

Manufacturing in the UAE

Tax and Trade Considerations for Industrial Growth

Introduction

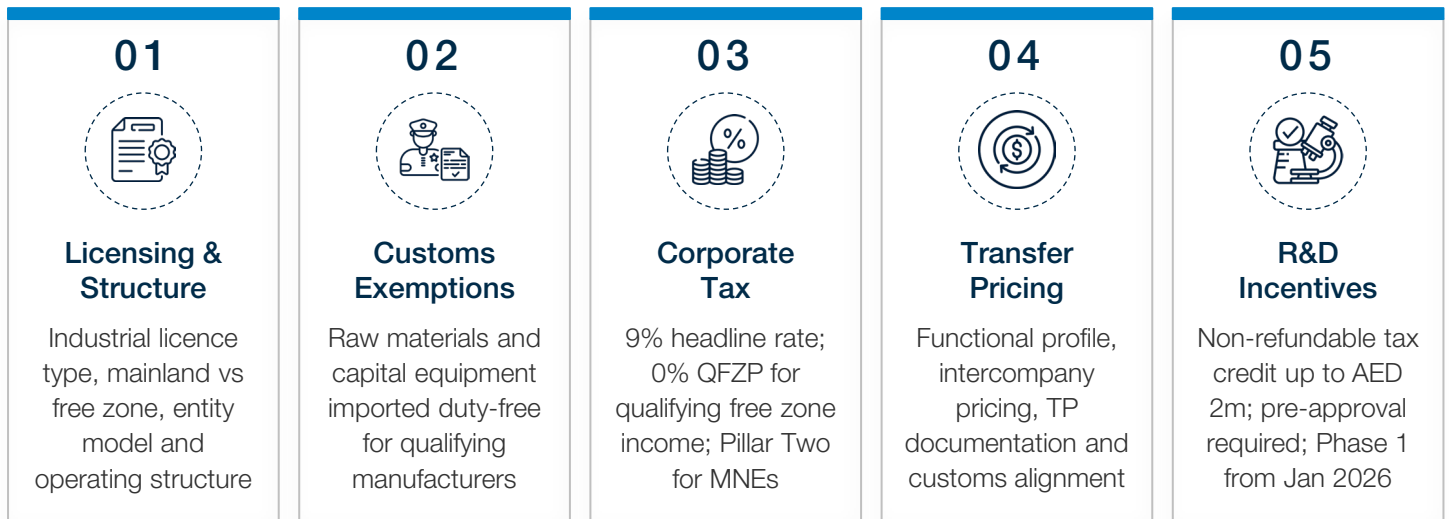
Industrialisation is becoming an increasingly important part of the UAE's long-term economic strategy. Driven by initiatives like "Make it in the Emirates," Operation 300bn and the wider national industrial agenda, the UAE is expanding beyond its traditional role as a trade and logistics hub. The country is fast becoming a key launchpad for advanced manufacturing and export-led growth.

This shift reflects a broader push to build an integrated industrial ecosystem, including strengthening local supply chains, technology transfer, production capabilities, skilled employment and export competitiveness. This is consistent with the broader localisation themes set out in A&M Middle East's [industrial manufacturing and localisation white paper](#), which highlights the importance of strategic policy frameworks, supply chain development, technology transfer and innovation capacity.

For businesses assessing manufacturing or localisation opportunities in the UAE, tax and trade planning should form part of the investment case from the start. Accessing available incentives and reliefs, such as customs duty exemptions, R&D-related support and an efficient corporate tax and transfer pricing models, often depends on how the business is structured and operated. Early planning can help reduce costs, manage compliance risk and support a more sustainable manufacturing and export model.



The Investment Case — Five Pillars



01 Industrial activity and the UAE's localisation agenda

The UAE's industrialisation agenda is intended to support economic diversification and move the country further up the value chain. While the UAE has historically been recognised for trade, logistics, distribution, energy and services, there is now a clear policy focus on manufacturing, advanced technology, local production and industrial competitiveness.

