September 2025

QFZP Framework Revamped

Changes made to Qualifying and Excluded Activities under UAE Corporate Tax Law retrospectively

Ministerial Decision No. 229 and 230 of 2025

LOCAL CONNECT. GLOBAL OUTLOOK.

FTA Issues Revised Decision on Qualifying Free Zone Activities

- The United Arab Emirates Federal Tax Authority has issued **Ministerial Decision ("MD") No. 229 of 2025**, **which retrospectively** clarifies the scope of qualifying and excluded free zone activities replacing the MD No. 265 of 2023.

- Effective **June 1, 2023**, the Decision sets out the conditions under which a taxpayer must be **predominantly engaged** in specified activities to remain eligible for the **concessionary corporate tax regime**, including the **0% corporate income tax rate**.

Executive Summary:

Below is short snippet of Qualifying and Excluded Activities under the new Decision:

Key Changes to Free Zone Activity Framework

- **Definitions – Article(1) of MD 229 :** Critical terms clarified or introduced include *Qualifying Commodities, Recognised Commodities Exchange Market, Competent Authority, Quoted Price, Associated By-product, Related Commodity,* and the *Common Schedule for Classification and Coding of Goods*. Associated By-products and Related Commodities are now clearly defined

- **Trading of Qualifying Commodities:** Scope expanded to include physical trading, hedging through associated financial derivatives, and structured commodity financing (including prepayment, factoring, forfaiting, countertrade, warehouse receipt financing, export receivable financing, project finance, Islamic trade finance, and streaming financing). However, the activities are subject to a **51% revenue cap** on distribution, logistics, warehousing, or inventory management.

- **Treasury & Financing Services:** Now covers both Related Party transactions and own-account activities, broadening the scope of qualifying treasury operations.

- **Distribution in Designated Zones:** Distribution of goods or materials qualifies even when supplied to resellers, processors, or Public Benefit Entities (PBEs), provided goods are intended for resale, processing, or operational use.

- **Excluded Activities:** Finance and leasing remain non-qualifying for certain businesses; the decision now explicitly adds trading of Qualifying Commodities while retaining other qualifying activities under paragraphs (c), (e), (j), and (k) i.e.,

- Even under MD 229, related-party transactions must demonstrate **arm's length pricing**, proper functional substance, and adequate documentation to preserve Free Zone tax benefits.

- **MD 230:** Lists the Recognised Price Reporting Agencies (PRAs) to be used for commodity price benchmarking in related-party transactions.

Amendments: Comparison of MD 265 of 2023 v/s MD 229 of 2025

A. Qualifying Commodities

Ministerial Decision 265	Ministerial Decision 229
Earlier, under MD 265, the scope was confined to metals, minerals, energy, and agricultural commodities traded in **raw form** on a Recognized Commodities Exchange Market.	The definition of Qualifying Commodities has been broadened with the **removal of the term "in raw form."** It now covers **metals, minerals, industrial chemicals, energy, agricultural commodities, and associated by-products**, provided a quoted price exists. In addition, **Environmental Commodities** such as **carbon credits** and **renewable energy certificates** are now included.
Any **commodities exchange market** established in the UAE and licensed and regulated by the relevant Competent Authority, or any foreign commodities exchange market of equivalent standing and recognition.	The scope has been **expanded** to include commodities exchange markets established and **recognized outside the UAE**, provided they are licensed and regulated by the relevant foreign authority in their jurisdiction of establishment, or as may be designated by a decision of the Minister.
Under MD 265, the **Competent Authority** was limited to the Central Bank of the UAE, the Dubai Financial Services Authority (DIFC), the Financial Services Regulatory Authority (ADGM), and the Securities and Commodities Authority, as applicable	The definition has now been **broadened** to cover all of the earlier authorities, along with **any additional entity** that may be designated by the Minister, as applicable.
No such provision existed under the earlier framework	A new definition has been introduced for **Quoted Price**, referring to the **price of a Qualifying Commodity** or a Related Commodity as determined by a Recognized Commodity Exchange Market or a price reporting agency recognized through a Ministerial decision.

