

Decoding Transfer Pricing with GT UAE

Distribution models and relevant treatments

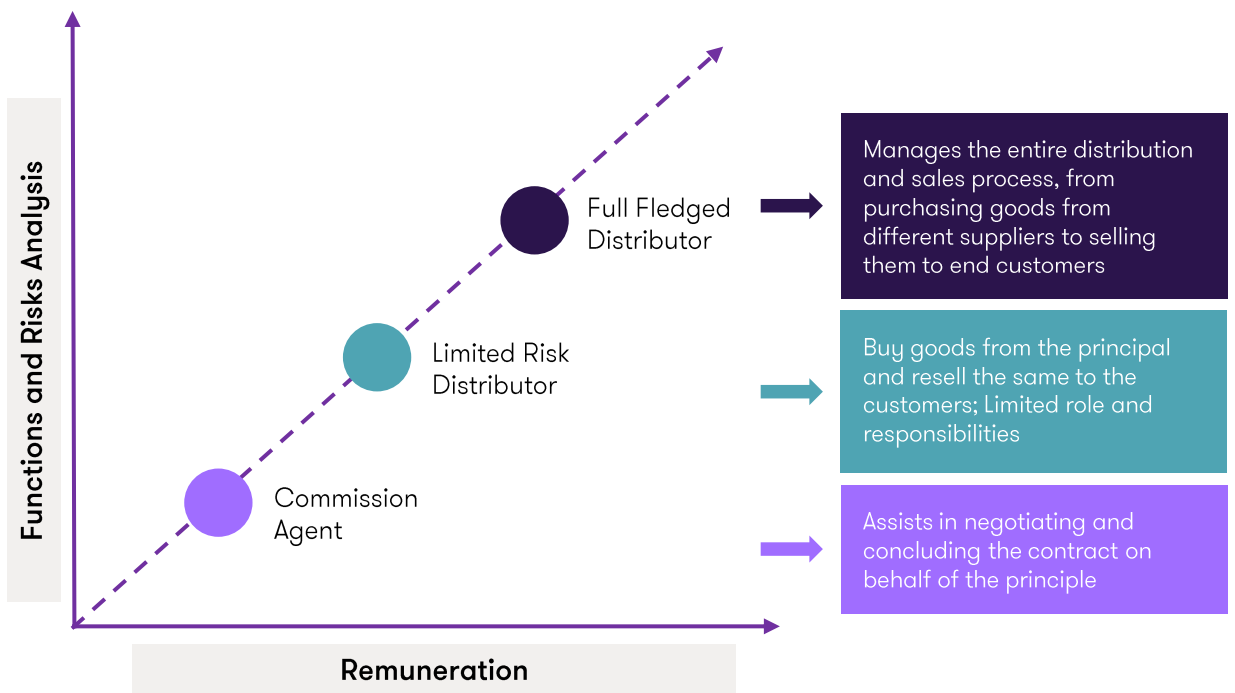
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Distribution activities are significant and common in the UAE market, and with the introduction of Transfer Pricing regulations, it is crucial to identify and understand different distribution models. These models play a key role in determining the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

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

Some of the common adopted distribution models used by sales and distribution organizations today are the Commission Agent, the Limited Risk Distributor and the Full-Fledged Distributor.

The chart below shows the connections between the functions and risk analysis and remuneration:



