements** for the FZP :
 - ✓ Conducting **core income-generating activities** for the business within the Free Zone (or Designated Zone for distribution activities).
 - ✓ **Maintaining adequate assets, employing qualified full-time staff, and incurring sufficient operating expenses within the Free Zone (or Designated Zone)** relevant to each core income-generating activity.
- ❖ A FZP may also conduct **non-core activities related to its Free Zone Business outside of a Free Zone**. These activities are considered non-core if they do not directly contribute to sales or are routine in nature.

Highlights of CT guide on FZP– Adequate Substance

- ❖ **Double counting of employees is not permitted** (e.g., if a FZP is engaged in both treasury and manufacturing activities, the same employee cannot oversee both).
- ❖ Core income-generating activities **outsourced to another Person in a Free Zone** (or Designated Zone for distribution activities) are considered as being performed by the QFZP, as long as the QFZP **adequately supervises the outsourced activities where it should be capable of overseeing and controlling the activity adequately** by ensuring that the resources of the entity performing the activity are sufficient for the specific services rendered to the FZP, **for example, without any duplication of assets, employees, or expenses across multiple FZP.**
- ❖ **For distribution activity, core income generating activity must be outsourced within a designated zone.**

QUALIFYING ACTIVITIES



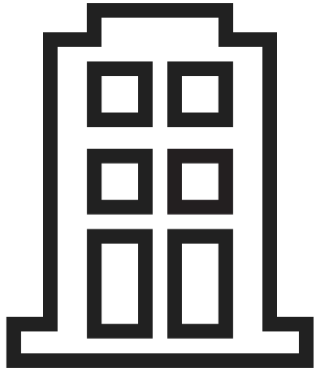
Manufacturing of goods or materials

- ❖ Goods that are manufactured in the UAE **do not need to pass through a Designated Zone**, however, the distribution activity is required to be conducted in or from a Designated Zone in order to be a Qualifying Activity.
- ❖ **Post-sale activities and customer support activities are considered as ancillary to the Qualifying Activity** of manufacturing goods or materials, provided they naturally and integrally complement the main Qualifying Activity. However, **manufacturing does not include repairs.**
- ❖ **Intangible items like software, which can be sold independently of a physical asset, are not considered goods.** Therefore, **the creation of software, ERPs, automation tools, and similar items will not be classified as the manufacturing of goods or materials.**
- ❖ However, **Software embedded in hardware** (i.e. it is inherently part of the hardware) generally **would be considered as goods.**

Illustration

Company S, a FZP is engaged in the manufacturing of advanced Magnetic Resonance Imaging (MRI) machines at its own risk.

Company Y, a FZP in a Designated Zone is engaged in distribution activity.



Company S sells the MRI machines to Company Y.
Post-sale services required by the end customers (such as installation and maintenance) will be the responsibility of Company S.



As the post-sale services are closely related to the Qualifying Activity of manufacturing and should not be regarded as a separate activity. Accordingly, the revenue of Company S from sales and post-sale service will be treated as being derived from the Qualifying Activity of manufacturing of goods or materials.

Distribution of goods or material in or from a Designated Zone

- ❖ A key feature of distribution activity is that the **distributor holds the title to the products which differentiates it from Logistics services.**
- ❖ As per MD 265 of 2023, definition of “Distribution of goods or material in or from a Designated Zone” includes buying and selling of goods, materials, component parts or any other items that are tangible or movable. Accordingly, distribution of intangible products and services such as **licenses, software and financial products/ services will not be covered under distribution activity. However**, the guide has further clarified that if the **product is embedded onto a hardware, income for which is not separately identifiable, they can still qualify for Distribution activity.**

