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CORPORATE TAX ALERT

July 16, 2026

FTA issues Additional Procedures for QFZPs Engaged in Distribution of Goods from a Designated Zone

Federal Tax Authority Decision No. 6 of 2026

OVERVIEW

On 14 July 2026, the Federal Tax Authority ('FTA') published **Decision No. 6 of 2026**, introducing additional procedures for Qualifying Free Zone Persons ('QFZPs') engaged in the **distribution of goods or materials in or from a Designated Zone ('Distribution Activity')**. The Decision requires taxpayers to obtain an annual **Agreed-Upon Procedures ('AUP') Report** from an auditor and prescribes the procedures and timelines applicable to such engagements. The Decision applies to **Tax Periods commencing on or after 1 January 2026**.

This development stems from **Ministerial Decision No. 84 of 2025 on Audited Financial Statements**, which provided that QFZPs carrying on Distribution Activity must comply with any additional procedures prescribed by the FTA. It also complements **Ministerial Decision No. 229 of 2025 ('MD 229')**, which defines the scope of Distribution Activity for it to be eligible for the 0% Corporate Tax rate. MD 229 requires that, for Distribution Activity to qualify, (i) goods or materials are supplied to a customer who resells, processes, or alters them (or parts thereof) for the purpose of sale or resale or to a public benefit entity; and (ii) goods or materials entering the State, if imported by the QFZP, are imported through a Designated Zone.

Snapshot

- AUP Report is **required annually** from **statutory auditor or another UAE-licensed auditor**, prepared in accordance with ISRS 4400.
- Report **due within 30 days of CT return filing deadline.** If the AUP Report is not filed, the Qualifying Activity conditions are treated as not met thereby resulting in loss of the QFZP status.

KEY FEATURES OF THE DECISION

1. **Obtaining AUP Report**
    - QFZP engaged in distribution activity shall obtain an AUP Report.
    - The Report must be prepared by the **independent external auditor responsible for the annual audit of the QFZP's financial statements**, or any **other independent auditor** licensed in the UAE.
    - Such Report must be prepared in accordance with International Standard on Related Services (ISRS) 4400, Agreed-Upon Procedures Engagements, issued by the IAASB, and applicable UAE auditing legislation.

2. Coverage of the AUP Report

- Report shall include the **following findings**:
  - Goods or materials are supplied to a customer who resells, processes, or alters them, or parts thereof, for the purpose of sale or resale ('**Reseller Status**')
  - Goods or materials entering the State, if imported by the QFZP, are imported through a Designated Zone ('**Designated Zone Importation**')
- **Report should document the procedures performed** including a description of the nature of the evidence obtained, timing, and extent of work performed for each procedure.
- Details of the **samples** selected shall be included **in an appendix to the Report**.
- Where the specific wording of a procedure is changed without changing the substance of the requirement, such changes shall also be included as an appendix to the Report.

3. Documents to be maintained by QFZP and audit procedure for Reseller Status

The documents and agreed-upon procedure shall include:

Documents to be maintained by QFZP	Procedure to be performed by auditors
Trade Licence: Valid business, trade, or commercial licences or any equivalent document held by the customer	• Verify whether the listed business activities include trading, wholesaling, retailing, distributing, manufacturing, or other commercial activities indicative of reselling of the goods or materials
Customer Declaration: Signed declarations or written confirmations from customers confirming that the goods or materials are acquired for the purpose of sale or resale, or donation to a public benefit entity	• Verify whether the declarations are signed, dated, and relate to the relevant Tax Period and state whether such declarations or confirmations affirm customers' status as resellers.
Transaction Documents: Sales agreements, invoices, purchase orders, or other transactional records	• Identify and document the terms or features of the transaction documents if they reflect characteristics of onward sale or resale activity, such as bulk quantities, resale conditions, or applicable pricing structures for the relevant goods or materials

4. Documents to be maintained by QFZP and audit procedure for Designated Zone Importation

The documents and agreed-upon procedure shall include:

Documents to be maintained by QFZP	Procedure to be performed by auditors
Import documents: Import declarations and customs clearance documents, import permits, sales contracts and the bill of lading, airway bill, or equivalent transport documents	• Inspect import documents to verify that the goods or materials were imported into the State through a Designated Zone.
Confirmation from relevant Free Zone Authority: that Free Zone is formally designated as a "Designated Zone"	• Verify that the Free Zone, port, or area identified in the import documentation is formally designated as a "Designated Zone"

KEY FEATURES OF THE DECISION

Documents to be maintained by QFZP	Procedure to be performed by auditors
Other Internal records: Inventory logs, warehousing reports, goods movement records, and logistics documentation	• Verify that the goods or materials were received, handled, or stored within a Designated Zone prior to distribution

5. Audit Procedure to be based on Sample Size Methodology

The audit procedures discussed above shall be performed on the Sample Size of customers, imports, or other documents.

Sample Size = Sample Population ÷ [1 + (Sample Population × Margin of Error^2)]

- **Sample Population**: Total customers, sales agreements, or imports (as applicable) supplied/undertaken in the relevant Tax Period
- **Sample Size**: Number of documents selected from the Sample Population for review, comprising those with the highest transaction values

Illustration: ABC FZE, a QFZP distributing consumer electronics from Designated Zone X, supplied goods to 40 distribution customers in the 2026 Tax Period.
Sample Size = 40 ÷ [1 + (40 × 0.1^2)] = 40 ÷ 1.4 ≈ 29 customers.
The auditor selects the 29 highest-value customers for testing under each procedure.

6. Other Considerations

i. **Timeline**: The finalized AUP Report must be submitted to the FTA **within 30 days of the company's Corporate Tax return filing deadline** for the relevant tax period (unless the FTA specifies an alternative date)

ii. **Consequence of not submitting AUP Report**: The conditions under both Ministerial Decision No. 84 of 2025 (audited financial statements) and Ministerial Decision No. 229 of 2025 (qualifying distribution activity) shall be treated as not met placing the QFZP status and the 0% CT benefit at risk.

DHRUVA'S COMMENTS

The Decision clarifies the evidentiary and verification framework that the FTA expects QFZPs undertaking the distribution of goods or materials in or from a Designated Zone to maintain in support of the 0% Corporate Tax benefit. While the Decision does not introduce any new qualifying conditions, taxpayers should continue to assess compliance with the definition of the qualifying activity and all other requirements for maintaining QFZP status.

In addition, while the Decision applies to Tax Periods commencing on or after 1 January 2026, it provides useful insight into the FTA's expectations regarding the documentation required to substantiate eligibility for the benefit. Taxpayers may therefore wish to assess whether similar supporting records, including customer declarations, customs documentation, and transaction-level evidence, are available to support positions for earlier periods.

Dhruva Consultants achieved ITR World Tax Ranking 2026:

- Tier 1 – Indirect Tax
- Tier 2 – General CT, Transfer Pricing, Transactional Tax
- Other Notable: Tax Controversy

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