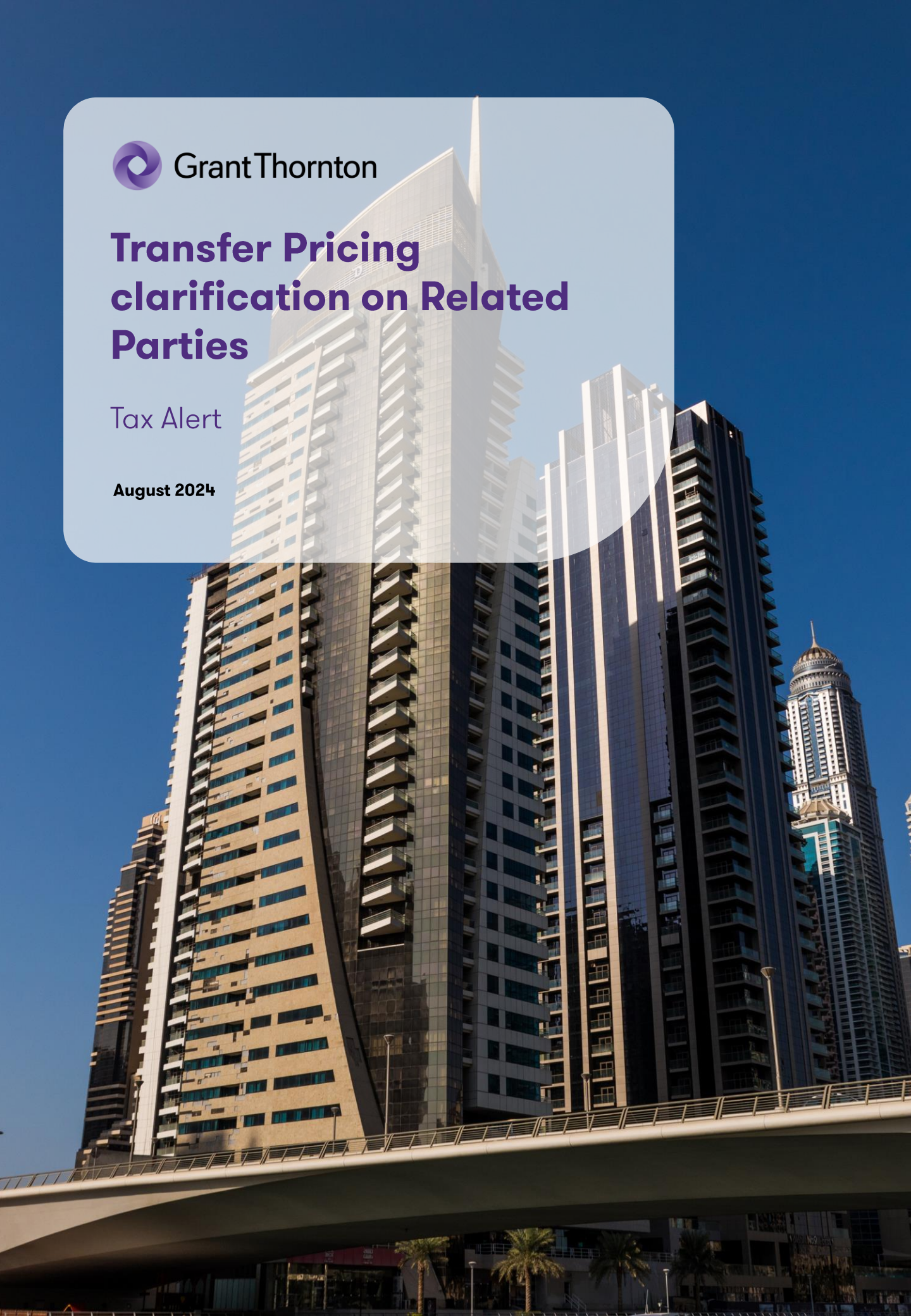


# Transfer Pricing clarification on Related Parties

Tax Alert

August 2024



# Related party relationship between entities under Government Ownership or Control

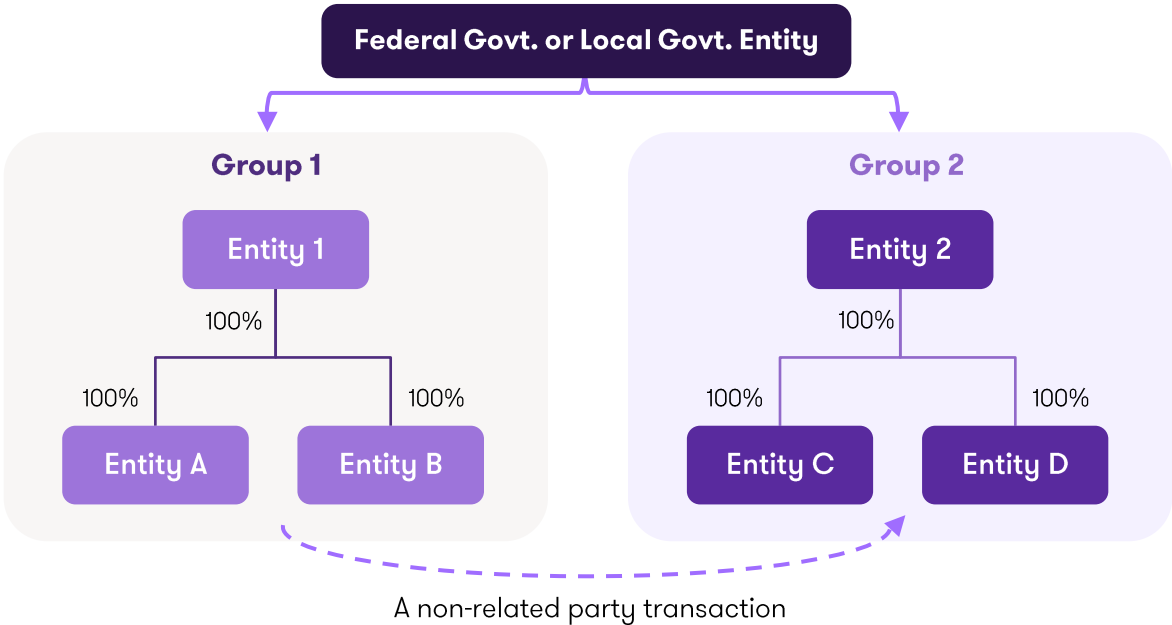
On July 22nd, 2024, the Federal Tax Authority, also known as the “FTA”, released a Public Clarification, referred to as the “FTA Clarification”. This clarification provides a definition of Related Parties as per Article 35 of the Federal Decree-Law No. 47 of 2022 on the Taxation of corporations and businesses, referred to as the “UAE Corporate Tax Law”.

The FTA Clarification provides specific guidance for government owned/ controlled entities.

As per the FTA Clarification, two or more taxable persons having common ownership or control (direct or indirect) by a Federal Government, or a Local Government (i.e. Any of the governments of the Member Emirates of the Federation) will not be considered as ‘Related Parties’ for the purpose of Article 35 of the Corporate Tax Law.

Thus, these transactions will not be required to apply the arm’s length principles as per Article 34 of the Corporate Tax law, nor any TP documentation compliance requirements apply to these transactions.

The FTA Clarification also provides an illustrative example of two separate group of entities that have common ownership by a Federal Government or Local Government Entity, as follows:



Implications
Federal Govt. or Local Govt. Entity and Entity 1 or Entity 2 are considered as Related Parties.
Any entity in Group 1 with any entity in Group 2 would not be considered as Related Parties to each other, hence transactions between such entities are a non-related party transaction.