Amendments: Comparison of MD 265 of 2023 v/s MD 229 of 2025

A. Qualifying Commodities

Ministerial Decision 265	Ministerial Decision 229
Such a provision was not included in the earlier framework.	Arise **incidentally or secondarily** during the production or extraction of metals, minerals, industrial chemicals, energy, or agricultural commodities.
Earlier, trading included; 1. Physical trading of Qualifying Commodities. 2. Trading of associated financial derivatives for hedging risks arising from such activities	Trading of Qualifying Commodities now encompasses: 1. Physical trading of Qualifying Commodities. 2. Trading of associated financial derivatives for hedging risks arising from such activities. **3. Structured commodity financing activities, including prepayment, factoring, forfaiting, countertrade, warehouse receipt financing, export receivable financing, project finance, Islamic trade finance, and streaming financing.** *Provided that the above activities are not conducted from Qualifying Free Zone person whose **revenue from distribution, warehousing, logistics, or inventory management functions accounts for 51% or more** of total revenue for the relevant tax period.*
There are no provisions in the previous framework of MD 265.	Commodities grouped within the same chapter of the Common Schedule for Classification and Coding of Goods as a Qualifying Commodity, provided they have a Quoted Price This refers to the Common Schedule for the Classification and Coding of Goods applicable to GCC countries, as adopted under **Cabinet Decision No. 119 of 2024**, or any subsequent legislation that amends or replaces it.

Amendments: Comparison of MD 265 of 2023 v/s MD 229 of 2025

A. Qualifying Commodities

Impact from CT & QFZP Perspective

Expanded Scope of Qualifying Trades

- **Broader Commodity Coverage**: Non-raw and non-exchange-listed commodities (e.g., plastics, chemicals, carbon credits) now qualify for the 0% Free Zone rate, provided prescribed conditions are met.
- **Quoted Price**:
  - Commodities must have a Quoted Price in any recognized exchange .
  - Trading of commodities which do not have a quoted price shall be subject to tax at 9% subject to 5% de minimis allowance.

Distribution Risk and Thresholds

- **51% Revenue Rule**: If more than half of revenues come from distribution, warehousing, or logistics and inventory management, the entity will be treated as a distributor and taxed at 9%.
- **Designated Zone Relief**: Where a qualifying trader operates through a **Designated Zone (DZ)**, distributor-type activities may still enjoy the 0% rate if supported by proper documentation and functional analysis.
- These rules ensure that only genuine commodity trading benefits from the 0% rate, preventing re-characterization of distribution operations as qualifying.

Structured Commodity Finance – Ancillary Income

- **Qualifying Financing**: Interest or fees on financing directly linked to commodity trades (e.g., prepayments, inventory financing, receivables factoring) now qualify for the 0%)
- **Regulatory Shift**: Under MD 265, such income was non-qualifying (except de minimis). **MD 229 expands** the scope to include ancillary trade finance.
- **Conditions**: Financing must be clearly connected to commodity trading. Standalone or unrelated finance remain excluded and **taxable at 9%**.

Amendments: Comparison of MD 265 of 2023 v/s MD 229 of 2025

A. Qualifying Commodities

Impact from Transfer Pricing Perspective

Pricing of Related-Party Commodity Trades – Benchmarks & Methods

- **External CUP as Primary Method**: Intra-group sales/purchases of commodities may be compared/monitored continuously using independent market quotes (e.g., PRA or exchange prices such as Platts, Argus) as an additional check point.
- If such prices are being deviated from the quoted price, then there has to be a solid documentation and analysis to prove the quality, quantity, jurisdiction and freight related adjustments, which would be a primary point of comparison going forward.
- Where such deviations exist, entities could rely on support via RPM/TNMM, provided the method accurately reflects the trader's functional profile.

