# UAE TRANSFER PRICING

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# What Every Business Must Know About Related Party and Connected Person Transactions ?

The introduction of the UAE Corporate Tax regime has brought Transfer Pricing (TP) compliance into sharp focus for businesses operating in the UAE. Effective for financial years commencing on or after 1 June 2023, the UAE Corporate Tax Law imposes a 9% tax on taxable income exceeding AED 375,000 and introduces comprehensive Transfer Pricing requirements aligned with internationally recognized OECD standards.

These rules are designed to ensure that transactions between Related Parties and Connected Persons are conducted on an arm's length basis, preventing the artificial shifting of profits and protecting the UAE tax base. As a result, businesses must carefully evaluate their intragroup arrangements, management remuneration, financing transactions, service charges and other related-party dealings to ensure compliance with the UAE Transfer Pricing framework.

This article provides a practical overview of the key Transfer Pricing provisions under Federal Decree-Law No. 47 of 2022, the Federal Tax Authority's Transfer Pricing Guide and related guidance. It highlights the distinction between Related Parties and Connected Persons, outlines documentation and disclosure requirements and discusses the key compliance considerations that UAE businesses should address to mitigate Transfer Pricing risks and navigate Corporate Tax obligations effectively.

# Core UAE Transfer Pricing Rules

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1. Arm's Length Principle (ALP)

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2. Related Parties vs. Connected Persons

03.
3. Controlled Transactions and Comparability Analysis

04.
4. Documentation and Disclosure Requirements (Article 55)

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# 1. Arm’s Length Principle (ALP) –Core of UAE TP Rules

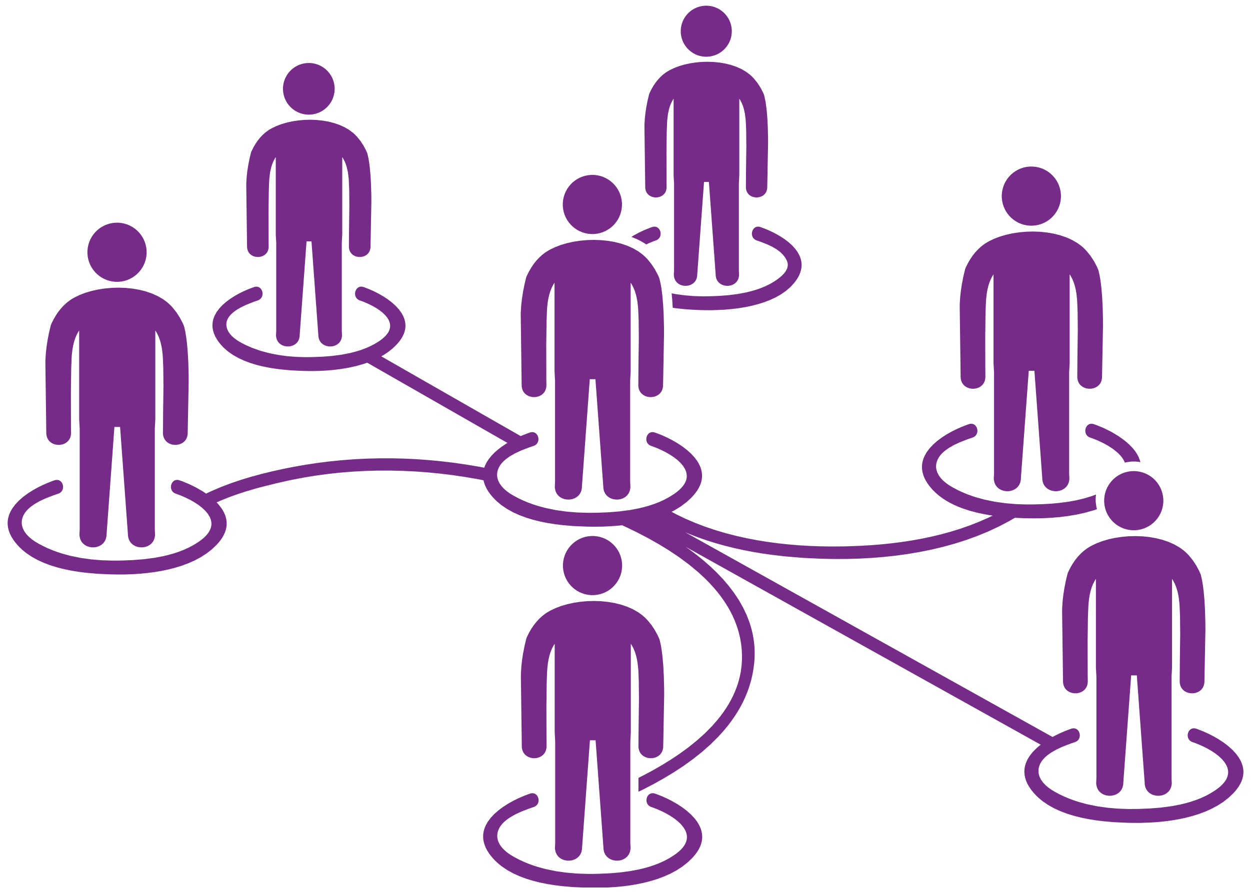
Article 34 of the CT Law requires that transactions or arrangements between Related Parties or with Connected Persons be conducted at arm’s length-i.e., under conditions that would be agreed between independent parties in comparable circumstances.

