



UAE Tax Alert - Free Zones vs. Designated Zones Across UAE Tax Regimes

*Federal Tax Authority Public
Clarification - TAXP010*

2026
October

» Executive Summary

The Federal Tax Authority (FTA) has issued Public Clarification TAXP010 on October 2, 2026, to clarify the critical operational and legal distinctions between 'Free Zones' and 'Designated Zones' under UAE Corporate Tax (CT), Value Added Tax (VAT), and Excise Tax laws. Although these terms are frequently used interchangeably in commercial settings, their tax treatments differ significantly across each tax regime.

Analysis

CT Regime:

Under Federal Decree-Law No. 47 of 2022, corporate tax concessions depend on whether an entity qualifies as a Qualifying Free Zone Person (QFZP):

- ❖ **Free Zone Scope:** The entity must be incorporated, established, or registered in a recognized UAE Free Zone (as specified by Cabinet Decision).
- ❖ **Qualifying Criteria:** Must maintain adequate substance in the UAE, derive Qualifying Income, comply with transfer pricing documentation rules, and not exceed the de minimis threshold for non-qualifying income.
- ❖ **Disqualification Rule:** If a QFZP fails to meet any statutory conditions, it loses its QFZP status for a 5-year period and will be taxed at the standard 9% corporate tax rate on all taxable income.
- ❖ **Distribution of Goods or Materials in or from a Designated Zone**
 - Dual conditions (a) Incorporation in a free zone and (b) Recognition as a Designated Zone under VAT to be satisfied by a Taxable Person performing qualifying activity of distribution of goods or materials for eligibility as a QFZP.

VAT Regime

For VAT purposes, not all Free Zones are treated equally:

Designated Zone Requirement: Only Free Zones explicitly listed as 'Designated Zones' based on Cabinet Decision No. 59 of 2017 on Designated Zones for the

Analysis

the Federal Decree-Law No. 8 of 2017 on Value Added Tax are treated as outside the UAE.

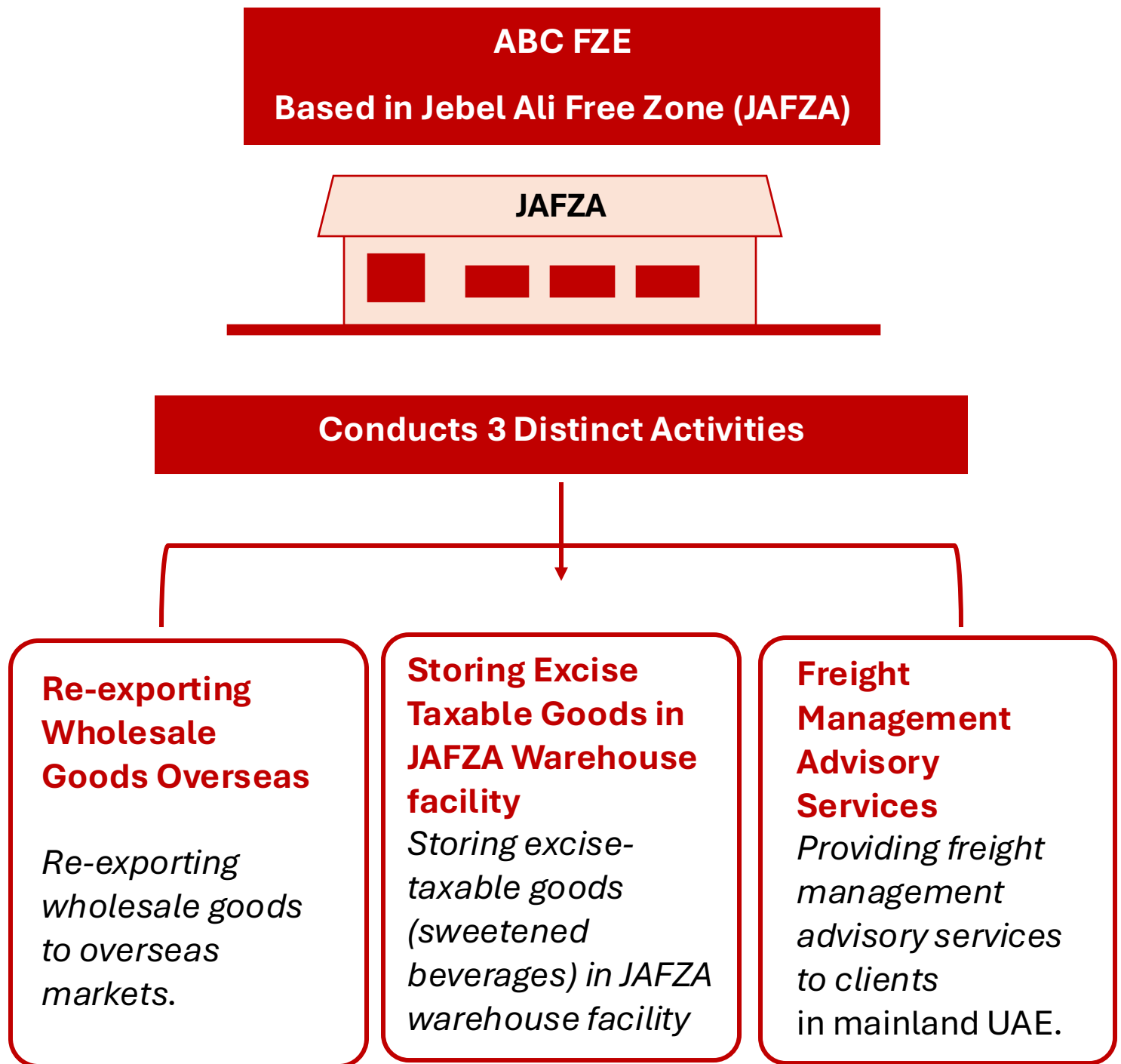
- ❖ **Security & Fencing Controls:** To qualify for out-of-scope VAT treatment on goods transfers, a Designated Zone must be a fenced area with controlled access and security oversight.
- ❖ **Services Rule:** Services supplied within or from a Designated Zone are always subject to standard UAE VAT rules.