51% Revenue Rule – Trader vs. Distributor Distinction

- **Functional Analysis is Critical**: If 51% or more of revenue arises from distribution-type activities (warehousing, logistics, inventory management), the Free Zone entity may not be treated as trader and will be more of a distributor and thus the entity would cease to operate/claim QFZP benefits (i.e., claiming 0%).
- **Substance Requirements**: To qualify as a trader, the entity should demonstrate that strategic decisions (e.g., trading strategy, price risk management, hedging) are exercised in the Free Zone entity. If functions significantly resemble logistics or inventory management, FTA may deny 0% benefit.
- **TP Treatment Differentiation**:
    - Traders earn returns from risk-taking and market arbitrage, with volatile profits.
    - Distributors earn routine margins for logistics/distribution, tested via cost-plus or resale-minus.
- **High-Sea Sale Model**: Businesses operating under high-sea sales typically avoid recharacterization as distributors if functional analysis and documentation are robust.

Structured Commodity Finance – Qualifying Trade-Linked Finance

- **Ancillary Financing Allowed**: MD 229 recognizes trade-linked financing (prepayment advances, inventory financing, offtake financing, receivables factoring) as **qualifying if ancillary to commodity trading**.
- **Arm's-Length Terms**: Financing terms must mirror independent trade finance deals. TP benchmarks should reference market interest/discount rates and factor in credit and commodity price risks.

Amendments: Comparison of MD 265 of 2023 v/s MD 229 of 2025

B. Treasury & Financing Services

Treasury & Financing Services	
Ministerial Decision 265	**Ministerial Decision 229**
Under the earlier framework, treasury and financing services were limited to transactions with Related Parties.	The scope has now been expanded to include treasury and financing services provided to Related Parties as well as those undertaken **on its own account**.

The term **"own account"** isn't expressly defined. Therefore, a sensible application is to use the surplus-funds guidance and a capacity test (principal vs. service).

Further review has been conducted of the following, which explain the boundaries of "own account" and the limits around banking:

- **CTGFZP1 11.3 (Banking caution):** Banking activities are outside the Free Zone 0% regime; only incidental amounts can sit under de-minimis.
- **DFSA / ADGM materials (capacity split):** Distinguish proprietary (own-account) dealing (firm uses its own capital and bears risk) from client-facing services (arranging/advisory/processing) that typically require authorization.
- **FTA VAT Clarification VATP039:** Uses "for one's own account" vs "on behalf of another" as a capacity test.

Generally, IN

✓ Parking surplus cash in **term deposits**, **money-market instruments**, or **short-dated debt** for liquidity.

✓ **Bilateral corporate loans** funded from your **own surplus**, booked as **your asset** (even to a non-Related Party).

✓ **Syndicated loan participation** limited to **your own tranche** (no arranging/aggregation role).

✓ **Hedges** covering FX/interest exposure.

Generally, OUT

× **Banking-like conduct**: public deposit-taking, publicly offered loan "products," or running a repeat lending business to the market.

× **Syndicate arranging/aggregation fees** for third parties (service income, not own-account).

Note: The above analysis is a practical interpretation of current materials. Further FTA guidance is awaited and it is recommended to proceed carefully.

Amendments: Comparison of MD 265 of 2023 v/s MD 229 of 2025

B. Treasury & Financing Services

Impact from CT & QFZP Perspective
Passive Income – Expanded Qualifying Scope • **New Inclusion**: Interest and investment income can be treated as qualifying revenue at 0%. • **Earlier Position**: Such income risked breaching the **de minimis threshold**, exposing entities to 9% tax and loss of QFZP status. • **Key Impact**: Greater flexibility for Free Zone companies to manage surplus funds without jeopardizing the 0% regime. • **Caution**: Substance requirements still apply; to proceed carefully on the term "own funds" and avoid risk of being categorized under banking activities.

Impact from Transfer Pricing Perspective
Interest from Related Parties • Qualifies for 0% regime, but subject to **arm's length pricing (ALP)** conditions. • Clear distinction must be made between **central treasury**, **refinancing**, and **working capital support,** a single benchmarking analysis may not be sufficient for all transaction types. **Interest from Own Funds** • Interest earned from third-party deposits (e.g., bank interest) does not require ALP testing. • However, **documentation and accurate reporting** remain essential. **Substance-Based Requirement** • Treasury activities must be backed by **genuine substance** in the Free Zone (people, decision-making, risk assumption). • The **economic benefit** of lending or treasury functions should be properly evidenced in documentation.

