

Decoding Transfer Pricing with GT UAE

Manufacturing models & relevant treatments

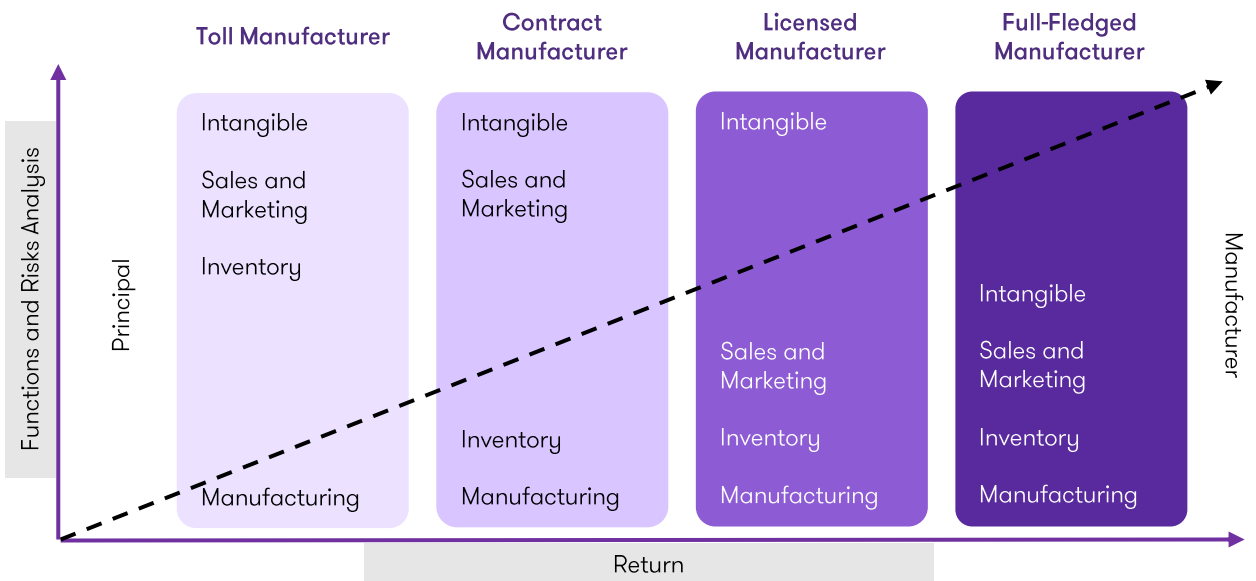
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Manufacturing activities are significant and common in the UAE market, and with the introduction of Transfer Pricing regulations, it is crucial to identify and understand different manufacturing models. These models play a key role in determining the pricing of goods and the allocation of profits among related parties.

By accurately structuring manufacturing models, businesses can ensure regulatory compliance, optimize financial performance, and maintain equitable profit distribution across their operations.

Some of the commonly adopted manufacturing models used by organizations today are Toll Manufacturer, Contract Manufacturer, Licensed Manufacturer and Full-Fledged Manufacturer.

The chart below shows the connections between the functions and risk analysis and their corresponding returns:



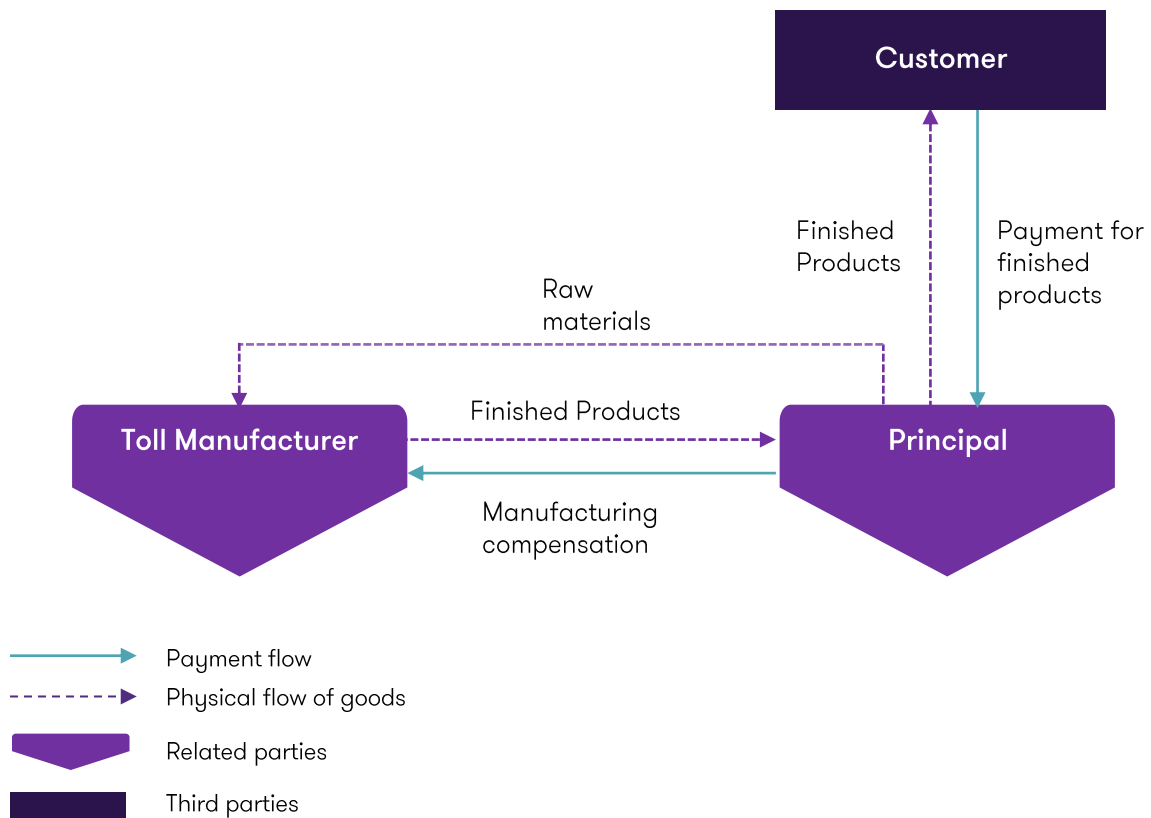
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Toll Manufacturer

- Manufactures goods on behalf of the principal, where raw materials are provided by the principal. The principal retains title to the raw materials, work-in-process, and final products during the manufacturing process
- **Functions:** Basic assembly or manufacturing task that requires limited technical skills.
- **Risks:** Does not retain risks and rewards associated with the manufacture of goods generally.
- **Remuneration:** Usually earns a return as a percentage of value-added manufacturing costs.



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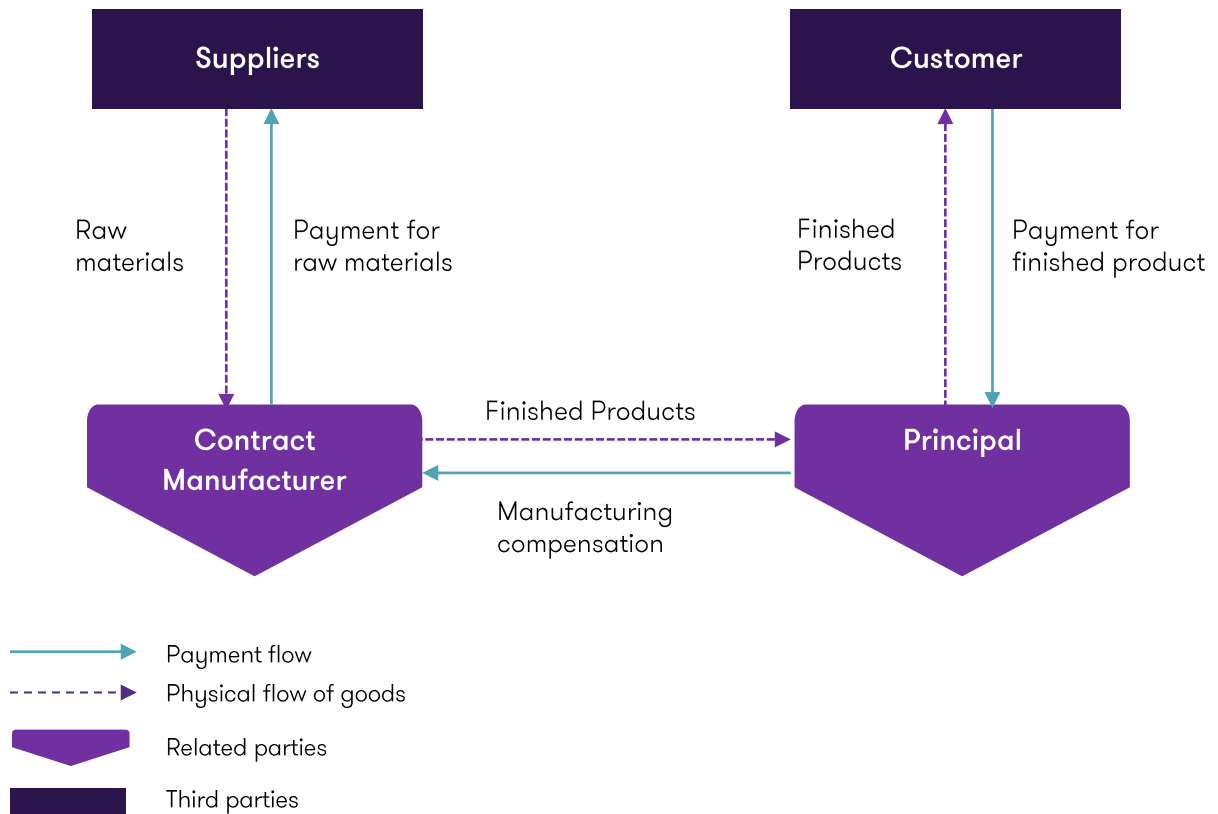
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Contract Manufacturer