Any transaction between entities within the same group (e.g. Entity 1 and Entity A, Entity A and Entity B, Entity 2 and Entity C, Entity C and Entity D) would be considered a Related Party transaction and subject to the Transfer Pricing regulations.

Hence, it is important to review and re-assess group structures that are ultimately owned/ controlled by Federal Government / Local Government.



# Key Takeaways

- Transactions between entities owned/ controlled by Federal/ Local Government will not be required to apply the arm's length principles as per Article 34 of the Corporate Tax law, nor any TP documentation compliance requirements apply to these transactions.
- The FTA Clarification does not apply to entities owned/ controlled by Government entity i.e. ministries government departments, government agencies, authorities and public institutions of the Federal Government or Local Governments. In the above example, in Group 1, if Entity 1 is a Government entity, the FTA Clarification will not apply and any transactions between entities in Group 1, will be considered as related party transactions. In this case, compliance to Article 34 and TP documentation requirements would be required.

# How can we assist you

- We can review the ownership structure and help in identifying the related parties and related party transactions, by applying this FTA Clarification.
- Analyzing the impact of the TP regime on the related party transactions and formulating Transfer Pricing policy would be crucial.



# Contact our Tax team

For more details regarding this Tax alert or other Tax issues, reach out to our team of experts on the latest Tax developments within the UAE and the Middle East region.



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