From a regulatory perspective, industrial activity is generally linked to licensed production, manufacturing or transformation activities. In practice, this typically involves an entity holding an industrial licence and conducting an approved activity such as manufacturing, processing, assembling, packaging or transforming goods. This is distinct from pure trading or distribution activity, where a company imports finished goods for resale without undertaking a manufacturing or value-added process in the UAE.

This distinction matters because industrial incentives, including customs exemptions, are generally linked to the company's licensed industrial activity. Businesses should therefore assess their licensing position, manufacturing model, import flows, export markets and tax structure together when considering the UAE as a manufacturing or export hub.

02 UAE customs industrial exemption

The industrial exemption for customs duties is key for UAE manufacturers to minimise the customs duty impact on their supply chain. The exemption allows industrial licence holders to import raw materials and capital equipment used in manufacturing without paying customs duty, subject to the relevant approvals and conditions. As the standard GCC customs duty rate is generally 5 per cent for many imported goods, the exemption can create a meaningful saving.



5%

Standard GCC duty rate avoided on qualifying imports

No bonding, suspension procedures or yield tracking required – relief applied directly at point of import.



The exemption is linked to the UAE's industrial licensing framework. In general, a company must hold an industrial licence or relevant industrial approval, and the imported goods must be connected to the approved manufacturing activity. The exemption typically applies to goods used as part of the manufacturing process, such as raw materials, semi-finished goods, packaging materials, spare parts, machinery and equipment. It is not intended to apply to unrelated imports, finished goods for resale or items that are not used in the licensed industrial activity.

A practical advantage of the UAE industrial exemption is that it is relatively simple to operate. In some jurisdictions, manufacturing reliefs require goods to be placed under bond or managed through suspension procedures. In the UAE, the exemption generally removes the duty at import once the relevant conditions are met. This makes it more straightforward for companies to operate and can provide an immediate cash flow benefit, without the same level of ongoing discharge, yield tracking or bonded stock management requirements often seen in equivalent reliefs elsewhere.

The UAE framework is currently comparatively broad. Compared with some markets, where customs exemptions may involve additional eligibility checks or more detailed administration, the UAE approach is generally more straightforward in practice. The key criteria are that the goods are genuinely used in the approved manufacturing process and the importing entity holds an industrial licence. This makes the exemption particularly attractive for industrial businesses, although companies should continue to monitor whether the authorities introduce further product-level controls or local availability considerations in the future.

The introduction of UAE corporate tax (CT) has added an additional layer to considerations for manufacturing businesses. The UAE applies a headline CT rate of 9 per cent on taxable income above AED 375,000, which remains competitive compared with many other jurisdictions and supports the UAE's appeal for industrial and export-led operations.

For manufacturing businesses, taxable income is generally based on accounting profits, subject to specific tax adjustments. In practice, this means that the treatment of production costs, inventory, operating expenses and capital expenditure can directly influence the tax position. Expenditure incurred for the purposes of the business is typically tax-deductible, while capital investment in plant, machinery and industrial assets is recovered over time. Given the capital-intensive nature of manufacturing, the timing of expenditure and the alignment between accounting and tax treatment can be particularly relevant.

The UAE also benefits from an extensive double tax treaty (DTT) network, which can be an important factor for manufacturing groups with cross-border supply chains. In practice, this can help reduce or eliminate withholding taxes on payments such as dividends, interest and royalties, depending on how the structure is set up and how the relevant treaty applies.

Free zones continue to play an important role in the UAE tax landscape. Manufacturing and processing of goods or materials is regarded as a qualifying activity for the purposes of the Qualifying Free Zone Person (QFZP) framework. Where the relevant conditions are met, income from qualifying activities can benefit from a 0 per cent CT rate. These conditions broadly include maintaining sufficient substance in the UAE, complying with transfer pricing requirements and ensuring that non-qualifying income remains within permitted thresholds. As a result, the location of manufacturing, distribution and related activities can directly impact the overall tax outcome.