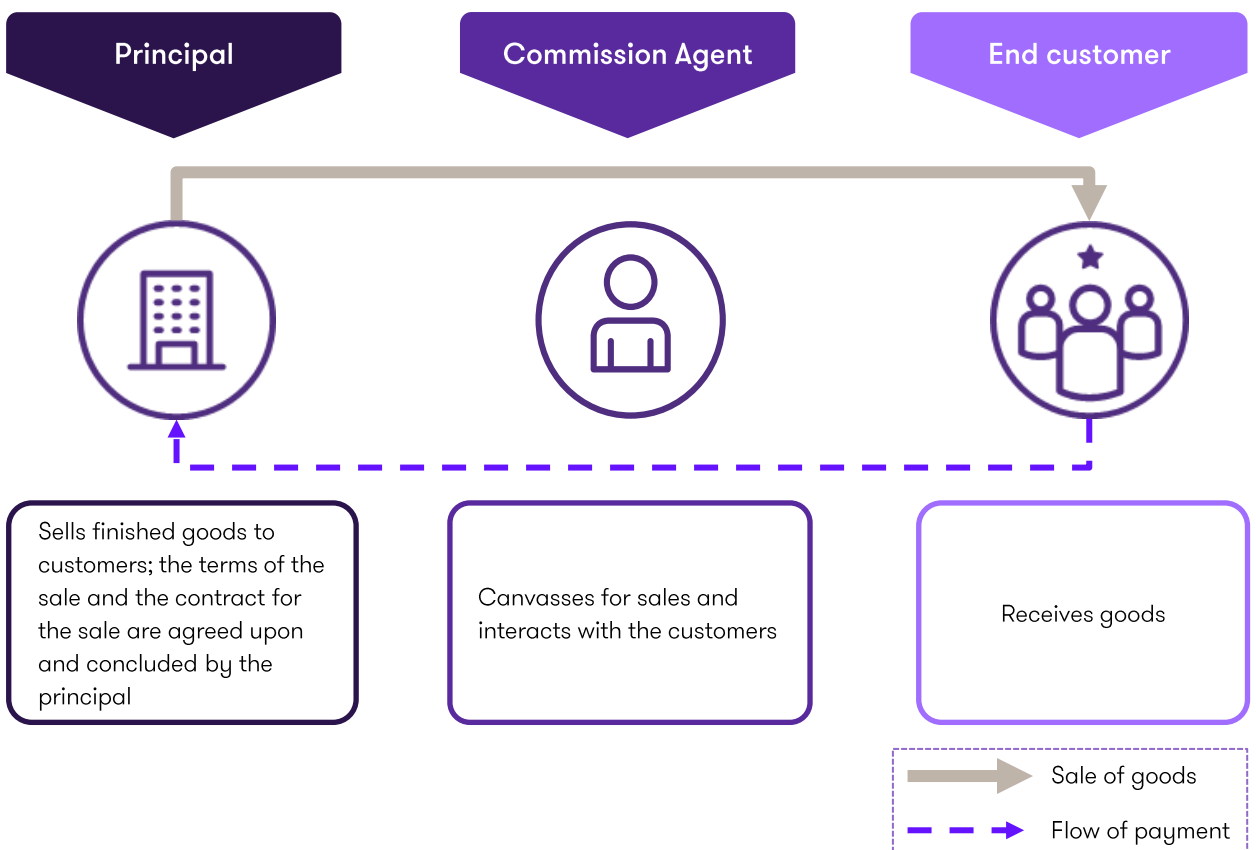
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Commission Agent

- Acts as an intermediary by securing orders on behalf of the domestic or foreign principal without taking ownership of goods, where the title of the goods is transferred directly by the principal to the customer.
- **Functions:** Typical sales functions, such as identifying potential customers; calling on active and potential customers, introducing new products, taking customer orders, and maintaining customer relations.
- **Risks:** Does not retain risks and rewards associated with the sale of goods generally.
- **Remuneration:** Usually earns a commission as a percentage of sales generated.



