

# Decoding Transfer Pricing with GT UAE

## Related Parties and Connected Persons

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### Definition of Related Parties

The Transfer Pricing (TP) provisions in the UAE apply to transactions or arrangements between Related Parties or Connected Persons. Related Parties are defined under Article 35 of the UAE CT Law to include the following:

- Two or more natural persons within the fourth degree of kinship or affiliation (including but not limited to parents, children, grandparents, great-great-grandchildren, grand uncle, grand aunt, grandniece, grandnephew, first cousins etc.)
- Where a person, alone or together with its Related Parties, directly or indirectly (i) owns 50% or greater ownership interest; or (ii) Controls, the other person. Such persons may include:
  - Arrangement between Natural Person and Juridical Person
  - Arrangement between two (2) or more Juridical Persons
  - Arrangement between two (2) or more Juridical Persons (via common ownership)
- A Person and its Permanent Establishment (PE) or Foreign Permanent Establishment
- Two or more Persons that are partners in the same Unincorporated Partnership
- A Person who is the trustee, founder, settlor or beneficiary of a trust or foundation, and its Related Parties.



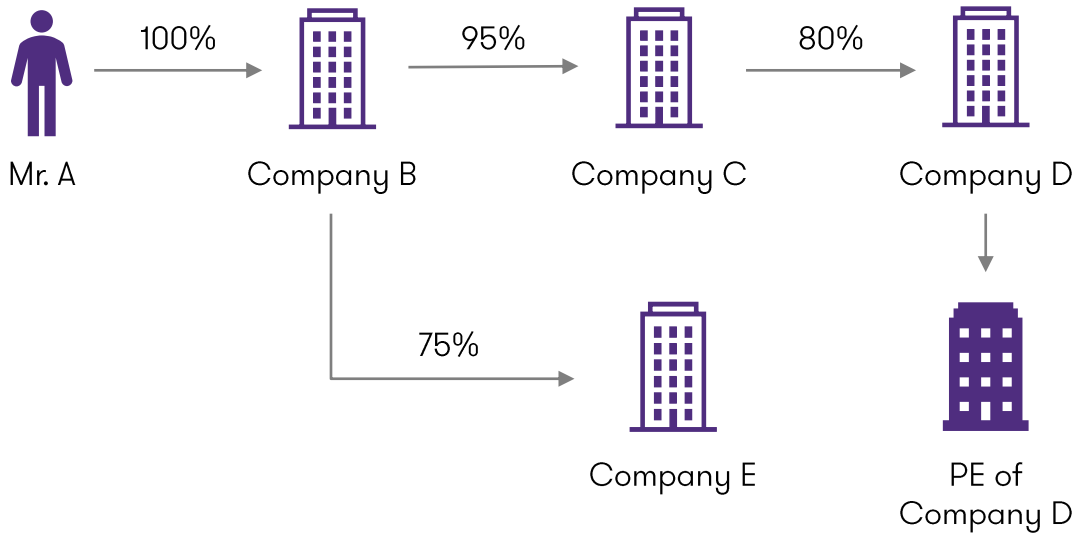
### Determinants of Control

- Ability to exercise 50% or more of the voting rights
- Ability to determine the composition of 50% or more of the Board of directors
- Ability to receive 50% or more of the profits
- Ability to determine, or exercise significant influence over, the conduct of the Business wherein 'significant influence' may involve an exercise to influence and direct the Business by virtue of debt, entitlement to profit share, majority interest etc.

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Based on the definition provided in Article 35 of the UAE CT Law, following entities will be treated as Related Parties:

- Natural person Mr. A is a related party of Company B, C, D and E.
- Company B is a direct related party of Company C and E.
- Company B indirectly has an ownership interest in Company D [ $95\% \times 80\% = 76\%$ ]. Accordingly, Company B is also a related party of Company D.
- Company C is a related party of Company D and PE of Company D
- Further, Company C and E have common ownership of Company B, hence, Company C is also a related party of Company E.
- PE of Company D and Company D will also qualify as related parties.

It is worth mentioning that since all the entities are directly or indirectly held by Mr. A, with the ownership interest > 50%, all the entities will be treated as related parties of each other.

