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UAE Corporate Tax Alert

Mandatory AUP report compliance for QFZP distribution activity

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Background

Article 18 of Federal Decree-Law No. 47 of 2022 sets out when a Free Zone Person may be treated as a Qualifying Free Zone Person ("QFZP"). Broadly, a QFZP must satisfy substance, income and other prescribed conditions to enjoy the 0% Corporate Tax rate on Qualifying Income. Cabinet Decision ("CD") No. 100 of 2023 provides the Qualifying Income framework, while Ministerial Decision ("MD") No. 229 of 2025 identifies "Distribution of Goods or Materials in or from a Designated Zone" as one of the Qualifying Activities.

MD No. 84 of 2025 indicated that QFZPs carrying on Designated Zone distribution activity would need to follow additional procedures prescribed by the FTA. FTA Decision No. 6 of 2026 now sets out those procedures and requires affected QFZPs to obtain and submit an independent Agreed-Upon Procedures ("AUP") report for Tax Periods commencing on or after 1 January 2026.

The AUP report must be prepared by an independent external auditor under ISRS 4400 and submitted to the FTA within the prescribed timeline. The Decision applies only to QFZPs carrying on this specific distribution qualifying activity, not to all Free Zone businesses or all Qualifying Activities.

This is significant for Free Zone distribution businesses relying on the 0% Corporate Tax rate. The question is no longer only whether the technical legal conditions are met but the business must also evidence its position through customer, customs, logistics and transaction records capable of independent testing.

Why this matters

The UAE Corporate Tax regime remains largely self-assessed. However, FTA Decision No. 6 of 2026 introduces a formal verification layer for one of the most commercially important Free Zone qualifying activities.

The AUP report does not certify legal eligibility. Instead, the auditor performs AUP and reports factual findings. Management remains responsible for the tax position taken.

What has changed

Affected QFZPs must obtain an AUP report from either their financial statement auditor or another independent auditor licensed in the UAE. The report focuses on two areas -

First, the QFZP must show that it supplies goods or materials to customers who resell them, or process or alter them for sale or resale. Evidence may include customer licences or equivalent overseas documents, declarations, confirmations, agreements, invoices, purchase orders and other transaction records.

Second, where goods or materials enter the UAE and are imported by the QFZP, the business must show that they were imported through a Designated Zone. Relevant evidence may include import declarations, customs clearance records, bills of lading, airway bills, warehouse reports, inventory logs and goods movement records.

The AUP report must be submitted no later than 30 days after the Corporate Tax return filing deadline, unless the FTA specifies another date. Failure to submit it means the specified conditions under MD 84 read with MD 229 will not be considered met. This could jeopardise the 0% treatment for the relevant distribution activity and may affect the taxpayer's wider QFZP position, depending on the facts.

For a calendar-year taxpayer, the first affected period should be FY2026 and one should not wait until the return is being prepared, because AUP evidence is created during customer onboarding, contracting, shipping, customs clearance, invoicing, etc. In the process, there will be a host of challenges to be addressed, for instance -

> 1. Customer licences may not prove reseller status
>
> For UAE buyers, the trade licence may often be the starting point. However, it may not be enough if it is outdated, broadly worded or silent on how the specific goods are used. The AUP file may therefore need purchase orders, agreements, declarations, product descriptions or onward sale evidence.

> 2. Overseas customers may not have UAE-style trade licences
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> For overseas buyers, a UAE-style trade licence may not exist. Equivalent evidence may include a commercial registry extract, tax registration, website disclosures, import documents, contracts, purchase orders or written declarations.

Where buyers are reluctant to share detailed documents, the QFZP should build an evidence hierarchy by customer jurisdiction and type, showing what was available, why it was sufficient and how it supports reseller or processor status.

3. Related-party distribution models will be tested on conduct, not labels

Many Free Zone traders sell to a UAE mainland related party that handles local distribution. The model may be valid, but the AUP process will test whether the mainland entity is genuinely acting as a reseller or processor for resale and not consuming the goods internally or operating only as an agent or support entity.

The review should not be limited to transfer pricing. Intercompany agreements, invoices, inventory flows, onward sales, accounting entries and actual conduct should tell the same story.

4. Processing and alteration require product-level mapping

MD No. 229 of 2025 recognises that a customer may process or alter goods or materials for sale or resale. This matters for chemicals, raw materials, packaging, components, ingredients or spare parts. However, the resale link must be clear at product level and a general licence description may not be enough.

5. The customs trail may sit outside the tax team

The second major testing area is Designated Zone importation. Key documents may sit with freight forwarders, customs brokers, warehouse operators or third-party logistics providers. The QFZP may have the invoice and accounting entry, but not the full customs trail.

If import declarations, transport documents, warehouse receipts and goods movement records cannot be linked to the QFZP's transaction records, the tax position may become difficult to evidence.

6. Sampling is designed to capture material transactions

The Decision prescribes a sampling formula and uses a 10% margin of error. The sample must include customers, agreements or imports with the highest distribution transaction values in the relevant Tax Period. In practical terms, the largest customers and highest-value shipments cannot be the weakest files.

Key takeaway

FTA Decision No. 6 of 2026 raises the evidentiary threshold for QFZPs relying on Designated Zone distribution activity. This is not a tax technical issue, but an operating control measure.

A QFZP may have a reasonable legal position but still face difficulty if customer licences are outdated, overseas buyers will not share documents, customs records sit with a 3PL provider, or high-value transaction files are incomplete.

Businesses most likely to be affected include Free Zone distributors with UAE mainland customers, related-party distributors, overseas resellers, customers that process or alter goods, 3PL-managed logistics flows and mixed business models.

The first affected Tax Period may appear some distance away for calendar-year taxpayers. However, customer confirmations, customs records, product mapping and transaction trails are easier to capture when the transaction is live.

How we can support

Our team can assist QFZPs with assessing whether FTA Decision No. 6 of 2026 applies, reviewing Designated Zone distribution eligibility, preparing customer evidence matrices, drafting declaration templates, testing high-value transaction files, mapping customs and logistics records, coordinating with auditors and assessing the Corporate Tax impact of any AUP exceptions.

Concluding remarks

For Free Zone distributors, the 0% Corporate Tax rate now needs an evidence file that can stand up to independent testing. Businesses that treat the AUP report as a year-end formality may find that the real issue is not the report itself, but the missing evidence behind it.

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