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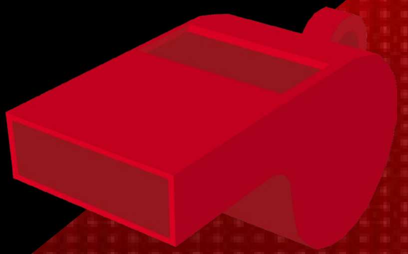

TRANSFER PRICING ALERT

JULY 20, 2026

Public Clarification: CTP011
Downward Transfer Pricing Adjustments – Clarified

SETTING THE CONTEXT

Downward Transfer Pricing ('TP') Adjustments refer to adjustments arising from the non-alignment of related party transactions with the arm's length principle, resulting in a decrease in the taxable income of the Taxable Person. Conversely, adjustments that increase the taxable income are termed 'Upward TP Adjustments'.

The UAE TP Guide (CTGTP1) and Corporate Tax ('CT') Return Guide (CTGTXR1) previously required a successful FTA application before a downward adjustment could be reflected in the Tax Return. However, the procedure for seeking the FTA's approval was not prescribed. This clarification confirms that no pre-approval is required to claim a downward adjustment, subject to reporting of the transaction (irrespective of thresholds) and maintenance of adequate documentation.

CLARIFICATION AT A GLANCE

Effective:

This clarification is effective as of the date of implementation of the UAE CT Law*

Key Highlights:

- **Approval:** Prior FTA approval is not required to make downward TP adjustments in the Tax Return; however, such adjustments remain subject to Tax Audit
- **Disclosure:** Transactions for which downward adjustments are made must be disclosed in the Tax Return (TP Disclosure Form), irrespective of the value or nature of the transaction
- **Documentation:** Taxable Persons must maintain adequate documentation to support downward TP adjustments, including (but not limited to) the following:
  - Rationale for making downward adjustment in Tax Return;
  - Arm's length analysis including benchmarking study;
  - Reconciliation between values recorded in the Financial Statements and arm's length values reported in the Tax Return; and
  - Symmetrical corresponding adjustments undertaken by the related party.

Applicability:

This clarification is not applicable on the corresponding TP adjustments that can be made by the authority under Article 34(10) and 34(11) of the UAE CT Law*

**Federal Decree-Law No. 47 of 2022*

PRACTICAL IMPLICATIONS FOR THE TAXABLE PERSONS

Reconciling values recorded in financial statements with the arm's length values, supported by a sound financial reporting framework, is a key consideration to claim downward adjustments

TP memorandum capturing the rationale, arm's length analysis, reconciliation with financial statements and evidence of the corresponding adjustment by the related party should be maintained for downward adjustments

The clarification does not differentiate between domestic and cross-border downward TP adjustments. Any potential interplay with bilateral procedures that may apply in a cross-border context may require an evaluation

As the clarification takes effect from the date of implementation of the UAE CT Law, reporting in the TP Disclosure Form should be carefully evaluated, particularly wherein downward TP adjustments did not meet the specified thresholds in prior years

Updates in the Tax Return:
TP Disclosure Form

The question pertaining to aggregate value of related party transactions exceeding AED 40 million has been updated to include *"..has any downward adjustment (irrespective of the AED 40 million threshold) been made..?"*

The guidance applicable to the 'Related Party Transaction Schedule' in the EmaraTax portal has been updated in line with this Clarification

DISCLOSURE REQUIREMENTS: ILLUSTRATIVE SCENARIOS

Illustration	Aggregated - 40 Mn Threshold	Per category - 4 Mn Threshold	Disclosure in Tax Return / TP Disclosure Form – Applicable ?
ABC Co. sells goods to a related party below the arm's length value and makes an **upward adjustment** in the Tax Return	X	X	Transaction disclosure not required
	✓	X	
	✓	✓	Transaction disclosure required
ABC Co. sells goods to a related party above the arm's length value and makes a **downward adjustment** in the Tax Return	X	X	Transactions pertaining to downward adjustments must be disclosed, irrespective of the value or nature of the transaction
	✓	X	
	✓	✓	

DHRUVA'S PERSPECTIVE

- Robust and contemporaneous documentation, maintained through a TP memorandum covering all elements prescribed under this Clarification remains the cornerstone for sustaining a downward adjustment during a tax audit.
- Taxable Persons should carefully assess all practical implications of a downward adjustment, together with the disclosure requirements prescribed under the Clarification, before finalizing their Tax Return.
- While the Clarification is a welcome development confirming that no FTA approval is required for downward adjustments and outlining the key documentation to be maintained – certain practical aspects, such as the treatment of downward adjustments relating to cross-border transactions, and the effective date/ applicability of the additional disclosure requirements, would merit continued monitoring as the framework matures.

Dhruva Consultants achieved ITR World Tax
Ranking 2026:

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

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