*Please note that above illustration is only for explanation purposes and each Taxable Person needs to evaluate its applicability on a case-by-case basis.*

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## Payment to Connected Persons

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As per Article 36 of the UAE CT Law, payment or benefit provided to Connected Persons (CP) shall be allowed as tax deduction to a Taxable Person only if they correspond to Market Value and are incurred wholly and exclusively for the purposes of business. A Person is considered a CP if that Person is:

- An individual, who directly or indirectly owns / control the Taxable Person
- A director or officer of the Taxable Person
- Partners in Unincorporated Partnership
- Related party to any of the above

### TP Coverage (under Article 36)

Payments made to CP	Yes
Income earned from CP	No
Benefits provided to CP	Yes
Benefits availed from CP	No

In a scenario where CP also qualifies as a Related Party, an income earned, and benefits availed from such CP will also get covered under TP regime.

### Taxable Persons to whom Article 36 will not apply

- Taxable Persons whose shares are traded on a recognized stock exchange
- Taxable Persons that are subject to regulatory oversight of a competent authority
- Any other Person as may be determined in a decision issued by the Cabinet





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Next steps

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Evaluate and determine Related Parties and Connected Persons of the Taxable Person



In case of less than 50% shareholding between entities/ owners, conduct a detailed evaluation of 'Control' determinants



Review and evaluate internal Human Resource (HR) policies for making payment to Connected Persons



Analyze relationship of owners up to fourth degree of kinship or affiliation to identify all the Related Parties



Identify all the transactions and arrangements with the identified Related Parties and Connected Persons

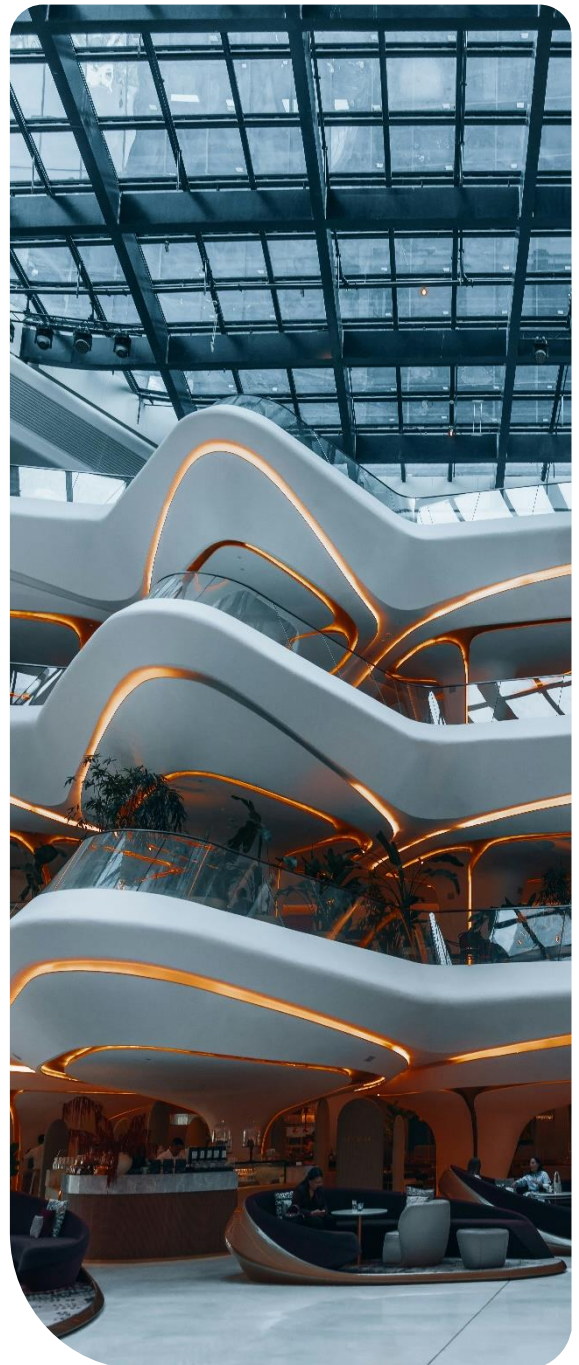


Review and ensure compliance with arm's length principle for all the above transactions/ arrangements



Adhere compliance with UAE TP regulations and documentation including TP Disclosure Form, Local file, Group Master file and Country-by-Country report

**Stay tuned for our next publication on UAE TP Compliance Requirements**



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Contact our Transfer Pricing team

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For more details regarding this topic 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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