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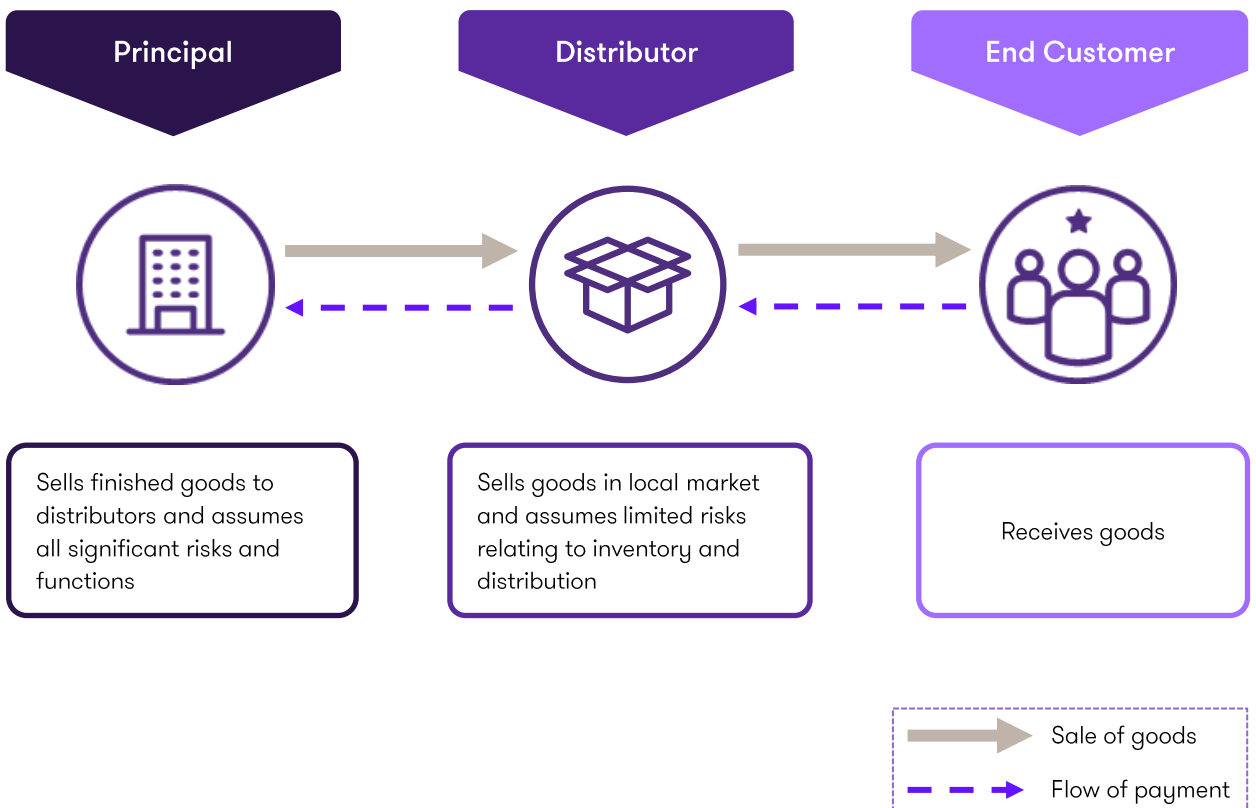
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Limited Risk Distributor

- Resells products purchased from the principal with limited involvement in marketing or strategy.
- **Functions:** performs all sales and distribution functions and has limited risk profile (e.g., inventory or bad debts risks).
- **Risks:** Assumes minimal risks related to inventory and local distribution, while the principal retains strategic and market risks.
- **Remuneration:** Receives fixed and assured margins on sales due to lower operational exposure.



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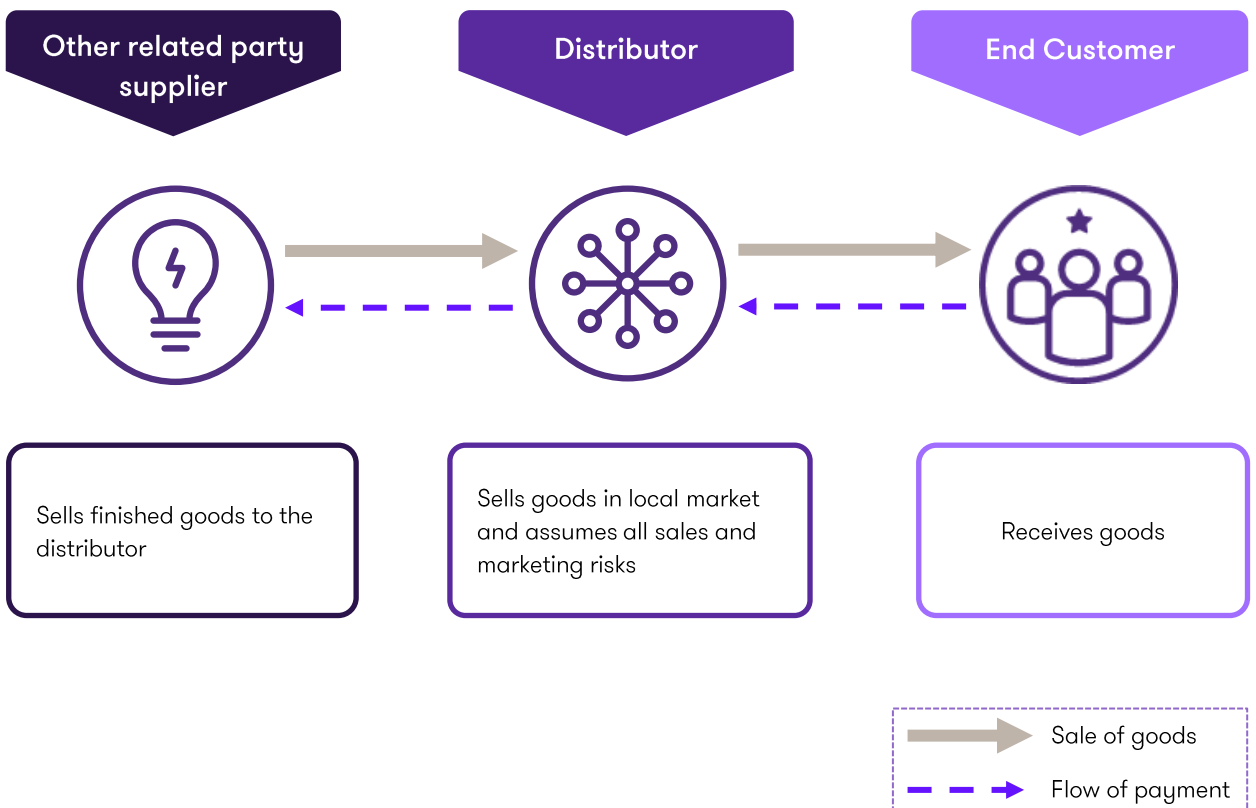
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Full Fledged Distributor