- Manufactures goods for a principal, generally based on pre-agreed quantities and pre-agreed schedules. The principal guarantees the purchase of goods for the capacity agreed upon by them.
- **Functions:** Performs inventory functions (including vendor selection, quality of raw materials etc.), production scheduling and quality control.
- **Risks:** Assumes minimal risks related to inventory, while the principal retains the strategic and market risks.
- **Remuneration:** Usually full cost-plus mark-up.



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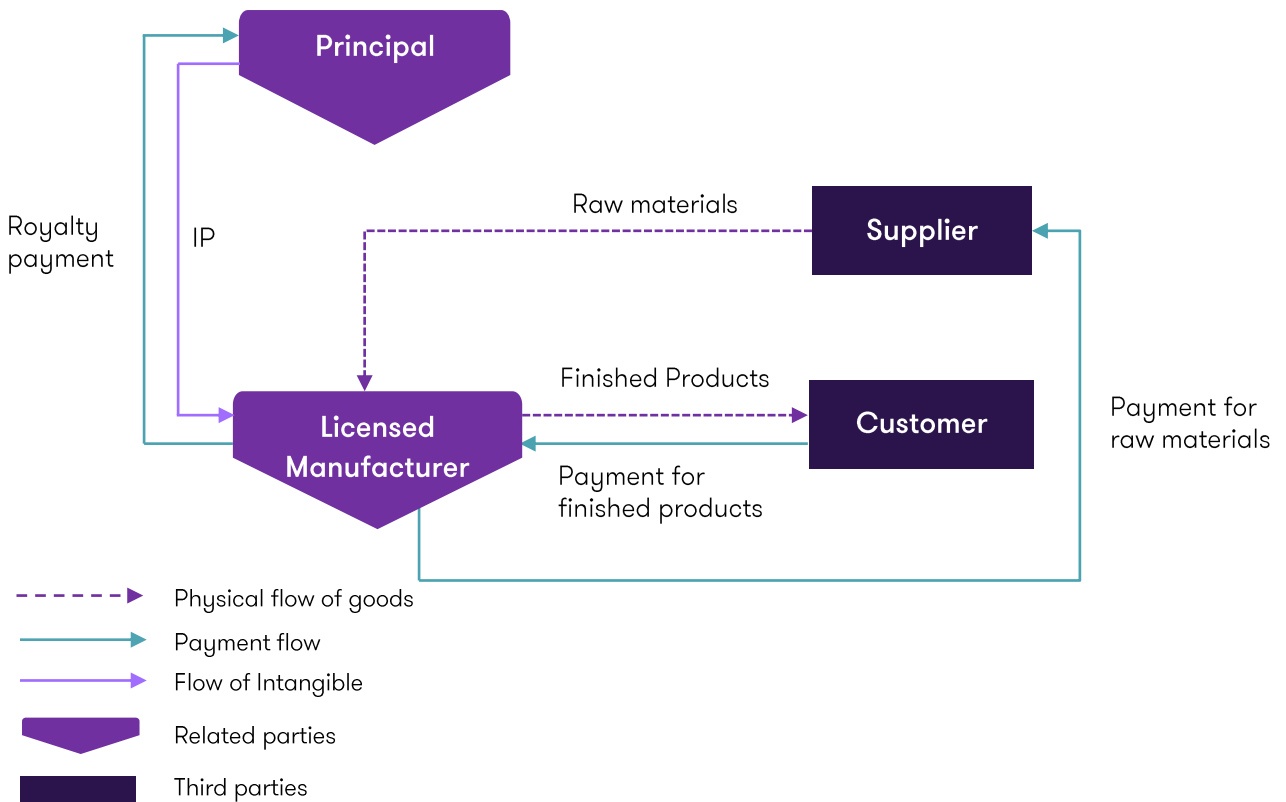
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Licensed Manufacturer

