

TAX ALERT

January 06, 2026



Interplay of Transfer Pricing and VAT in the UAE and KSA: Lessons from Global Practice

Introduction

The introduction of Transfer Pricing ('TP') rules under the UAE Corporate Tax ('CT') regime marks a significant shift in the UAE's tax framework for local businesses. Adding to this complexity is the question of how the application of the Transfer Pricing Arm's Length Principle ('ALP') to intra-group transactions may impact Value Added Tax ('VAT') obligations.

In particular, the VAT treatment of year-end TP adjustments remains an area of ambiguity in the UAE and the rest of the UAE and KSA. On the one hand, such adjustments may be viewed as accounting reallocations that are outside the scope of VAT. On the other hand, they may be seen as adjustments to consideration for taxable supplies made between related parties. With no guidance provided in the current UAE and KSA VAT legislation, businesses may draw insight from international jurisprudence. In this article, we analyse the VAT regimes in the KSA and the UAE in this respect.

Recent European Union ('EU') ruling

In 2018, the VAT Expert Group in the European Union published an opinion concluding that TP adjustments should generally be treated as outside the scope of VAT. Even where a direct link can be established between the adjustment and the previous transaction, the adjustment should be considered to be outside scope of VAT where both parties have the full right to deduct VAT.

In September 2025, the Court of Justice of the European Union ('CJEU') issued a landmark judgement in the *SC Arcomet Towercranes SRL case* (C-726/23) involving a Belgian parent and Romanian subsidiary. The ruling states that TP adjustments may be subjected to VAT depending on the specific facts, circumstances, and economic reality of the case on hand. The CJEU provided the following principles in determining when VAT should be considered on TP adjustments:

1. Reciprocal performance

There should be reciprocal commitments, meaning a direct link between the consideration received and the services supplied.

In the *Arcomet* case, the contract detailed the services rendered by the parent company in exchange for a consideration from the Romanian recipient.

2. Consideration for services

The consideration received should reflect the actual amount due for a service.

In the *Arcomet* case, the contract stipulated that the remuneration for the management and commercial services would be subject to a year-end TP adjustments. Such remuneration constitutes consideration for services.

- As a consequence, the *Arcomet* case provides that, in the European Union, a TP adjustment can be subject to VAT where a payment is made in respect of services rendered by a related party.
- In contrast, TP adjustments that merely realign profitability without any underlying supply fall outside the scope of VAT.

Why this matters

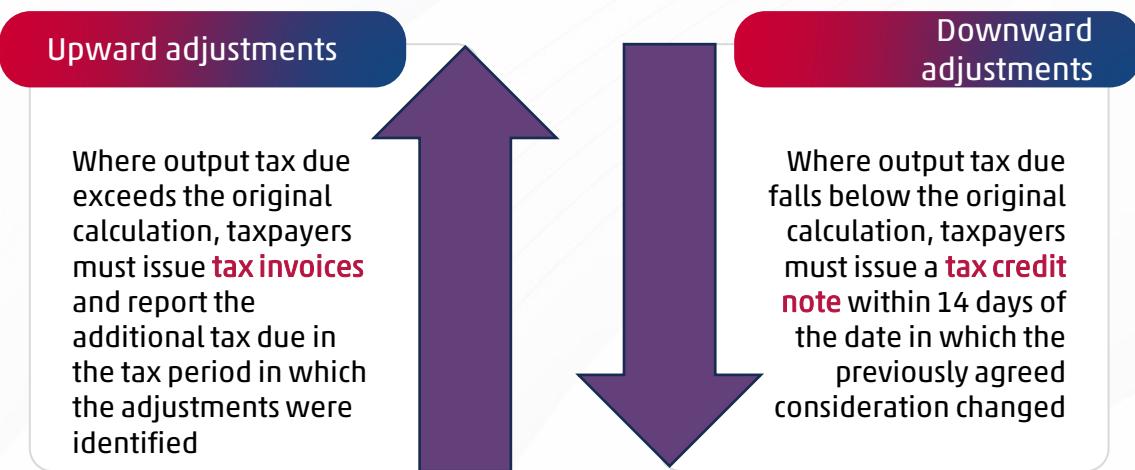
UAE implications

- Currently, there is currently no explicit guidance in the UAE regarding VAT implications of TP adjustments. However, based on the definitions of "Taxable Supply" and "Consideration" in the VAT Decree-Law, it would be reasonable to adopt an approach similar to that in the European Union:

>> Taxable Supply: *A supply of Goods or Services for Consideration during the course of Business by any Person in the State, and does not include Exempt Supply.*

>> Consideration: *All that is received or expected to be received for the supply of Goods or Services, whether in money or other acceptable forms of payment.*

- Where it is ascertained, based on intercompany agreements and the surrounding facts and circumstances, that TP adjustments impact consideration for an earlier taxable supply, this could constitute adjustment events for VAT purposes.
- The UAE VAT framework allows for **upward or downward VAT adjustments** to reflect changes to the value of supply, as provided under Articles 61 and 62 of the VAT Decree-Law:



- If the required adjustments are not reported in the correct tax period, there may be a requirement to rectify prior period returns by filing a **Voluntary Disclosure**.
- Further, as with the *Arcomet* case, TP adjustments that are made without any underlying supply may fall outside the scope of UAE VAT.
- Accordingly, there are **multiple factors** that taxpayers must consider on a case-by-case basis to determine whether there are VAT implications on TP adjustments and, if so, the associated UAE VAT compliance and reporting requirements.
- In absence of guidance from the Federal Tax Authority, businesses may consider submitting **Private Clarifications** to ensure that they adopt the correct way forward.

Why this matters (cont.)