Excise Tax Regime

Excise Tax rules (Federal Decree-Law No. 7 of 2017) apply a separate framework for Designated Zones:

- ❖ **Designated Zone Requirement for Free Zones–** If it is a Free Zone, businesses must confirm with their free zone authority if the specific free zone in which the business operates is an Excise Tax Designated Zone. Further, the free zone should have adequate security measures in place to control the movement of individuals and goods and should have a warehouse keeper appointed for the fenced free zone.
- ❖ **Designated Zone Requirement for Non-Free Zones –** If it is a non-free zone, the area should be a specified geographic area and a special application to the FTA must be submitted by the appointed warehouse keeper and approved by FTA. Further, adequate security measures in place to control the movement of individuals and goods.

Practical Case Study



Practical Application of TAXP010 Principles

Corporate Tax	Excise Tax	VAT
<p>Under CT, JAFZA is a Qualifying Free Zone. ABC FZE qualifies as a QFZP for its distribution activities. However, income from advisory services to mainland clients is Non-Qualifying Income. If non-qualifying income exceeds the 5% / AED 5M de minimis threshold, ABC FZE loses QFZP status for 5 years.</p>	<p>Because JAFZA warehouse facilities meet FTA security and customs controls, ABC FZE hold sweetened beverages without paying immediate excise tax until goods leave the Designated Zone into mainland UAE.</p>	<p>JAFZA is an approved VAT Designated Zone. Physical goods transferred from outside the UAE or between Designated Zones remain OUT OF SCOPE for VAT (0%). However, advisory services provided by ABC FZE are taxable at the standard 5% VAT rate regardless of JAFZA's Designated Zone status.</p>

Key Takeaways for Businesses

- **Regime-Specific Verification:** Verify whether your operating zone is listed in the relevant Cabinet Decisions for CT, VAT, and Excise Tax separately. Approval under one regime does not guarantee Designated Zone status under another.
- **QFZP Income Segmentation:** Review revenue streams to distinguish between Qualifying Income and Non-Qualifying Income to protect 0% CT status.
- **Fencing & Security Audit:** Ensure physical fencing, security measures, and customs controls remain operational for VAT and Excise Designated Zone status.
- **Transfer Pricing & Substance Compliance:** Ensure transfer pricing policies, intercompany agreements, and local substance documentation meet statutory standards.

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