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Distribution Compliance for QFZPs: “Understanding the Agreed-Upon Procedure”

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Executive Implementation Guide - FTA Decision No. 6 of 2026

Qualifying Free Zone Persons – Distribution of Goods or Materials in or from a Designated Zone
Version 1.1 | July 2026 | For Tax Periods commencing on or after 1 January 2026
Audience: CFOs, Tax Directors, Legal Counsel, External Auditors

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01 Executive summary

Federal Tax Authority Decision No. 6 of 2026 establishes mandatory additional compliance procedures for Qualifying Free Zone Persons (QFZPs) that derive Qualifying Income from the activity of distribution of goods or materials in or from a Designated Zone.
The Decision operationalises Clause 3 of Article 2 of Ministerial Decision No. 84 of 2025 and paragraph (I) of Clause 1 of Article 2 of Ministerial Decision No. 229 of 2025. It requires an independent Agreed-Upon Procedures (AUP) report under ISRS 4400 to substantiate two core conditions:

- Customers of the QFZP are resellers (or processors/alterers for the purpose of sale or resale); and
- Any goods or materials imported into the State by the QFZP enter exclusively through a Designated Zone.

Key Entities Impacted

- All QFZPs engaged in distribution of goods or materials in or from a Designated Zone.
- Their UAE-licensed independent external auditors.
- Free Zone Authorities confirming Designated Zone status.
- The Federal Tax Authority as recipient of the AUP report.

Critical consequence: Failure to obtain and timely submit the AUP report results in the Qualifying Income being taxed at the standard 9% Corporate Tax rate.

02 Impact Analysis for QFZPs

2.1 Definition of Qualifying Distribution Activity

The Decision applies where the QFZP carries on the Qualifying Activity of distribution of goods or materials in or from a Designated Zone (paragraph (l) of Clause 1 of Article 2 of Ministerial Decision No. 229 of 2025). Two cumulative conditions must be evidenced: (1) customers acquire goods/materials for sale, resale or donation to a public-benefit entity, or process/alter them for subsequent sale/resale; and (2) where the QFZP imports, importation occurs through a formally designated Designated Zone.

2.2 Legal Implications of Non-Compliance

- The relevant income stream ceases to qualify as Qualifying Income.
- Potential threat of losing the QFZP status and becoming subject to the standard 9% Corporate Tax rate for current tax period and four subsequent Tax Periods.
- Potential administrative penalties under the Tax Procedures Law.

03 Audit Ready Checklist & Compliance Framework

3.1 Step-by-Step Preparation Framework

1. Identify in-scope population
Compile complete lists of customers and import transactions for the Tax Period.

2. Calculate mandatory sample sizes
Apply the statutory formula (see Section 5). Prioritise highest-value items. Maximum practical sample size is 100.

3. Assemble supporting documentation packs
Customer licences, signed declarations, sales agreements/invoices, import declarations, bills of lading, Free Zone Authority confirmations, internal inventory records.

4. Engage auditor early
Provide population lists, sample calculations and documentation packs in good time for fieldwork before the deadline.

5. Review draft AUP report
Confirm every prescribed procedure is addressed and sample details appear in the appendix.

6. Submit to FTA
File the final signed AUP report within 30 days of the Corporate Tax return deadline.

3.2 Mandatory Records and Documents

Reseller Status Evidence:
Valid trade/business licences; signed customer declarations; sales agreements, invoices and purchase orders showing bulk/resale/processing characteristics.

Designated Zone Importation Evidence:
Customs import declarations; bills of lading/airway bills; Free Zone Authority written confirmation of Designated Zone status; internal inventory/warehousing/logistics records.

04 Sample Selection Methodology & Worked Examples

Article 3, Clause 3 of Decision No. 6 of 2026 prescribes the following formula for determining Sample Size for every required procedure:

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

where Margin of Error = 10% (0.10)

Maximum Sample Size

As the Sample Population increases, the formula asymptotically approaches a maximum of 100. Even where the population exceeds 1,000,000, the calculated Sample Size does not exceed 100 (when rounded). This is a deliberate design feature of the 10% margin of error.

Worked Examples – Sample Size Table

Sample Population (N)	Calculated Size	Practical (rounded)	Notes
20	16.67	17	High coverage
50	33.33	33	
100	50.00	50	
250	71.43	71	
500	83.33	83	
1,000	90.91	91	
5,000	98.04	98	Approaching ceiling
10,000	99.01	99	
100,000	99.90	100	Ceiling reached
1,000,000+	≈100.00	100	Maximum – does not increase further

Practical Selection Rules

- Always select the customers / imports with the highest transaction values within the Sample Population.
- Round the calculated Sample Size to the nearest whole number (standard rounding).
- Where the actual population is very small in number, test 100% of the population.
- Document the ranking method (e.g., by total AED value of supplies/imports in the Tax Period) in the working papers.

