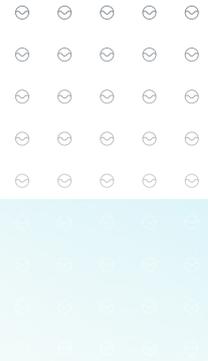




Guide to Qualifying Free Zone Persons (QFZPs) in the UAE

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Navigating Corporate Tax as a Free Zone Entity

On 1 June 2023, the UAE introduced its first-ever Corporate Tax (CT) framework, which marked a significant evolution in the country's economic policy.

While this move aligns the UAE with international tax standards, the country remains committed to its reputation as a business-friendly hub.

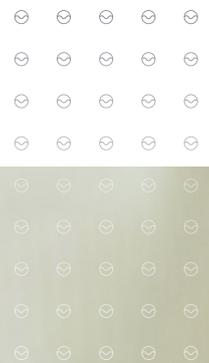
The new regime is designed to be competitive, transparent, and supportive of sustainable economic growth.

Under the framework:

- Profits up to AED 375,000 are taxed at 0%
- Profits above AED 375,000 are subject to a 9% Corporate Tax
- The tax primarily applies to Mainland (onshore) entities
- Free Zone businesses may continue to benefit from tax exemptions, provided they meet specific qualifying conditions

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This guide offers a clear overview of what it means to be a Qualifying Free Zone Person (QFZP), including the eligibility criteria, and compliance requirements under the new Corporate Tax regime.



Who Is a Qualifying Free Zone Person in UAE?

A Qualifying Free Zone Person (according to the UAE CT Law – Article 18) is a legal entity or branch that is registered in a UAE Free Zone while meeting the specific requirements set by the law. If the conditions are satisfied, the entity will enjoy a 0% corporate tax rate on its qualifying income. Non-qualifying income is taxed at 9%.

To take advantage of the 0% tax rate, it's important that the Free Zone Person meets all the conditions:

Registered in a UAE Free Zone

The entity should be established in a designated Free Zone. This includes branches of UAE-resident or foreign companies.

Maintain Adequate Economic Substance

The entity should conduct its main income-generating activities (CIGAs) within the Free Zone. It must also maintain assets, qualified staff, and operational expenses in the Free Zone. Outsourcing is only allowed to related or third-party Free Zone entities, with proper oversight.

Earn Qualifying Income

The income must fall into one of these categories:

Transactions with other eligible Free Zone Persons (that aren't excluded).

Income from qualifying activities performed with non-Free Zone parties (not excluded).

Income from holding or exploiting IP, and other income that respects the de minimis threshold (\leq AED 5 million or \leq 5% of total revenue).

No Election to Standard Tax Regime

The entity must not opt into the 9% standard corporate tax regime.

Comply with Transfer Pricing Rules

All related-party transactions must follow the arm's length principle, with full documentation as per Articles 34 and 55.

Prepare Audited Financial Statements

Annual financials must be audited and prepared in accordance with IFRS or equivalent standards.

Stay Within the De Minimis Limit for Non-Qualifying Income

Non-qualifying income must not exceed the lower of AED 5 million or 5% of total income. Breaching this limit disqualifies QFZP status for the year and triggers a 4-year cooling-off period.



Do all Free Zone companies automatically qualify for the 0% Corporate Tax rate?

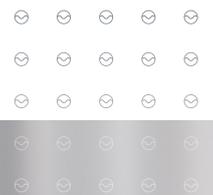
No. A Free Zone Person is considered a QFZP only if it meets all the qualifying conditions and does not opt into the standard 9% Corporate Tax regime.

Is Corporate Tax registration mandatory for QFZPs?

Yes. All Free Zone Persons, including QFZPs, must register for Corporate Tax with the Federal Tax Authority (FTA) via EmaraTax, even if they are not liable to pay tax.

Losing QFZP Status

A Free Zone Person can lose its Qualifying Free Zone Person (QFZP) status if it fails to meet any of the required conditions or elects to be taxed under the standard 9% Corporate Tax regime. Once QFZP status is lost, the entity becomes subject to the standard Corporate Tax rate and cannot requalify as a QFZP for the following four tax periods.



Qualifying vs. Excluded Activities

To benefit from the 0% tax rate, a QFZP must generate income from Qualifying Activities and avoid excluded activities.



Qualifying Activities include:

- . Manufacturing of goods or materials.
- . Processing of goods or materials.
- . Trading of Qualifying Commodities.
- . Holding of shares and other securities for investment purposes.
- . Ownership, management and operation of ships.
- . Reinsurance services.
- . Fund management services.
- . Wealth and investment management services.
- . Headquarter services to Related Parties.
- . Treasury and financing services to Related Parties or for its own account
- . Financing and leasing of Aircrafts.
- . Distribution of goods or materials in or from a Designated Zone.
- . Logistics services.
- . Any activities that are ancillary to some of these Qualifying Activities.

For more information, refer to the following links:

[Ministerial Decision No. 229 of 2025](#)
[Ministerial Decision No. 230 of 2025](#)



Excluded Activities include:

- . Transactions with natural persons, except some specific transactions related to 'Qualifying Activities'.
- . Banking activities.
- . Insurance activities, without prejudice to the 'Qualifying Activities' listed as reinsurance services and headquarters services.
- . Finance and leasing activities without prejudice to specific 'Qualifying Activities'.
- . Ownership or exploitation of immovable property, other than Commercial Property located in an FZ where the transaction in respect of such Commercial Property is conducted with an FZ Person.
- . Any activities that are ancillary to the 'Excluded Activities' specified.

What should a Free Zone business do?

Navigating the UAE's evolving corporate tax landscape doesn't have to be overwhelming, especially for startups and SMEs setting up in Dubai's Free Zones. With the right guidance and strategic planning, you can make informed decisions that support both your short-term savings and long-term growth. At IFZA, we specialize in helping entrepreneurs understand the fine print of business setup and tax structuring, ensuring you're fully compliant. Get in touch with us today.

Disclaimer:

The information provided in this article is accurate at the time of publication. Please note that regulations, policies, and event details may be subject to change. We recommend consulting with relevant authorities for the most up-to-date guidance.





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