UAE FTA Private Clarifications on Corporate Tax

Key Highlights in Our Slides

July 2026

In early July, the UAE Federal Tax Authority (FTA) published [the summary of private clarifications on Corporate Tax](#) issued through May 2026. While these clarifications are legally binding only on the specific taxpayers for whom they were issued, we expect the FTA to apply the same approaches in its administrative practice.

We have prepared a series of slides highlighting the most noteworthy and impactful positions taken by the FTA. Some of these interpretations have not previously been reflected in the legislation or official guidance. Several of the clarifications are particularly relevant in the context of the current Corporate Tax filing season.

We would be pleased to assist you with your tax matters in the UAE.

Irina Fadeeva

Partner

+7 909 924 28 42

ifadeeva@globalaimcons.com

Ilia Morozov

Manager

imorozov@globalaimcons.com

1. A legal entity may qualify as an Unincorporated Partnership (UP) even if it is wholly owned by multiple Family Foundations

A legal entity wholly owned by multiple Family Foundations may apply to be treated as an Unincorporated Partnership (UP), provided that each of those Family Foundations is itself treated as a UP.

The "wholly owned" requirement is considered satisfied even where the legal entity is owned by more than one qualifying Family Foundation, rather than by a single Family Foundation.

2. Non-arm’s length transactions recorded in the financial statements do not affect QFZP status

The mere fact that transactions with Related Parties and Connected Persons are recorded in a taxpayer’s financial statements on non-arm’s length terms does not affect the taxpayer’s eligibility for Qualifying Free Zone Person (QFZP) status, provided that the taxpayer makes the appropriate transfer pricing adjustments in its Corporate Tax return.

3. A branch located in a Free Zone does not constitute a Permanent Establishment (PE)

A branch of a Free Zone resident established in the same or another Free Zone is not treated as a PE for Corporate Tax purposes. In such cases, the conditions for QFZP status are assessed on a cumulative basis.

By contrast, a branch located in the UAE mainland or outside the UAE constitutes a domestic PE or a foreign PE, respectively. The income attributable to such a PE should be determined as if it were a separate taxable person that is a Related Party of the QFZP. Such income does not qualify as Qualifying Income, and the activities of the branch are not taken into account when assessing the conditions for QFZP status.

4. A shared workspace does not preclude meeting the adequate substance requirement

The use of a shared workspace, such as a co-working space, without a dedicated physical office in the Free Zone does not, by itself, prevent a taxpayer from satisfying the adequate substance requirement.
This is the case provided that the workspace is proportionate to the scale of the Qualifying Activity carried on.

5. Employees with visas sponsored by a QFZP's Related Party may be counted towards the adequate substance requirement

Employees who work full-time for a Free Zone resident and are under its direction and control, but whose employment visas are sponsored by a Related Party [the clarification does not specify that such Related Party should itself be a Free Zone resident], may be taken into account for the adequate substance requirement applicable to QFZP status.

This applies provided that the QFZP bears the economic cost of employing those individuals and is responsible for the substantive employer functions and the employment relationship.

6. Speculative trading of derivatives does not constitute a Qualifying Activity

Trading of derivatives for speculative purposes does not fall within the scope of the Qualifying Activity of "Trading of Qualifying Commodities".

This Qualifying Activity covers only the physical trading of Qualifying Commodities, as well as related financial derivatives used for hedging risks arising from such activities, and related structured commodity financing.

Derivative transactions of a speculative nature, which are not directly linked to hedging the risks of physical commodity trading, are not included within this category.

7. Holding shares for less than 12 months may still qualify as a Qualifying Activity

Income from holding shares and other securities for investment purposes may qualify as income from a Qualifying Activity even where the holding period is less than 12 months, provided that the shares were acquired with the intention of being held for at least 12 months and not for short-term trading or speculative purposes. The taxpayer should be able to demonstrate and substantiate such intention.

Entrusting funds to a professional asset manager who independently makes investment decisions within an agreed mandate to hold shares and other securities for investment purposes may be an indicator that the investment purpose requirement is met in respect of the assets placed under management (although it is not, by itself, conclusive). This applies provided that the taxpayer (QFZP) exercises appropriate oversight over the manager’s activities within the agreed mandate.

The investment intention is assessed at the portfolio level rather than on a transaction-by-transaction basis.

8. Headquarter services are interpreted broadly, but performing one category of services is sufficient for QFZP status

The Qualifying Activity of “Headquarter services to Related Parties” involves the administration, supervision and management of the business activities of Related Parties and is interpreted broadly. It may include, for example, senior and general management activities, as well as administrative services.

A taxpayer is not required to perform all types of headquarter services simultaneously – performing one category of such services is sufficient. However, the company should assume responsibility for the overall success of the group (or a significant aspect of its operations) and provide corporate governance functions. This assessment is based on the specific facts and circumstances.

Where a company merely provides a specific commercial service to one group member (for example, routine IT support or marketing services), rather than managing the group’s activities in a particular area, such activity should not be considered a Qualifying Activity.

9. A branch may provide headquarter services to its head office

A branch located in a Free Zone may provide headquarter services to its head office, and such services may qualify as a Qualifying Activity. This is possible because, for Corporate Tax purposes, a head office and its branch are treated as Related Parties.

10. Headquarter services may be provided to a single Related Party

Providing headquarter services to only one Related Party may fall within the scope of a Qualifying Activity. There is no requirement to have multiple recipients of such services, provided that the services are performed for the benefit of the group as a whole.

The assessment depends on the specific facts and circumstances of each case.

11. Manufacturing outside the UAE does not constitute “Distribution of goods or materials in or from a Designated Zone”

The purchase of raw materials from abroad and payment to a Related Party located outside the UAE for the manufacturing of finished goods, followed by the sale of such goods to customers outside the UAE (without importing the materials or finished products into the UAE), does not fall within the Qualifying Activity of “Distribution of goods or materials in or from a Designated Zone”.

Such activities constitute manufacturing carried out outside the Free Zone and therefore are not treated as a Qualifying Activity.

12. Buying and selling ships does not constitute a Qualifying Activity

The purchase and sale of ships, by itself, does not constitute a Qualifying Activity under the category of “Ownership, management and operation of ships”.

However, such activities may be treated as ancillary activities in relation to this Qualifying Activity if the QFZP also carries out the core activity of owning, managing and operating ships.

13. Participation exemption does not cover fair value gains or losses

The participation exemption does not apply to fair value gains or losses. However, it applies to impairment gains or losses.

Whether a change in the value of an asset represents a fair value gain or loss or an impairment gain or loss is determined in accordance with IFRS rules.

14. Taxable income cannot be determined based on financial statements prepared under foreign accounting standards

For Corporate Tax purposes, the financial statements should be prepared in accordance with IFRS, IFRS for SMEs (where revenue does not exceed AED 50 million), or, optionally, using the cash basis of accounting (where revenue does not exceed AED 3 million).

Taxable income cannot be determined based on financial statements prepared under other foreign accounting standards.

15. A Corporate Tax audit may only be performed by a local auditor

The requirement to audit financial statements for UAE Corporate Tax purposes cannot be satisfied by a foreign auditor.

The auditor is required to be registered with the UAE Ministry of Economy and should either be a chartered accountant or an audit/accounting firm licensed to practice in the UAE.

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info@globalaimcons.com

linkedin.com/company/globalaimcons

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