For larger multinational groups, the interaction with the OECD Pillar Two rules may also be relevant. While the UAE's domestic CT rate is 9 per cent, groups within scope of the global minimum tax framework may need to consider the potential impact of a 15 per cent minimum effective tax rate at a consolidated level.

Overall, while the UAE remains a competitive tax environment, the effectiveness of the CT position will depend on how manufacturing operations are structured, the nature of activities undertaken and the extent to which available frameworks and incentives are accessed.

Transfer pricing (TP) considerations are likely to be particularly important where UAE manufacturing operations form part of a multinational or regional supply chain. As the UAE CT framework includes formal TP rules aligned with OECD principles, businesses should consider their operating model, functional profile and intercompany arrangements at an early stage of any manufacturing investment or restructuring.

For UAE manufacturing entities, a key consideration is the characterisation of the local entity within the wider group supply chain. For example, the UAE entity may operate as a toll manufacturer, contract manufacturer, limited-risk manufacturer or full-fledged manufacturer, depending on the functions performed, assets used and risks assumed. This characterisation will directly influence the expected profitability of the UAE entity and the appropriate TP methodology.

Intercompany flows should also be reviewed across the supply chain. This may include the pricing of raw materials, components and finished goods, as well as management services, technical support, procurement activities, contract research and development (R&D), engineering support, logistics and central procurement arrangements. Where UAE entities benefit from group intangibles, technology or manufacturing know-how, companies should also consider whether royalty arrangements or other IP-related payments are appropriate and supported.

For industrial businesses, the interaction between TP and customs valuation is often a key area of focus. Intercompany import prices may have both CT and customs duty consequences, particularly where the UAE entity claims industrial customs exemptions or imports materials from related parties. Companies should seek to ensure that their TP policies, import values and commercial arrangements are consistent and supported by appropriate documentation. Misalignments between customs values and TP positions can increase the risk of regulatory scrutiny or disputes.

TP should also be considered in the context of free zone structures and qualifying free zone person (QFZP) status. Where manufacturing, distribution, procurement or principal activities are split across multiple UAE or overseas entities, groups should consider whether the allocation of profits remains consistent with the underlying value creation, substance and commercial arrangements. This is particularly relevant where UAE free zone entities participate in cross-border supply chains or principal structures.

◀ Lower risk / margin

Higher risk / margin ▶



From a compliance perspective, UAE businesses with related party transactions may be required to maintain contemporaneous TP documentation, including a master file, local files and TP disclosure forms, depending on the size and nature of their operations. As the authorities place more focus on supply chain transparency, value creation and substance, companies should keep intercompany agreements, TP policies and day-to-day conduct closely aligned.

A key recent development for industrial businesses is the UAE's R&D Tax Incentives Programme (Phase 1), effective for tax periods commencing on or after 1 January 2026. Under Phase 1, eligible businesses can access a non-refundable R&D tax credit of up to AED 2 million to offset UAE corporate tax (and, where relevant, top-up tax). The Programme is intended to support genuine R&D carried out in the UAE. In simple terms, this constitutes work that is trying to achieve a meaningful advance (or solve a real technical problem), where the outcome is not certain at the outset, delivered in a structured way, and producing learnings that can be used or replicated. This is particularly relevant for manufacturers where qualifying R&D may be embedded in product development, process engineering, automation, materials testing, prototyping, and scale-up activities. Phase 1 also requires project-level pre-approval, so manufacturers benefit most when projects are identified early and the business can clearly explain what the project is trying to achieve and how costs link to the work.

Effective Date

1 January 2026

Applies to tax periods commencing on or after this date.

Credit Type

Non-Refundable Tax Credit

Offsets UAE corporate tax and, where applicable, top-up tax.

Maximum Credit

AED 2 Million per period

Cap applies per tax period under Phase 1 of the programme.

Key Requirement

Project-Level Pre-Approval

Projects must be identified and approved before costs are incurred.