KSA implications

- While the KSA VAT legislation does not explicitly address VAT implications on year-end TP adjustments, ZATCA has provided some guidance in its Professional Services Guideline.
- Where the TP adjustment is made in respect of a taxable supply of goods or services, the effect of this is to adjust the previously agreed consideration in relation to such taxable supply and, therefore, a corresponding adjustment to the VAT amount originally reported would be required to reflect this change. Accordingly, a credit note or a debit note shall be required as the case may be.
- However, where the TP adjustment affects the value of original supply that was previously not subject to KSA VAT (for e.g., out-of-scope supplies, VAT exempted or zero-rated), then no adjustment to the originally reported Output VAT or Input VAT is required.
- In our view, the above position by ZATCA appears to be in sync with the *Arcomet* case discussed earlier. However, it remains to be seen if ZATCA will accept the position that a mere realignment of profitability would fall outside the scope of VAT. This could be the case, only where there are no supplies between the related parties. Otherwise, it will be difficult to argue that the TP adjustment carried out is not in respect of the underlying goods/services.
- Further, in practice, TP adjustments may not only be affected through adjustment in the price of the underlying supply, but may also occur through separate payments such as fees, charges, and similar, which require invoicing. From a VAT perspective, ZATCA may raise a concern whether such payments would be characterized as consideration for a separate supply (subject to VAT at standard rate or zero-rate) depending upon the circumstances and the surrounding facts. Additionally, the payment could also have corresponding implications from a Customs and CIT perspective depending upon the economic reality of the arrangement.
- Given these complexities, Saudi businesses should adopt a proactive approach and robust strategy for year-end TP adjustments to ensure VAT compliance and mitigate potential risks and penalties. Early planning, coupled with robust documentation explaining the commercial rationale and VAT treatment, is critical to withstand ZATCA scrutiny.
- Additionally, it is recommended to undertake a review of intercompany service agreements, royalty structures, and cost-sharing arrangements to ensure these clearly reflect arm's-length principles and incorporate VAT considerations, particularly the agreements which were entered into in the pre-VAT era.



Important considerations

INTERCOMPANY TRANSACTIONS

Follow the ALP rules and determine VAT applicability and treatment on TP adjustments.



CROSS-BORDER TP ADJUSTMENTS

Assess zero-rating for services rendered abroad and reverse charge requirements on foreign services received.



INPUT TAX RECOVERABILITY (LOCAL AND IMPORT)

Validate input tax recovery conditions on TP adjustments from local and foreign vendors.



DOCUMENTATION

Maintain robust documentation to support the adopted VAT position on TP adjustments.

Dhruva's Final Comments

The interplay between TP adjustments and VAT is an area where clarity is still evolving, yet the implications for businesses are significant. Businesses should not assume that TP adjustments are outside the scope of VAT by default. Corporate groups undertaking intercompany transactions with related parties established in the UAE or KSA will need to determine the VAT implications on TP adjustments, if any, on a case-by-case basis. Also, not to be forgotten are the corresponding CIT and Customs implications.

We work closely with clients to review intra-group arrangements and assess potential VAT liabilities on TP adjustments, or to assist in seeking a private clarification with the tax authorities before disputes arise. Drawing on international precedents, our aim is to help businesses navigate uncertainty with confidence and ensure compliance that is both technically sound and commercially practical.

Ranking 2026:

- Tier 1 – Indirect Tax
- Tier 2 – General Corporate Tax, Transfer Pricing, Transactional Tax
- Other Notable: Tax Controversy

www.dhruvaconsultants.com

UAE CONTACTS

NIMISH GOEL

Leader, Middle East
nimish.goel@dhruvaadvisors.com
Tel (UAE): +971 50 106 6531
Tel (KSA): +966 54 760 1600

KAPIL BHATNAGAR

Partner
kapi.l.bhatnagar@dhruvaadvisors.com
Tel: + 971 5 868 36207

RAKESH JAIN

Partner
rakesh.jain@dhruvaadvisors.com
Tel: +971 50 135 2319

SANDEEP KUMAR

Partner
sandeep.kumar@dhruvaadvisors.com
Tel: +971 50 504 8787

VLAD SKIBUNOV

Partner
vlad.skibunov@dhruvaadvisors.com
Tel: + 971 54 404 0510

GAURAV SHIVHARE

Director
gaurav.shivhare@dhruvaadvisors.com
Tel: +971 56403 0888

GEET SHAH

Partner
geet.shah@dhruvaadvisors.com
Tel: +971 50106 9034

UJJWAL KUMAR PAWRA

Partner
ujjwal.pawra@dhruvaadvisors.com
Tel: +971 50199 3363

SHIRAZ SALEEMI

Associate Partner
shiraz.saleemi@dhruvaadvisors.com
Tel: +971 506602520

KSA CONTACTS

MANISH BANSAL

Associate Partner
manish.bansal@dhruvaadvisors.com
Tel: +966 54 645 0681

GOPAL AGARWAL

Director
gopal.agarwal@dhruvaadvisors.com
Tel: +966 54 806 9633

DHRUVA CONSULTANTS

Dubai

207, Emaar Square, Building 4, PO
Box 127165, Dubai, UAE
Tel: + 971-4240-8477

Abu Dhabi

1905, Addax Tower City of Lights,
Al Reem Island, Abu Dhabi, UAE
Tel : +971-2678-0054

Saudi Arabia

308, 7775 King Fahd Road, Al
Olaya, 2970, Riyadh 12212,
Saudi Arabia

DHRUVA ADVISORS

Mumbai | Ahmedabad | Bengaluru | Delhi/NCR | Gift City | Kolkata | Pune

DHRUVA ADVISORS PTE. LTD.

Singapore