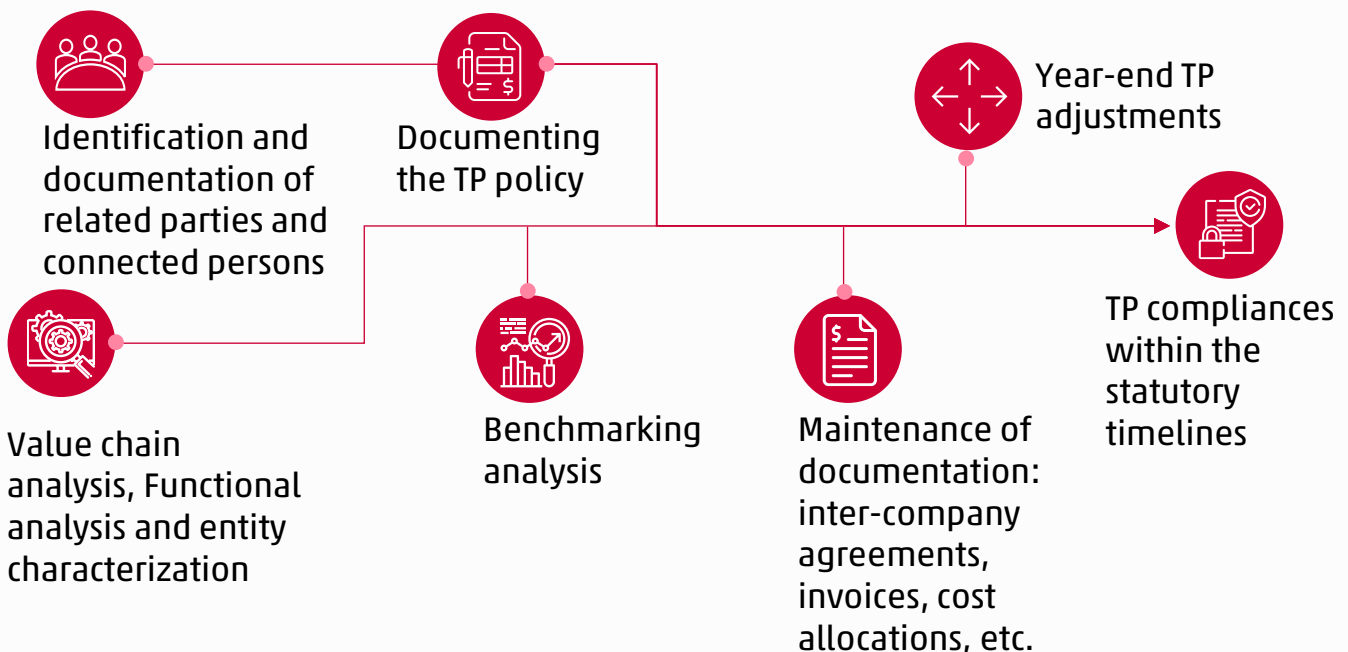


| UAE Transfer Pricing: Roadmap for compliance

With the advent of Transfer Pricing ('TP') Regulations in the United Arab Emirates ('UAE'), Taxable Persons must closely monitor and appropriately document transactions with their Related Parties and Connected Persons ('Controlled Transactions') to ensure compliance with the Arm's Length Principle. While undertaking TP analysis, the burden of proof to maintain adequate documentation and justify the arm's length nature of each controlled transaction falls upon the Taxable Persons. Hence, as a preemptive measure, Taxable Persons should formulate and adhere to a scientifically devised TP Policy for its Controlled Transactions. **Such TP policy will also be instrumental in facilitating year-end compliance, ensuring that all Controlled Transactions are properly documented and aligned with regulatory requirements.** Taxpayers may refer the below roadmap in preparation for the first year-end compliance:





| Need for a scientific TP Policy



A well-defined TP policy serves as a **foundation** that outlines essential information regarding Controlled Transactions.



It facilitates accurate pricing for these transactions and serves as a **reference for Taxpayers** when determining prices for their Controlled Transactions.



TP policy encompasses the **Functional, Asset, and Risk ('FAR') analysis**, which provides basis for determining **each entity's role in the value chain** and establishing the **appropriate remuneration**.



Scientific **benchmarking study** is essential to evaluate and set the prices in line with the industry standards.



TP policy setting is a **forward-looking approach** that enables Taxpayers to remain compliant with arm's length principle and thus, **safeguarding against potential risks and simplifying TP compliances**.



A TP policy would also enable Taxpayers to undertake '**year-end TP adjustments**' (if required) before closure of the tax year.

| TP compliance requirements



TP Disclosure Form

To be submitted along with the Tax Return and contains information regarding the Taxable Person's Controlled Transactions



Local File

Taxpayers are required to maintain a Local File if they:

- have revenues in a relevant tax period of **at least AED 200 million**, or
- are part of an MNE group with a total consolidated group revenue of **at least AED 3.15 billion** in the relevant tax period

The Local File provides detailed information on operations of the local entity and analysis of the Controlled Transactions



Master File

Thresholds prescribed for Local File applies to Master File as well. Master File provides an overview of the MNE Group's business and allocation of income and economic activity within the Group



Country-by-Country (CbC) Report and Notification

Ultimate Parent Entity of a UAE headquartered MNE Group with total consolidated group revenue of exceeding AED 3.15 billion during the preceding fiscal year is required to file CbC Report and Notification. CbC Report provides jurisdictional quantitative information about an MNE Group as well as an overview of the different activities conducted by affiliates of an MNE Group

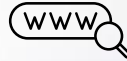
It is vital for Taxpayers to ensure that Controlled Transactions adhere to Arm's Length Principle. Additionally, while the legislation provides certain thresholds for maintenance of TP documentation, it does not explicitly exempt the Taxpayers not meeting such thresholds from compliance with the arm's length principle. Therefore, it is critical to formulate a TP policy that sets the pricing mechanism, incorporating scientific benchmarking studies, evaluate the need for making any adjustments to the financial statements and undertake applicable compliances within the statutory due date.

WTS Dhruva Consultants has been recognized as the "Best Newcomer Firm of the Year" at the ITR European Tax Awards 2020.

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