Qualifying R&D Criteria



Seeks a meaningful advance or solves a genuine technical problem



Outcome is not certain at the outset of the project



Delivered in a structured and systematic way



Produces learnings that can be used or replicated



For manufacturers, qualifying R&D may be embedded in product development, process engineering, automation, materials testing, prototyping and scale-up.

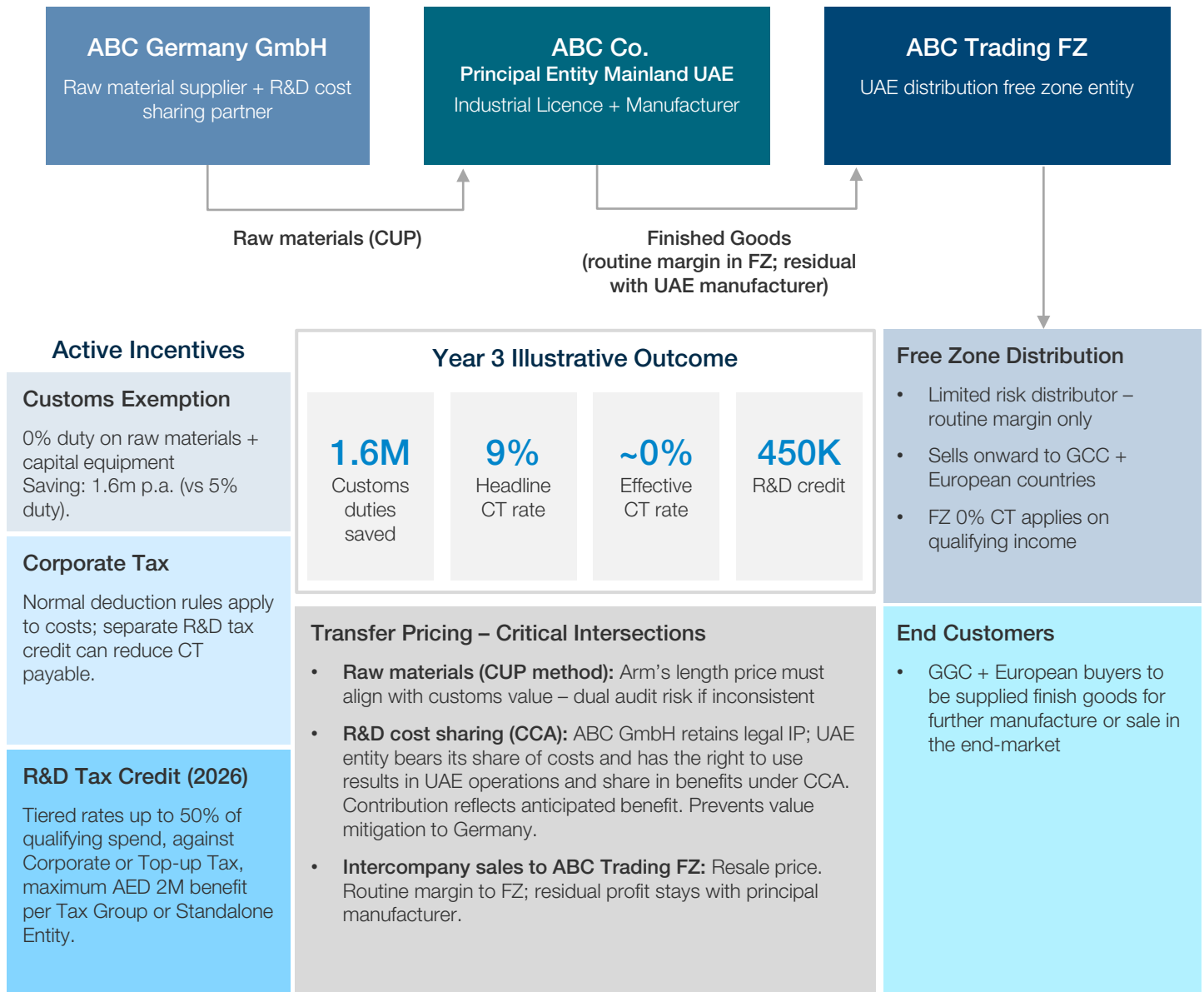
Alongside the tax credit, manufacturers should consider the wider interaction between R&D activity, IP ownership and transfer pricing, particularly where development is performed in the UAE, but IP is held elsewhere (or where the UAE entity is performing R&D on behalf of a group company). This ensures that the operating model, contractual position and profit allocation remain consistent.