Illustrative Example 1 – Customer Reseller Testing

A QFZP supplied goods to 420 distinct customers during the Tax Period. **Sample Size = 420 / [1 + 420 × 0.01] = 80.77 →81 customers.** The auditor selects the 81 customers with the highest total distribution value and performs the reseller-status procedures on that sample.

Illustrative Example 2 – Import Testing (Large Population)

A QFZP recorded 1,250,000 individual import lines related to goods subsequently distributed.
Sample Size = 1,250,000 / [1 + 1,250,000 × 0.01] ≈ 99.99 →100 imports. Even though the population is over one million, the auditor is required to test only the 100 highest-value import transactions (by AED value) for Designated Zone evidence.

05 AUP Procedures Coverage & Reporting

The following summarises the procedures the independent auditor is required to perform under Article 3 of Decision No. 6 of 2026, and the corresponding factual findings that must be reported. This is not a full AUP report; it is a practical coverage map and reporting structure.

5.1 Procedures for Verifying Reseller Status (Article 3, Clause 1)

Procedure (a) – Inspection of customer trade licences or equivalent

Obtain and inspect valid trade/business/commercial licences (or equivalent) held by the whole Sample Size customers. Verify whether listed activities include trading, wholesaling, retailing, distributing, manufacturing or other activities indicative of reselling.
Factual finding required: State whether the business activities described in the reviewed licences are consistent with the activities of a reseller.

Procedure (b) – Verification of Customer Declarations or Confirmations

Obtain signed written declarations or confirmations from the Sample Size of customers. Verify that the declarations affirm reseller status, are signed, dated, and relate to the relevant Tax Period.
Factual finding required: Report on the presence of such declarations and whether they affirm the customer's status as a reseller.

Procedure (c) – Review of Sales Agreements and Other Transactional Records

Select and inspect a Sample Size of executed sales agreements and related invoices/records. Identify terms or features of onward sale or resale (bulk quantities, resale conditions, pricing structures).

Factual finding required: Document whether the reviewed records reflect that customers further resell the goods/materials (or parts thereof) or process/alter them for the purpose of sale or resale.

5.2 Procedures for Verifying Designated Zone Importation (Article 3, Clause 2)

Procedure (a) – Inspection of Import Documentation

Inspect the Sample Size of import documentation (customs declarations, import permits, sales contracts, bills of lading) to verify that goods/materials were imported into the State through a Designated Zone. Factual finding required: Report whether the documentation for each sample confirms that importation occurred through a Designated Zone.

Procedure (b) – Confirmation of Designated Zone Status
For the Sample Size of imports, verify that the Free Zone/port/area identified is formally designated as a "Designated Zone" pursuant to relevant Decisions/ legislation.
Factual finding required: Confirm whether the relevant Free Zone is officially recognised as a Designated Zone under applicable Decisions/ legislation.

Procedure (c) – Inspection of Internal Records

For the Sample Size of imports, obtain and inspect internal records (inventory logs, warehousing reports, goods movement records, logistics documentation) to verify that the goods/materials were received, handled or stored within a Designated Zone prior to distribution. Factual finding required: Report on the internal records evidencing importation through a Designated Zone.

5.3 Reporting Requirements under ISRS 4400

- Each procedure must be accompanied by a description of the nature of the evidence obtained, timing, and extent of work performed, together with the related factual findings.
- Details of the samples selected must be included in an appendix to the AUP report.
- Any changes to the specific wording of a procedure (without changing substance) must be recorded in an appendix.
- The report contains factual findings only – no assurance, opinion or conclusion is expressed.

06 Strategic Recommendations

1. System and process updates

Configure ERP systems to capture reseller status evidence at onboarding and flag Designated Zone import references. Automate extraction of highest-value populations at year-end.

2. Auditor engagement

Appoint the UAE-licensed auditor by end of Q3 (or earlier) for each Tax Period. Agree sampling methodology and documentation list in the engagement letter. Schedule interim testing of high-value items.

3. Customer & Free Zone management

Issue standardised reseller declaration templates and require annual renewal. Obtain standing Designated Zone confirmation letters from Free Zone Authorities.

4. Governance

Assign ownership for AUP readiness within Tax/Finance department. Include status as a standing Tax Risk Committee agenda item. Maintain an exception log for non-compliant items.

5. 2026 transitional readiness

Perform a full dry-run using 2025 data or 6 months data in the Tax Period 2026, right now.
Strict adherence to the procedures, sample methodology (including the practical maximum of 100), documentation standards and submission deadline is essential to preserve Qualifying Income treatment.