**Applies to both domestic and cross-border transactions**

**Payments/benefits to Connected Persons are deductible only if they correspond to market value (determined via ALP) and are incurred wholly and exclusively for business purposes.**

**Exceptions to deductibility limits exist for publicly traded companies, regulated entities etc.**

The FTA can adjust taxable income if transactions fall outside the arm’s length range with corresponding adjustments possible for the counterparty.



# 2. Related Parties vs. Connected Persons

UAE rules distinguish these two categories, though both fall under TP scrutiny.

## Related Parties (Article 35)

Broad definition covering entities/persons with pre-existing relationships via:

- Kinship: Natural persons related up to the fourth degree.
- Ownership/Control: ≥50% ownership (direct/indirect) or control (voting rights, board composition, profits or significant influence).
- Juridical persons related through common ownership/control.
- Partners in the same unincorporated partnership.
- A person and its Permanent Establishment (PE).
- Trustees, founders, settlors, beneficiaries of trusts/foundations and their related parties.

Control includes the ability to exercise significant influence over affairs.

## Connected Persons (Article 36)

Primarily targets individuals closely affiliated with the business (to address potential issues in owner-managed entities, given no personal income tax in the UAE).

A person is a Connected Person if they are:

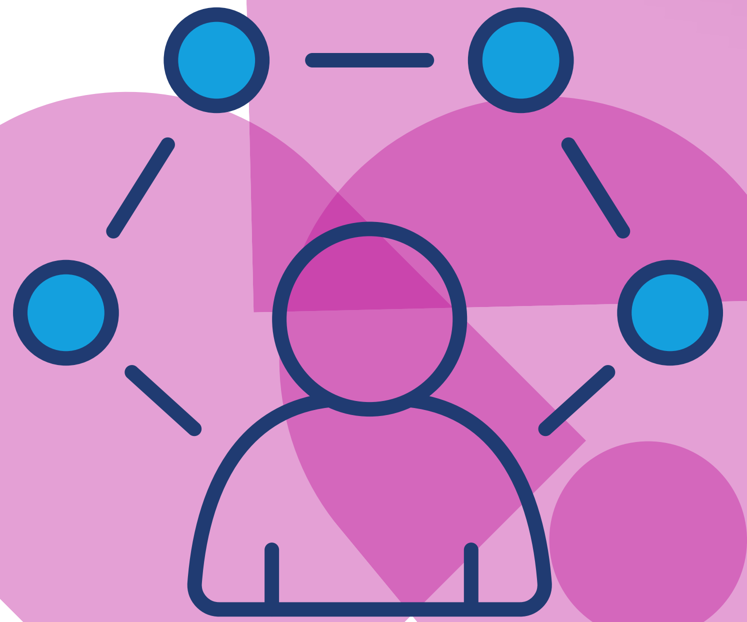
- A natural person who directly or indirectly owns an ownership interest in or controls the Taxable Person.
- Director: Formally appointed to the board or equivalent governing body (FTA CTP010 clarification).
- Officer: Person with actual authority to make decisions or bind the entity (based on substance, not just title, e.g., may include senior executives with real power).
- A Related Party of the above.
- For unincorporated partnerships: Other partners and their Related Parties.

## Payments to Connected Persons:

Deductible only at market value (ALP) + wholly/exclusively for business purposes. FTA stricter scrutiny for owner salaries, director fees, benefits etc.

## Connected Person Disclosure Rule :

- **Connected Person Schedule** : Aggregate payments/benefits per Connected Person (and their related parties) > AED 500,000.
- If a person qualifies as both Related Party and Connected Person, treat primarily as Related Party only for TP disclosure purposes.



# 3. Controlled Transactions and Comparability Analysis

TP rules cover any commercial/financial transactions (sales, purchases, services, loans, intangibles etc.) between Related Parties or Connected Persons.

**Application Steps (aligned with FTA TP Guide and OECD Guidelines):**

- Identify parties, transactions and accurately delineate them (contractual terms, functions performed, assets used risks assumed – FAR Analysis).
- Select the most appropriate TP method.
- Determine arm's length price/range using comparable uncontrolled transactions with adjustments for differences in characteristics, economic circumstances, business strategies etc.
- Document and support with evidence.

**Accepted TP Methods (Article 34(3)(4) and OECD Guidelines):**

- Comparable Uncontrolled Price (CUP).
- Resale Price Method.
- Cost Plus Method.
- Transactional Net Margin Method (TNMM).
- Transactional Profit Split Method.
- Other methods are allowed if the above cannot be reliably and reasonably applied.

