Distributors in UAE Designated Zones Face Stricter Requirements to Access the 0% Tax Rate: Special Auditor’s Report Now Required

July 2026

The UAE Federal Tax Authority (FTA) has issued Decision No. 6 of 2026 (published on 14 July), introducing stricter requirements for Qualifying Free Zone Persons (QFZPs). The Decision requires taxpayers applying the 0% Corporate Tax rate under the Qualifying Activity of "Distribution of goods or materials in or from a Designated Zone" to submit an additional document to the FTA – a special auditor's report. The Decision applies to tax periods commencing on or after 1 January 2026.

Additional Document for Applying the 0% Rate: What It Confirms and Where to Obtain It

Where a QFZP claims the benefit for distribution activities (whether as its sole Qualifying Activity or one of several Qualifying Activities), it should now obtain, in addition to the standard QFZP documentation package, an agreed-upon procedures (AUP) report. The report should be issued by an independent auditor based in the UAE and prepared in accordance with the International Standard on Related Services (ISRS) 4400.

The report is required to confirm two facts:

1. The taxpayer sells goods not to end users, but to resellers for their subsequent sale;
2. Importation of goods into the UAE (where such importation actually takes place) is made specifically through a Designated Zone.

This approach is consistent with the FTA's previously stated position, which was also reflected in its recently published summary of private clarifications. A taxpayer seeking the benefit as a distributor should perform appropriate due diligence (e.g., KYC procedures, obtaining confirmations through undertakings, contractual provisions, etc.) to verify that its customer is not the end user of the goods.

The difference is that the verification procedures are now performed not by the FTA, but by the auditor. Accordingly, the taxpayer is required to provide the auditor with all relevant documents and supporting evidence.

Documents to Be Provided to the Auditor

To enable the auditor to issue the report for the FTA, the taxpayer should prepare, collect and retain the following documents and provide them to the auditor upon request:

1. Documents confirming the status of customers as resellers:

   — valid trade/commercial licences of customers or equivalent documents confirming their resale activities;

   — signed declarations or written confirmations from customers stating that the goods are purchased for the purpose of sale, resale, or donation to an organisation carrying out activities of public benefit;

   — sale and purchase agreements, invoices, purchase orders or other transaction documents that, taken together, confirm the resale or further distribution of the goods.

2. Documents confirming that goods were imported through a Designated Zone:

   — import declarations and customs clearance documents evidencing lawful entry of goods through a Designated Zone;

   — shipping documents (such as bills of lading, air waybills or equivalent documents) clearly indicating that the goods were imported through a Designated Zone.

A positive point is that the auditor is not required to review the full volume of documents. Instead, they review a sample of sales transactions and import operations. The sample size is calculated using a prescribed formula with a 10% margin of error. Transactions and import operations with the highest values during the relevant period are prioritised for inclusion in the sample.

Confirmation of Free Zone Status as a Designated Zone

The confirmation of a Free Zone's status as a Designated Zone deserves particular attention. The Decision refers to such confirmation as part of the auditor's procedures: when selecting import transactions for testing, the auditor should verify that the Free Zone indicated in the import documentation is officially recognised as a Designated Zone for UAE Corporate Tax purposes.

The Decision does not expressly impose an obligation on the QFZP to obtain such confirmation, unlike the documents listed above. However, the wording of the Decision ("This should be confirmed by the relevant Free Zone Authority to the Qualifying Free Zone Person") indirectly suggests that, in practice, it is the taxpayer who will need to initiate the process of obtaining such confirmation.

In fact, the FTA has already addressed the responsibility of taxpayers to independently verify their Free Zone status for QFZP purposes in the Free Zone Persons Guide (Section 3.1, Guide No. CTGFZP). It states that "all taxpayers should check with their respective Free Zone Authority to confirm if they operate in a Free Zone or Designated Zone for Corporate Tax purposes". Therefore, this obligation is not formally new for QFZPs, and we have consistently recommended maintaining such confirmation at least as part of the defence file supporting the application of the 0% Corporate Tax rate.

However, based on practice, not all taxpayers have paid sufficient attention to obtaining this confirmation. At the same time, companies (including our clients) that have attempted to obtain such confirmations have often received non-substantive responses from Free Zone authorities or been referred to the relevant Free Zone website instead.

The positive development is that, following the issuance of the new FTA Decision, taxpayers now have an official document indirectly confirming the obligation of Free Zone authorities to provide such confirmations on Free Zones' status for Corporate Tax purposes. It may be expected that this Decision can be relied upon not only by companies carrying out distribution activities in a Designated Zone, but also by other QFZPs.

Deadline for Submitting the Report to the FTA and Consequences of Failure to Provide It

The auditor's report is to be submitted to the FTA no later than 30 days after the deadline for filing the Corporate Tax return for the relevant period. Given that the Decision applies to tax periods commencing on or after 1 January 2026, most QFZPs carrying out distribution activities will need to submit their first such report by 30 October 2027 in order to support the application of the 0% Corporate Tax rate for the 2026 tax period.

Failure to submit the report may put the QFZP benefit at risk, regardless of whether the underlying activity itself meets the Qualifying Activity criteria and whether other QFZP conditions are satisfied (such as arm's length pricing for transactions with Related Parties and Connected Persons, adequate substance, etc.). If QFZP status is lost or not substantiated, the taxpayer will not be able to claim it for the following four tax periods, and the 9% Corporate Tax rate will apply.

Practical Implications for Taxpayers

With this Decision, the FTA effectively shifts the responsibility for verifying whether taxpayers' activities meet the Qualifying Activity criteria to auditors and, indirectly, to the taxpayers themselves. As a result, auditors are assigned a new function, taxpayers are required to prepare and maintain a substantial set of supporting documents (now primarily for the purposes of the auditor's review), and the FTA obtains an additional basis for denying the 0% Corporate Tax rate and QFZP status on formal grounds, including the absence of an AUP report or deficiencies identified in such report. At this stage, the additional requirement applies only to one type of Qualifying Activity – distribution in or from a Designated zone. However, it is likely that the FTA may gradually apply a similar approach to other Qualifying Activities.

Key takeaway: distributors seeking QFZP status should pay particular attention to documenting all aspects of their activities starting from the current tax period. We recommend preparing and collecting all documents required for the auditor's report in advance, so that they are readily available when the taxpayer begins discussions with the auditor in relation to the audit of the 2026 financial statements.

Although the requirement to obtain an AUP report does not apply to the 2025 tax period, we recommend maintaining all documents required for such report in the tax defence file for 2025. This is because the FTA may request these documents directly from taxpayers as part of its review procedures for periods before 2026.

Contact

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