- Manages the entire distribution and sales process, from purchasing goods from related-party and independent suppliers to selling them to end customers.
- **Functions:** Undertakes all sales and distribution functions. It may also be responsible for strategic and operational marketing activities, such as developing a market penetration strategy.
- **Risks:** Assumes market, credit, and inventory risks, contributing significantly to value.
- **Remuneration:** Receives compensation through a return on sales, reflecting its operational involvement and risk exposure.



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Ensure an appropriate business model 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.



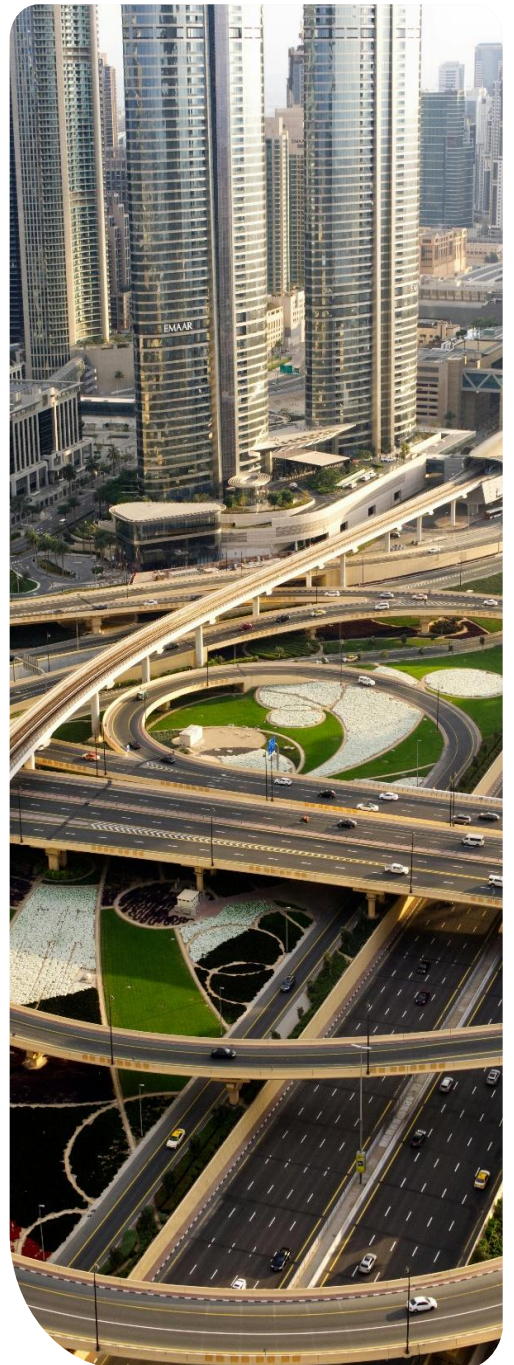
Ensure compliance and maintain documentation as transfer pricing regulations continue to evolve.



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.



Stay tuned for our next publication on Shared services (include benefits analysis).

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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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