- Manufactures goods under a license agreement, using manufacturing intangibles owned by the licensor (such as patents, product designs, manufacturing process and know how); pays royalties for the use of intangible property (“IP”)
- **Functions:** Performs inventory functions (including vendor selection, quality of raw materials, etc.), production scheduling, marketing, sales and distribution and quality control.
- **Risks:** Assumes risks associated with both holding inventories and selling products, including demand and pricing risks.
- **Remuneration:** Usually full cost-plus mark-up



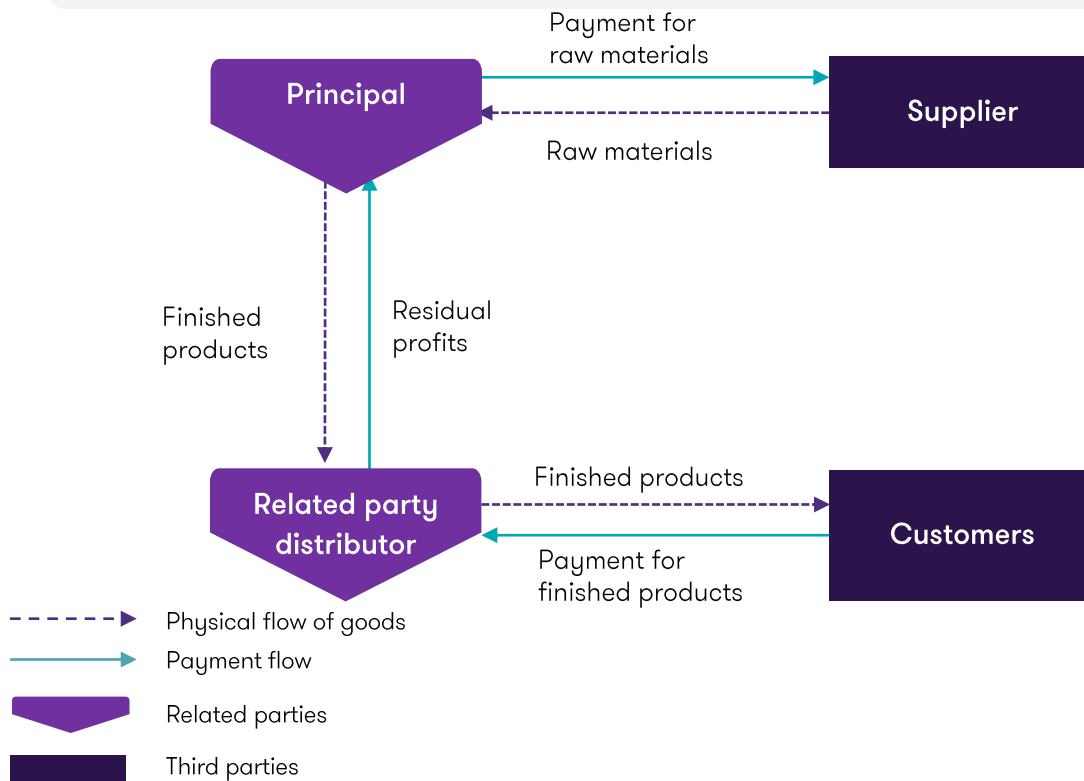
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Full-Fledged Manufacturer

- Undertakes all operational and strategic activities for the manufacture and sale of its output.
- **Functions:** Performs activities such as production planning, input procurement, supply chain management, quality control, long-term capacity utilization planning, marketing and sales. Furthermore, it may undertake Development, Enhancement, Maintenance, Protection and Exploitation (“DEMPE”) functions, and possess routine intangibles pertaining to manufacturing.
- **Risks:** A range of risks associated with those activities such as product liability, warranty, capacity utilization, market, pricing, etc.
- **Remuneration:** Routine returns may accrue to the entities performing normal functions and residual returns to be attributed to the full-fledged manufacturer.



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Ensure that an appropriate manufacturing model is in place for setting up pricing policies and distributing profits effectively within the group.



Align the positioning of the business model with the transfer pricing policy.



Ensure the business model reflects economic substance, value creation, and overall business strategy.



Ensure compliance and maintain documentation as transfer pricing regulations continue to evolve.



Evaluate additional key factors, such as PE risks, VAT distribution, customs valuation, and withholding taxes.



Plan and optimize the supply chain to effectively mitigate tax risks within business operations.



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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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