Distribution of goods or material in or from a Designated Zone

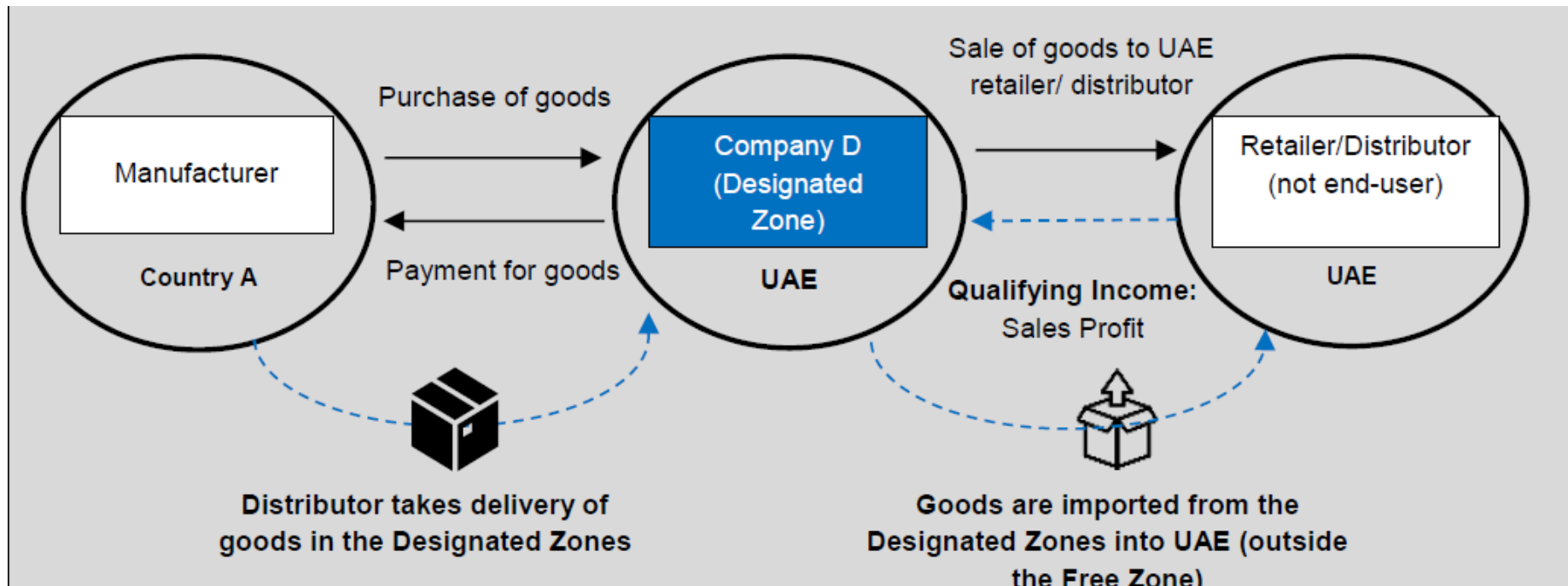
- ❖ The concept of **'end-user' is now defined in the Guide**. End-user is the person who eventually uses the product for its intended purpose, **whether they may be personal, commercial or industrial**. Accordingly, if a distributor is engaged in **selling goods to a customer who is end-user** (i.e., uses or consumes the product), then such activity will **not be considered as a Qualifying activity**.
- ❖ A QFZP has to **conduct necessary due-diligence** (obtain KYC, undertaking etc. from the customer) to demonstrate that the **customer is not an end-user** in order to fall within the scope of the Distribution as a Qualifying activity .

Distribution of goods or material in or from a Designated Zone

- ❖ Under Ministerial Decision No. 265 of 2023 on Free Zone, it was not clear whether High Seas Sales (Third port shipment) is covered under Qualifying activity -Distribution of goods or materials in or from a Designated Zones, as goods do not physically enter UAE. Now the new guide has clarified that **High Seas Sales (Third Port Shipment) if undertaken from Designated Zones shall be covered under Qualifying Activities.**
- ❖ There are **no limitations on the mode of distribution.** For goods that are **procured from UAE itself and sold in UAE/outside, they do not need to pass through a Designated Zone.** The requirement of distributed goods to **enter a Designated Zone only applies in case goods are imported into the UAE and then sold.**
- ❖ **Buying and selling of goods locally** without the goods being entered in Designated Zone shall be considered as Qualifying Activity.

Illustration : Distribution of goods in the UAE (import)

Company D is a Free Zone Person in a Designated Zone that buys goods from Country A and sells these goods to a retailer/distributor in the UAE . The goods are shipped by the manufacturer in Country A to Company D in the Designated Zone from where they are imported into the UAE.



As Company D conducts its activities in or from a Designated Zone and the goods entering the UAE are imported through the Designated Zone, Company D is performing Qualifying Activities.

If the goods or materials were not imported through the Designated Zone, the activities of Company D would not be Qualifying Activities.