Amendments: Comparison of MD 265 of 2023 v/s MD 229 of 2025

C. Excluded Activities – Finance & Leasing

Excluded Activities – Finance & Leasing	
Ministerial Decision 265	**Ministerial Decision 229**
Under Article 2, finance and leasing activities were excluded, except for the Qualifying Activities in Clause (1), paragraphs (e), (j), and (k): i.e., ownership/operation of ships, treasury/financing to Related Parties, and financing/leasing of aircraft.	The recent decision expands the scope to include paragraph (c) – 'Trading of Qualifying Commodities' – maintaining that finance and leasing activities remain excluded, while preserving the Qualifying Activities in paragraphs (c), (e), (j), and (k) of Clause (1).

Impact from CT & QFZP Perspective

- **Reduced Compliance Burden**: Free Zone companies are no longer penalized simply for earning trade-finance income.
- **Earlier Position**: Even legitimate, arm's length commodity financing risked disqualifying the entity from the 0% regime.
- **Current Rule & interpretation**: Financing that is **ancillary to trading of commodities (article 2(1)C of MD 229) vis-à-vis inclusion pertaining to structured finance of recognized commodities needs to be carefully evaluated** to qualify for the 0% rate.
- **Limitation**: Only financing **linked to actual trading** enjoys the benefit, standalone or unrelated financing remains taxable at 9%.

Impact from Transfer Pricing Perspective

Arm's Length Pricing Still Required

- Even if financing or leasing is treated as an **excluded activity** under CT law (hence not qualifying for 0%), the terms must still comply with **ALP**.
- Benchmarking against comparable independent financing arrangements is necessary to substantiate interest rates, fees, or lease rentals.

Documentation Requirement

- TP files should evidence the commercial rationale, risk allocation, and economic benefit to the Free Zone entity, even if the activity does not secure the 0% QFZP benefit.

Amendments: Comparison of MD 265 of 2023 v/s MD 229 of 2025

D. Distribution of Goods in Designated Zones

Distribution Goods in Designated Zones	
Ministerial Decision 265	**Ministerial Decision 229**
Earlier, was limited to customers who resell, process, or alter goods or materials for sale or resale	Distribution of goods or materials in or from Designated Zones (DZs) is now considered a **qualifying activity**, including transactions involving Public Benefit Entities (PBEs). To qualify, the distribution must be either to customers who will resell the goods or to a PBE.

Impact from CT & QFZP Perspective

- **Policy Objective**: Ensures Free Zone companies are not penalized for supporting charitable or public-interest initiatives.
- **Earlier Position**: Direct sales to charities were treated as non-qualifying income. If such sales exceeded the **5% de minimis threshold**, the entity risked losing the 0% regime.
- **Current Rule**: Sales to **approved PBEs** now count as qualifying income eligible for the 0% rate.
- **Key Impact**: Free Zone entities can contribute to PBEs without jeopardizing their tax incentive.
- **Condition**: The PBE must be **formally approved**, and all standard compliance requirements must still be met.

Impact from Transfer Pricing Perspective

Concessional Pricing can be allowed with third parties

- Sales to PBEs may be at discounts or even nil value (Since Transfer pricing gets neutralized on transactions with third parties as Independent PBEs.
- However, it is recommended that these transactions reflect **independent market pricing**

Documentation

- Record the **commercial/CSR rationale** (e.g., donation, cost-only supply).
- Where possible, support with **industry comparables** for philanthropic arrangements.

Related-Party PBEs

- If the PBE is affiliated or group-influenced, TP scrutiny is higher.
- Any **underpricing without valid justification** risks being treated as **non-arm's length**, with income reclassified as non-qualifying.

Profit Shifting Safeguard

- Authorities will challenge attempts to use PBEs to **shift profits tax-free**.
- Relief applies only to **genuine public-benefit transactions**, not disguised commercial sales.