More broadly, manufacturers may also be able to access national and emirate level innovation and industrial development support (for example, programmes linked to the UAE's industrial strategy, technology transformation/Industry 4.0 adoption, and industrial financing initiatives) depending on their footprint, technology focus and localisation agenda. Consequently, the most effective approach is typically to plan incentives, IP strategy, and TP together at the outset, rather than in isolation.

Case Study

Bringing the above points together, this case study examines a UAE mainland manufacturer established to produce composite panels for the construction. The manufacturer holds an industrial licence and imports raw materials and capital equipment from a related party overseas. If the relevant approvals are obtained, the UAE industrial customs exemption may reduce customs duty on eligible production inputs, thereby improving the landed cost of materials and supporting the commercial case for local manufacturing.

Image: UAE Manufacturing Structure



The UAE manufacturer may also benefit from the broader UAE tax environment, including the 9 per cent corporate tax rate and, where relevant, the UAE R&D tax credit for qualifying innovation or conditional on meeting specific eligibility and governance requirements, including that the UAE entity bears the relevant costs and is entitled to benefit from the results of the R&D. Therefore, the overall outcome will depend on how the structure is designed and operated. For example, the pricing of raw materials from the overseas related party should align with both TP requirements and customs valuation principles, while any R&D cost-sharing, technical support or IP arrangements should be clearly documented and consistent with the group's operating model and TP policy.

The structure may also include a UAE free zone trading entity responsible for regional distribution. If so, the allocation of profits between the mainland manufacturer and the free zone distributor should reflect the functions performed, assets used and risks assumed by each entity. With strategic planning, the UAE can support an integrated manufacturing and distribution model that combines customs duty savings, corporate tax efficiency, R&D incentives and access to regional and international customers.

Conclusion

The UAE's industrialisation agenda is giving businesses a stronger reason to consider local manufacturing, advanced production and export-led operations. Initiatives such as "Make it in the Emirates" and Operation 300bn reflect a broader policy direction focused on attracting industrial investment, increasing supply chains and strengthening the UAE's role as a regional and global manufacturing platform.

Businesses need to incorporate efficient tax and trade planning as part of the wider investment case. Aligning the licensing position, customs exemptions, corporate tax profile, TP model, R&D strategy and export planning allows businesses to be better placed to benefit from the UAE's industrial growth.

Key Contacts



Angelo Carella

Managing Director
Strategy and Performance Improvement
acarella@alvarezandmarsal.com



Andrea Di Lello

Senior Director
Strategy and Performance Improvement
adilello@alvarezandmarsal.com



Vishal Sharma

Managing Director
UAE Tax Practice Leader
vishal.sharma@alvarezandmarsal.com



Justin Whitehouse

Managing Director
Global Indirect Tax Practice Leader
jwhitehouse@alvarezandmarsal.com



Mohamed El-Swefy

Managing Director
UAE Corporate Tax
mel-swefy@alvarezandmarsal.com



Malcolm Manekshaw

Senior Director
Transfer Pricing
mmanekshaw@alvarezandmarsal.com



Sarah McEvitt

Associate Director
Customs & International Trade
smcevitt@alvarezandmarsal.com



Dion de Ruijter

Associate Director
Transfer Pricing
dderuijter@alvarezandmarsal.com



Lauren Wilson

Manager
Corporate Tax and Innovation Incentives
l.wilson@alvarezandmarsal.com

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