Trading of Qualifying Commodities

- ❖ The Qualifying Commodity needs to be in a **form that is traded on a Recognized Commodities Exchange Market (such as DGCX, LME etc.)**. **Metals, minerals, energy, and agriculture commodities that are traded on a Recognized Commodities Exchange Market will be deemed to be in raw form** when they meet the conditions to be traded on the said exchange (for example, gold being 99.4% purity in bullion form).
- ❖ **The trade itself does not need to be performed through an exchange.**
- ❖ **Raw form refers to commodities in their natural, unprocessed state, with no added value**, traded on recognized commodities exchange markets before any processing or transformation.
- ❖ **Under agricultural commodities** it includes products like wheat, corn, and soybeans.

Trading of Qualifying Commodities

- ❖ **Under Energy commodities** it includes crude oil and natural gas.
- ❖ **Under Metals** it includes items like gold, silver bars, and aluminum ingots.
- ❖ While many commodities are traded in their raw form, it is important to recognize that some degree of processing may be required to meet the trading standards or specifications necessary for trading on a Recognized Commodities Exchange Market.
- ❖ **The HSN code can help verify whether a commodity still retains its raw form.**

Holding of shares and other securities for investment purposes

- ❖ The **active trading of shares and other securities would not constitute a Qualifying Activity.**
- ❖ **Cryptocurrency is** specifically mentioned in the “Qualified” Financial instruments
- ❖ Shares and other securities shall be deemed to be held for investment purposes **when held or there is an intention to hold for an uninterrupted period of at least 12 months.**
- ❖ Major Shareholder holding shares in a company for investment purpose may also derives **other income such as royalties or management fees from that company.** Said income would not constitute income from Qualifying activities of holding of shares and securities for investment purpose.
- ❖ Income derived from **securities backed by receivables from non-financial asset is excluded from the Qualifying Activity.** However, securities backed by receivables from a financial asset will be considered under Qualifying Activity.

Ownership, management and operation of ships

- ❖ **Ships used for local transportation or leisure or recreational purposes, or as floating hotels, restaurants or casinos** is not considered under Qualifying Activity.
- ❖ Business **consisting solely of maintenance, fit-out or repairing Ships will not be considered as a Qualifying Activity.**
- ❖ It also **does not include the leasing of shipping containers, unless that activity is ancillary to a shipping business.**

Fund management services and Wealth and Investment Management Services

- ❖ Fund management services will be **considered as Qualifying Activities if the investment decision are solely taken by the fund manager or investment advisor in a free zone and are subject to the regulatory oversight of the relevant Competent Authority in the UAE.** The following shall be considered as Competent Authority in the UAE:-
 - a. Central Bank of the United Arab Emirates
 - b. The Dubai Financial Services Authority
 - c. The Financial Services Regulatory Authority of the Abu Dhabi Global Market or
 - d. The Securities and Commodities Authority

Headquarter Services to Related Party

- ❖ Activities that might constitute the Qualifying Activity of headquarter services to Related Parties include:-
 - ✓ **Taking relevant management and strategic decisions.**
 - ✓ **Incurring operating expenditures on behalf of group entities**
 - ✓ **Coordinating group activities**
 - ✓ **Financial management**
 - ✓ **Central procurement services**
 - ✓ **Human resource management**
 - ✓ **Technical Support**
 - ✓ **Legal and compliance services**
 - ✓ **Intellectual property management**

Treasury and financing services to Related Parties

- ❖ Under this activity, **the definition of Related Parties includes Domestic Permanent Establishments and self-investment. Income from investment of surplus funds such as Interest from bank deposits, will be treated under Qualifying Activity as it will be considered as Treasury and Financing services to oneself.**
- ❖ The activity of Treasury and Financing is widely defined and includes cash pooling, cash management, risk management, investment management and financing.

Financing and leasing of Aircraft

- ❖ Sub-leasing of Aircraft will fall within the scope of Qualifying activity.

Logistics services

- ❖ Logistics services do not include the movement of people.
- ❖ Last-mile delivery services outside of the Free Zone in the UAE or in a foreign country will also be considered as a Qualifying Activity provided QFZP performs most of its logistics services within a Free Zone for its customers in the UAE outside a Free Zone or foreign customers.

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Disclaimer

Please note that our views mentioned above are based on current prevailing regulatory regime in UAE and refers specifically to Federal Decree Law No. 47 of 2022. Our views or advise does not cover implications under any other laws or regulations that may govern the situation and are limited to the taxability consequences in UAE alone. For any other implications, we would recommend to obtain specific advice in that connection.

Thank You