Illustrative Transfer Pricing Examples: Pre- vs. Post-MD 229 Treatment

Illustration 1 – Industrial Chemical Trading

A Free Zone trading company engaged in trading of refined industrial chemical to a related mainland affiliate, PRA quote (another jurisdiction): USD 100/t; Intercompany sale price: USD 500/t conducted via high sea sale model wherein the distribution /logistics/warehousing revenue: < 40% of total revenue

Pre MD – 229	Post MD – 229
Refined chemical **not** a Qualifying Commodity (raw-form restriction); therefore, the trading income is treated as **non-qualifying** subject to deminimis. ALP applied, but **no specific quoted-price lens** tied to PRA. **No upper cap** on warehousing/logistics function to claim QFZP benefits **Result: Corporate Taxation at 9%**	Refined chemical **included** in **Qualifying Commodities**. **Quoted-price checkpoint:** start from the **PRA** quote and document adjustments. **Material deviations** from the adjusted quote must be supported using other TP methods (RPM/TNMM) with economic justifications. **51% guardrail:** revenue from distribution/warehousing/logistics must remain **below 51%** to keep **trader** status (current **< 40%** is within cap). **Result: CT at 0% subject to all conditions**

Illustration 2 – Structured Commodity Prepayment

A Free Zone commodities firm enters a prepayment agreement, of $50 million to a related foreign supplier in exchange for future deliveries of coking coal.

Pre MD – 229	Post MD – 229
Excluded Activity: Prepayments could be treated as **intra-group lending**, classified as excluded. **Tax Exposure**: Any imputed interest or discount income risked **9% taxation**. **QFZP Threat**: Such treatment could even **jeopardize the 0% regime** if deemed non-qualifying.	**Qualifying Treatment**: Prepayment linked to Coking coal purchase is treated as part of commodity trading and eligible for 0% tax. **Arm's Length Test**: Financing rate must be benchmarked using specific & exclusive to the trade finance arrangements. **Commercial Linkage**: Must clearly demonstrate that prepayment directly secures the oil supply.

Illustrative Transfer Pricing Examples: Pre- vs. Post-MD 229 Treatment

Illustration 3 –Trader vs. Distributor (51% Rule)

A Free Zone entity handles commodity trading for its group but also performs local warehousing and distribution, with about 60% of its revenue coming from logistics/distribution services.

Pre MD – 229	Post MD – 229
The company claimed all its income under the 0% Free Zone rate as commodity trading, since no explicit rule differentiated the mix of activities.	**Risk of Reclassification**: If >51% of revenue comes from distribution, entity may be treated as a **distributor** and taxed at **9%**. **Safeguards**: Groups may restructure (e.g., carve out distribution) or ensure Free Zone entity performs **trading functions and risk management**. **TP Documentation**: Must evidence **active management of price risk and market volatility** to justify trader-level returns and keep distribution revenues below the threshold.

Illustration 4 –Distribution to a PBE

A Free Zone manufacturer in a designated zone sells a batch of critical medical supplies at cost to a Hospital (a registered Public Benefit Entity) which is a related party.

Pre MD – 229	Post MD – 229
Framework: DZ/QFZP treatment effectively recognised distribution **to customers who resell**; sales **to PBEs** were not clearly covered. **Threshold risk:** Sales to a PBE could count as **non-qualifying** and threaten the regime under the **de-minimis** cap. **Impact:** Entire Free Zone 0% status could be lost, exposing all income to **9%** tax.	**Framework:** Scope now **includes PBEs** alongside **resellers** for qualifying distribution. **De-minimis: Sales to PBEs are excluded** from the de-minimis test, so large volumes **do not** put the 0% regime at risk. **TP aspects (RP PBE):** Price must meet **ALP**. Support with a short pricing memo: (i) confirm PBE registration; (ii) set policy (cost/low-margin or market price); (iii) evidence with **benchmarking** (e.g., government tenders/CUPs, **Impact: 0%** possible **subject to ALP compliance** and normal QFZP conditions

Illustrative Transfer Pricing Examples: Pre- vs. Post-MD 229 Treatment

Illustration 5 – Treasury Centre and Substance

A Free Zone company acts as the group's treasury hub. It pools cash, lends to group companies, and puts its own surplus into bank deposits or similar short-term placements. Interest from these own-account placements is more than 5% of total revenue. The cash pool is formal, and the Free Zone company charges interest to group borrowers.