Annexure A – Sample Selection Working Paper Template

To be completed by the QFZP / Auditor for each procedure population.

Field	Details / Completion Guidance
QFZP Name	xxxxxxxxxx
Tax Period	xxxx - xxxx
Procedure Reference	e.g. Art. 3(1)(a) – Customer / Art. 3(2)(a) – Import
Sample Population (N)	Total number of customers / sales agreements / imports in the Tax Period
Calculated Sample Size	N / [1 + N × 0.01] (round to nearest whole number; max 100)
Ranking Basis	Highest total AED distribution / import value in the Tax Period
Selected Sample IDs	List or attach schedule of the selected customer / agreement / import identifiers
Prepared by / Date	xxxxxx xxxxxxx
Reviewed by / Date	xxxxxxx xxxxxxx

Annexure B – Customer Reseller Declaration Template

To be obtained from customers on an annual (or transaction-specific) basis. Retain signed originals or electronic equivalents.
CUSTOMER DECLARATION – RESELLER STATUS
To: [Name of Qualifying Free Zone Person]
Tax Period: [e.g. 1 January 2026 – 31 December 2026]
We, [Full Legal Name of Customer], holding Trade Licence No. [xxxxxx] issued by [Licensing Authority], hereby confirm and declare that:

1. The goods and/or materials purchased from the above-named supplier (QFZP) during the Tax Period are acquired by us for the purpose of sale or resale, or for processing/alteration with a view to subsequent sale or resale, or for donation to a public-benefit entity.
2. Our business activities, as reflected in our trade/commercial licence, include trading, wholesaling, retailing, distributing, manufacturing or other commercial activities consistent with the resale or onward supply of such goods or materials.
3. This declaration is true and accurate to the best of our knowledge and is provided for the purpose of enabling the supplier (QFZP) to comply with Federal Tax Authority Decision No. 6 of 2026.

Authorised Signatory: ____________________________
Name & Title:____________________________ Date: ________________
Company Stamp:

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- **Audit & Assurance**
  - **External Audit -** Financial Statement Audit | Group Audit & Consolidation Reporting | Special Purpose Audits | Agreed-Upon Procedures (AUP) | Limited Reviews (Interim Financial Information) | Financial Due Diligence
  - **IFRS Advisory Services -** IFRS Impact Analysis | IFRS Advisory | First-time Adoption of IFRS
- **Accounting & Business Advisory**
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  - **Direct Tax**
    - **Corporate Tax -** Advisory | Awareness Sessions | Assessment | Federal Tax Authority Support | Compliance-Registration, Return Filing, Deregistration
    - **International Tax -** OECD Pillar Two | Advisory on International Contracts | Structuring for International Expansion | Personal Tax Advisory
    - **Transfer Pricing** - Risk Assessment | Advisory - Strategy & Design | Documentation-Benchmarking Study, Local File, Master File, Transfer Pricing Policy
  - **Indirect Tax**
    - **UAE Value Added Tax (VAT)**
      - **Tax Agent Services -** Registration & Amendment Services | Return Filing Services | Advisory - Transaction Advisory, Strategic Advisory, VAT Health Check, Pre-Tax Audit, VAT Refund for Taxable Persons, Business Visitor Refund, UAE Nationals' Villa Refund | Deregistration | Appeals & Litigation
    - **Excise Tax -** Excise Tax Advisory & Compliance
    - **Customs Duty -** Customs Duty Advisory & Compliance

- **Corporate Services**
  - **Company Formation -** DIFC | ADGM | Mainland | Free Zone | Offshore
  - **Business Support Services -** Secretarial Services | Tax Registration Certificate | Trademark Registration | Wills | Liquidation Support | AML Compliance
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  - **Advisory**
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    - **ESG Governance –** Reporting, Consulting
  - **Digital**
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    - **Technology Assurance** - **IT Audits** - IT General Controls (ITGC), IT Application Controls (ITAC), IT GRC, Cloud Controls, ERP Security, SOC 1 & SOC 2 Reporting
    - **Cybersecurity & AI Governance** - NESA/SIA readiness | ISO 27001 readiness | ISO 42001 readiness
    - **ERP & Cloud Transformation**

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Disclaimer: This Executive Implementation Guide has been prepared solely on the basis of the text of Federal Tax Authority Decision No. 6 of 2026 (unofficial English translation) and the referenced instruments: Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses and its amendments, Cabinet Decision No. 100 of 2023, Ministerial Decision No. 84 of 2025, and Ministerial Decision No. 229 of 2025.

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