

Decoding Transfer Pricing with GT UAE

What is Transfer Pricing

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Transfer Pricing ('TP') regime was introduced in UAE in the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses i.e. Corporate Tax Law. FTA also published the Transfer Pricing Guidelines in October 2023.

Purpose of introduction of TP regime in UAE



Govern transactions between Related parties and Connected persons



Assess whether the transactions are entered at arm's length price i.e. at market value



Avoid shifting of profits to low tax jurisdictions or from mainland to freezone entities (benefiting from 0% corporate tax), to reduce the overall tax burden of a Group

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Applicability of Transfer Pricing regulations

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Cross border transactions in case of Multinational Enterprises

Transactions between related parties and/ or Connected Persons within UAE

Transactions between free zone entity and its domestic/ foreign permanent establishment (attribution of profits in accordance with the arm's length principles is recommended)

Payments to connected persons (i.e. owner, shareholder, director, key management, family members)

Illustrative list of transactions where TP is applicable:

- ✓ Sale of goods / provision of services
- ✓ Provision of management services
- ✓ Common employees/ centralized shared services
- ✓ Royalty on brand/ family name, trademark
- ✓ Sponsoring visa on behalf of related parties
- ✓ Advancement of funds, interest free loans
- ✓ Centralized cash management and cash pooling
- ✓ Making payments on behalf of related parties

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What is the Arm's Length Principle

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1

Arm's Length Principle requires that transactions between Related Parties be at open market value as if they were between independent parties

2

Contractual terms and conditions of arrangement between Related Parties need to be determined by market force and negotiations, similar to arrangement between independent parties.

3

One of the conditions for a Qualifying Free Zone Person is to comply with the arm's length principles to avail the benefits of 0% corporate tax rate








4

The Law also requires the opening balance sheet of the first tax period i.e. balances with related parties, outstanding as on the closing date of the period prior to the first tax period, to be at arm's length

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Next Steps

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-  Determine your first tax period
-  Assess if TP regulations are applicable to your Company/ Tax Group
-  Check outstanding balances with related parties before your first tax period
-  Identify the transaction with related parties and connected persons
-  In case of no existing TP policy, undertake an exercise to formulate the Transfer pricing policy in accordance with the Law
-  Maintain the recommended Transfer Pricing Documentation
-  Adhere to Transfer pricing compliances – TP Disclosure Form, Local file, Master file, Country-by-country report



Stay tuned for our next publication on *Related parties & Connected Person*

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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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