Pre MD – 229	Post MD – 229
Interest on the company's **own deposits** was **not clearly qualifying**. Many treated it as **non-qualifying as per the free zone guide**. If this interest was >5% of revenue, the **de-minimis** rule could put the 0% rate at risk. **Intercompany loan pricing:** Rates must be benchmarked to market terms (tenor, currency, security, credit). **Unsubstantiated spreads or weak comparables were challenged.** **Substance in the Free Zone:** Keep **decision-making and controls in the FZ** with named staff, a simple treasury policy, and approval records. **Remote control or thin staffing weakened eligibility.** **Banking perimeter:** Avoid **public deposit-taking or marketed loan products**; keep activity **bilateral and intra-group**. **Banking-type conduct falls outside the regime.**	The rule now says treasury can be provided to related parties or undertaken for its own account. This means interest from your own deposits/placements can be qualifying when the company uses its own money, makes its own decisions, and takes the risk. **Interpret "own account" in the safest possible way:** use only the entity's surplus cash for its own liquidity/risk needs, keep decisions and risk in the Free Zone, and do not pool or deploy others' funds as if they were your own. Cash pooling and group loans can still qualify. Charge arm's-length rates based on market data and benchmarking studies reflecting the profile of the Free Zone entity. A potential risk is that a Free Zone may pool funds from related parties and invest them on its own account to claim the regime's benefits; this should be avoided to reduce the risk of future scrutiny. TP policy setting for treasury, cash management, and other qualifying activities is required. The activity must be based on actual substance and run from the Free Zone, with real people and real decisions. Stay outside banking: no public deposit-taking and no marketed loan products.

List of Recognized Price Reporting Agencies

Ministerial Decision No. 230 of 2025 lists the following Recognized Price Reporting Agencies:

- S&P Global Commodity Insights (Platts & Fertecon)
- Argus Media
- ICIS (Independent Commodity Intelligence Services)
- OPIS (Oil Price Information Service)
- RIM Intelligence
- CRU Group
- Quantum Commodity Intelligence
- Fastmarkets i. General Index
- ICE (Intercontinental Exchange)
- MONTEL Spark Commodities
- Expana

Key Takeaways

1. **For Entities That Have Already Filed Returns:**

- **Review and assess** prior Free Zone filings in light of the updated definitions and qualifying activities under MD 229.
- **Debate window:** To finalize any questions on potential loss of beneficial treatment before 30 September.
- **Revised returns:** Assess whether to file revised returns for periods where beneficial status was lost or misapplied under earlier provisions and vice versa.
- **Validate** related-party commodity transactions, treasury, and trade finance against Recognised Commodities Exchange or PRA benchmarks, ensuring deviations are properly justified.
- **Confirm functional substance** and documentation support the entity's role in trading, treasury, and trade finance activities.
- **Identify potential non-qualifying exposures**, including excluded activities or revenue threshold breaches, and evaluate the need for corrective measures or disclosures to maintain the 0% Free Zone benefit.

2. **For Entities Yet to File Returns:**

- **Evaluation of QFZP positions based on MD 229**
- **Accurately classify all qualifying activities** under the revised framework and use PRAs for benchmarking as per MD 230.
- **Document related-party pricing, functional roles, and commercial substance** to substantiate arm's length treatment.
- **Monitor revenue composition** to ensure that distribution, logistics, warehousing, or inventory management does not exceed thresholds affecting qualifying status.
- **Establish robust transfer pricing documentation** linking trade finance and prepayments to actual commodity transactions, with clear justifications for any deviations from benchmarks.

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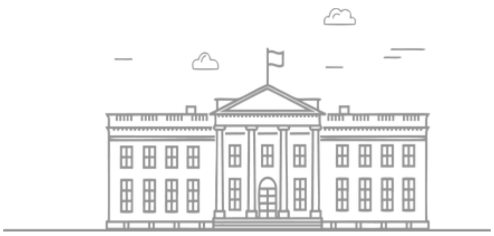

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