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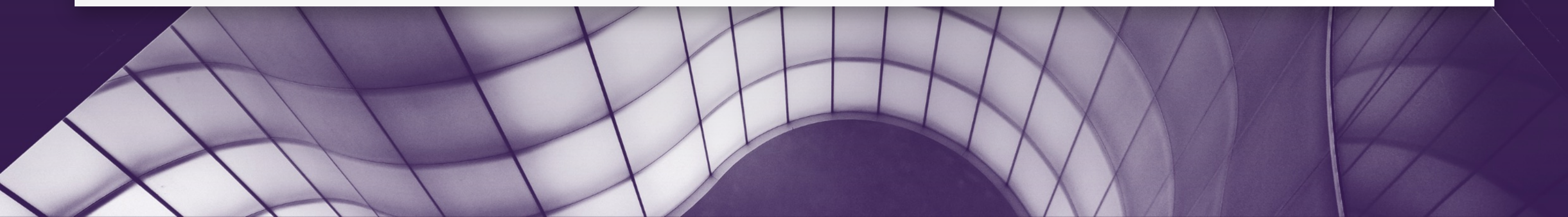
FTA mandates Agreed-Upon Procedures Report for Free Zone Distributors Engaged in Distribution in or from a Designated Zone

Instrument	Federal Tax Authority Decision No. 6 of 2026 (issued 2 June 2026)
Who is affected	Qualifying Free Zone Persons (QFZPs) carrying on the Qualifying Activity of distribution of goods or materials in or from a Designated Zone
New obligation	Obtain and submit to the FTA an agreed-upon procedures (AUP) report prepared by an independent external auditor under ISRS 4400.
Deadline	Within 30 days of the deadline to file the Corporate Tax return for the relevant Tax Period (unless the FTA determines otherwise)
Applies from	Tax Periods commencing on or after 1 January 2026
Consequence of failure	The distribution activity conditions are deemed not met, putting the 0% QFZP rate at risk

Background

The Federal Tax Authority has issued Decision No. 6 of 2026, prescribing the additional compliance procedures that Qualifying Free Zone Persons must follow where they carry on the Qualifying Activity of distribution of goods or materials in or from a Designated Zone under Ministerial Decision No. 229 of 2025.

The 0% corporate tax rate available to QFZPs on income from distribution activities has always depended on two substantive conditions: that goods are supplied to customers who resell (or process for resale) those goods, and that goods entering the UAE are imported through a Designated Zone. What is new is a formal, auditor-verified evidentiary mechanism for demonstrating both.



The new requirement: an ISRS 4400 agreed-upon procedures report

Affected QFZPs must obtain an AUP report from an independent external auditor, who is either the auditor responsible for the annual audit of the financial statements or any other independent auditor licensed in the UAE.

The report must be prepared in accordance with ISRS 4400 (Agreed-Upon Procedures Engagements) and must document the procedures performed and the factual findings, demonstrating that:

- customers resell the goods or materials (or parts thereof), or process or alter them for the purposes of sale or resale; and
- goods or materials entering the UAE, where imported by the QFZP, are imported through a Designated Zone.

The report must be submitted to the FTA no later than 30 days after the Corporate Tax return filing deadline for the relevant Tax Period. For a QFZP with a financial year ending 31 December 2026, this means the AUP report is due by 30 October 2027 (30 days after the 30 September 2027 filing deadline).

Prescribed procedures and documentation

The Decision prescribes the specific procedures the auditor must perform.

On reseller status, these comprise inspection of customer trade licences (to verify activities indicative of reselling), verification of signed customer declarations or confirmations, and review of sales agreements, invoices and other transactional records for features of onward supply.

On Designated Zone importation, the auditor must inspect import documentation, confirm that the zone of the relevant Cabinet Decisions (with confirmation from the relevant Free Zone Authority), and inspect internal records, including inventory logs, warehousing reports, goods movement and logistics records, evidencing that goods were received, handled or stored within a Designated Zone before distribution.

To enable this, QFZPs must collect, maintain and retain supporting documentation, including customer trade licences, signed reseller declarations, transactional records, customs and shipping documents.

Sampling methodology

Testing is on a sample basis using a prescribed statistical formula with a fixed **10% margin of error:**

Sample Size = Sample Population ÷ (1 + (Sample Population × (10%)^2))

The sample population is, as applicable, the total number of customers, sales agreements or imports in the Tax Period, and the sample must comprise the items with the highest transaction values.

By way of illustration, a population of 500 customers yields a sample of approximately 83, and a population of 2,000 yields approximately 95. Details of the samples selected must be appended to the report, and each procedure must describe the nature, timing and extent of the evidence obtained.

Consequences of non-compliance

If the AUP report is not submitted, the conditions in Ministerial Decision No. 84 of 2025 and the distribution activity requirements in Ministerial Decision No. 229 of 2025 are deemed not to be met. Depending on the QFZP's circumstances, income from the distribution activity would not constitute Qualifying Income, and the failure could jeopardise QFZP status altogether (subject to de minimis considerations), exposing the person to the standard 9% corporate tax rate, potentially for five Tax Periods.

What should affected businesses do now?

- Engage early with your external auditor on the scope, timing and cost of the ISRS 4400 engagement.
- Review the Decision and implement processes to obtain and maintain the required documentation which will demonstrate that the two conditions, namely supply to a reseller/processor for resale and import (where made by the QFZP) through a Designated Zone, are met.
- Diarise the submission deadline: 30 days after the Corporate Tax return filing deadline for each Tax Period, starting with periods commencing on or after 1 January 2026.

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Best regards,

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