# 4. Documentation and Disclosure Requirements "Article 55 of CT Law"

All Taxable Persons are required to maintain adequate Transfer Pricing documentation to demonstrate compliance with the arm's length principle for transactions with Related Parties and Connected Persons. Such documentation must be provided to the FTA within 30 days upon request.

## TP DISCLOSURE FORM

- To be submitted together with the Corporate Tax Return (within 9 months from the end of the relevant tax period).
- Materiality thresholds (as per recent Corporate Tax Guide – CTGTXR1):
  1. Related Party Schedule: Aggregate value > AED 40 million (disclose categories > AED 4 million).
  2. Disclosure Categories: Goods, Services, IP, Interest, Assets, Liabilities, Other.
  3. Connected Person Schedule: Aggregate payments/benefits per Connected Person (and their related parties) > AED 500,000.
- Each reportable transaction should be provided with details such as the name of the Related Party/Connected Person, transaction types, tax residence, Corporate Tax TRN/TIN, values (gross and arm's length value), TP methods used.

## MASTER FILE + LOCAL FILE

Required if:

- Part of an MNE group with consolidated revenue ≥ AED 3.15 billion.
- Taxable Person's standalone revenue ≥ AED 200 million in the period.

Must be prepared contemporaneously and provided to FTA within 30 days upon request. Smaller taxpayers still need supporting records

Contemporaneous: Prepare by tax return filing date. Retain for audits (FTA request within 30 days).

## COUNTRY-BY-COUNTRY REPORT (CBCR)

For UAE-headquartered MNE groups with consolidated revenue ≥ AED 3.15 billion (filed by Ultimate Parent Entity within 12 months).

Key Consideration for Small Business Relief: May have reduced obligations for the above TP documentation but must still apply ALP and need appropriate supporting documentation (benchmarking studies where relevant) to substantiate the arm's length nature of the Related party/Connected Person transactions.

# 5. Compliance, Audits and Risk Management

- **Burden of Proof:** Taxpayer must substantiate ALP.
- **TP Adjustments:** FTA can adjust income, corresponding upward/downward adjustments are available.
- **Non-Recognition:** Transactions lacking commercial rationale may be disregarded or recharacterized.
- **Penalties:** Administrative fines, additional tax, interest for non-compliance or inaccurate reporting.
- **APAs:** Apply for Unilateral APA (UAPA) option (subject to meeting the materiality threshold) to set up intragroup pricing in advance for tax certainty exclusively from a UAE Corporate Tax Law perspective. (Advance Pricing Agreements - CTGAPA1, effective from 30 Dec 2025).

**Non-compliance risks FTA audits, TP adjustments, penalties and interest. Therefore, a taxable person must ensure robust contemporaneous documentation is maintained.**

## Practical Tips:

- Map all relationships (legal ownership structure, management/organizational structure, family trees up to 4th degree where relevant).
- Implement TP policies and intercompany agreements.
- Conduct benchmarking studies where relevant.
- For Connected Persons (e.g., owner salaries, director/officer remuneration) ensure market-rate justification and business purpose.
- Annual Review and updates of TP documentation.

# 6. Recent Developments & Clarifications

- FTA Public Clarification CTP010 for **"Director"** and **"Officer"** definitions.
- Advance Pricing Agreements - CTGAPA1, effective from 30 Dec 2025
- Materiality thresholds for TP disclosures - Corporate Tax Guide - CTGTXR1

# How BAM Can Help

- **Robust TP policies that protect your business**: We create and implement practical, arm's-length transfer pricing policies tailored to your operations and UAE rules, so your position is robust and defensible if the FTA asks questions or opens an audit.
- **Ready-to-submit TP documentation:** BAM prepares well-organized Master and Local Files aligned with OECD guidance and UAE requirements-fully supported and ready for submission if requested.
- **Defensible benchmarking and analysis:** We run careful comparability searches and economic analyses using recognized databases to produce defensible benchmarking studies and quantify acceptable arm's length pricing ranges.
- **Accurate tax return disclosures:** We handle TP-related disclosures in your corporate tax return, including payment aggregation and threshold checks, to ensure compliance and reduce the risk of penalties.
- **Commercially sound intercompany agreements:** BAM reviews, updates or drafts intercompany contracts so terms are commercially defensible and consistent with your TP policy and documentation.
- **Transfer pricing implementation and operational support:** We help implement TP policies across finance and treasury systems, design transactional flows and reporting, pricing governance and practical record-keeping.
- **Continuous compliance monitoring and risk assessment:** BAM conducts periodic reviews of intercompany transactions, identifies TP risks (e.g., related-party financing, cost allocations, low-margin entities) and recommends adjustments to policies or documentation to reduce exposure.

**Contact BAM for a quick transfer-pricing health check - we'll identify priorities and provide a clear, practical plan to get you transfer pricing compliant and audit-ready.**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