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Related-Party Transactions: What Your UAE Transfer Pricing File Must Prove

A defensible transfer pricing file must connect legal agreements, operational conduct, financial results and the arm's-length outcome into one consistent business story.

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> Transfer pricing documentation is not a formality reserved for multinational groups. Under the UAE Corporate Tax regime, the arm’s-length principle applies to transactions and arrangements between Related Parties, and the business must be able to explain why the recorded outcome is commercially reasonable.

The strongest file does not begin with a database search. It begins with the business: what each party actually does, which assets it uses, which risks it controls and why the transaction exists. Agreements, invoices, accounting entries and economic analysis should then describe that same reality. If those elements contradict one another, a technically polished report will not solve the underlying problem.

Transfer pricing essentials

CORE RULE	Transactions and arrangements between Related Parties must meet the arm’s-length standard.
DOCUMENTATION THRESHOLDS	A Master File and Local File are generally required where the Taxable Person is part of an MNE Group with consolidated Revenue of at least AED 3.15 billion, or where the Taxable Person’s Revenue is at least AED 200 million, subject to the detailed rules.
IMPORTANT DISTINCTION	Falling below a formal documentation threshold does not remove the obligation to apply the arm’s-length principle.

Start with a complete relationship map

A transfer pricing review can fail before pricing is considered if the business has not identified all Related Parties. The Corporate Tax Law uses ownership, control and kinship tests, among others, and includes rules for Connected Persons. The analysis should therefore extend beyond companies carrying the same brand name. It can include direct and indirect owners, sister entities, partnerships, permanent establishments, directors, officers and persons connected to them, depending on the facts.

Prepare a legal ownership chart and compare it with the way decisions are actually made. Identify changes during the Tax Period, including acquisitions, reorganisations, new shareholders and management appointments. The file should state the basis on which each relationship is included or excluded. This is especially important in founder-led businesses where commercial relationships may exist across several family-owned entities.

Create a transaction inventory that agrees with the ledger

The next step is to catalogue controlled transactions and reconcile them to the accounts. Common categories include the sale of goods, management and technical services, intellectual-property arrangements, loans, guarantees, cash pooling, procurement support, cost allocations, secondments, rent and payments to Connected Persons.

For each category, record the parties, currency, contractual value, ledger value, pricing mechanism, settlement terms and responsible business owner. Reconcile the schedule from both sides where possible. Unexplained differences may indicate timing problems, foreign-exchange treatment, unrecorded invoices or different interpretations of the agreement. Those issues should be resolved before the Corporate Tax Return is prepared.

Do not rely only on invoices raised during the year. Interest may accrue without being invoiced. A company may provide support without charging for it. Costs may be allocated through journal entries. A guarantee or right to use intellectual property can be a controlled arrangement even when no cash payment is visible.

Explain the commercial purpose before defending the price

A reviewer must understand why the transaction exists. What benefit did the recipient receive? Why was the service performed by a related entity rather than internally or by a third party? What would happen if the arrangement did not exist? These questions are particularly important for management fees and shared-service charges.

Evidence might include project records, deliverables, meeting notes, employee time records, system access, correspondence and calculations showing the allocation key. A description such as “management support” is rarely sufficient on its own. The file should distinguish shareholder activity, duplicative work and incidental group benefit from a service for which an independent enterprise would be willing to pay.

> *A related-party charge becomes defensible when the agreement, the conduct, the benefit and the financial result all point to the same transaction.*

Perform the functional analysis

The functional analysis identifies the economically significant functions performed, assets used and risks assumed by each party. It should reflect conduct, not simply repeat the contract. If one entity is described as bearing inventory risk but another entity decides purchasing volumes, controls warehousing and absorbs losses, the allocation of risk requires closer examination.

Material risks may include market, credit, product, inventory, foreign-exchange, regulatory and financing risk. The analysis should identify who makes the relevant decisions, who has the financial capacity to bear the risk and what evidence demonstrates control. Important assets can include machinery, customer relationships, data, technology, licences and intellectual property, not only items recorded on the balance sheet.

This analysis helps identify the tested party, the transaction to be priced and the method most capable of producing a reliable result.

Select and apply an appropriate method

The UAE Transfer Pricing Guide discusses the internationally recognised methods: the comparable uncontrolled price method, resale price method, cost-plus method, transactional net margin method and transactional profit split method. The most appropriate method depends on the transaction, available information, comparability and the strengths and weaknesses of each approach.

A method name is not a conclusion. The file must show how the method was applied. For a cost-plus arrangement, define the cost base, explain inclusions and exclusions and support the mark-up. For a loan, examine currency, term, security, credit quality, subordination and other economically relevant terms. For a benchmarking study, document the search strategy, screening decisions, financial adjustments and selected range.

Management should also compare the policy with actual results. A contract may specify a target margin while year-end accounts produce a different outcome. Any true-up should be calculated consistently, invoiced or recorded correctly and considered for VAT and cross-border purposes as well as Corporate Tax.

Understand the formal documentation requirements

Ministerial Decision No. 97 of 2023 sets the conditions for maintaining a Master File and Local File. Broadly, both are required where the Taxable Person is a constituent company of an MNE Group with total consolidated group Revenue of at least AED 3.15 billion, or where the Taxable Person's Revenue is at least AED 200 million in the relevant Tax Period. A UAE-headquartered group that is not an MNE Group is not required to maintain a Master File, but may still be required to maintain a Local File where the threshold applies.

The Local File rules also specify which controlled transactions must be covered and contain exclusions for certain domestic transactions. These provisions require detailed review because the counterparty's residence, exempt status, Free Zone status, rate and elections can affect the conclusion. Tax Return disclosure requirements must be considered separately using the return and guidance applicable to the relevant period.

Businesses below the thresholds should retain proportionate evidence: relationship and transaction schedules, agreements, benefit support, pricing calculations and an explanation of the chosen approach. The absence of a formal Local File requirement is not a safe basis for an arbitrary charge.

Give Connected Person payments dedicated attention

Payments or benefits provided to a Connected Person are generally deductible only to the extent that they correspond to market value and are incurred wholly and exclusively for the business, subject to the law. Remuneration, bonuses, rent, interest and other owner or director payments should therefore have a documented commercial basis.

Useful evidence includes role descriptions, board approval, market salary information, performance measures, time commitment, property comparisons or financing terms. The purpose is not to prove that only one price is possible. It is to demonstrate that the amount falls within a reasonable arm's-length outcome and relates to genuine business activity.

Operate a year-round control cycle

01	**Map:** Update ownership, control and Connected Person relationships when facts change.
02	**Record:** Reconcile controlled transactions and balances to the general ledger quarterly.
03	**Evidence:** Retain agreements, deliverables and proof of benefit as activity occurs.
04	**Test:** Compare actual margins, charges and financing outcomes with policy before year-end.
05	**Approve:** Document material judgements, adjustments and management sign-off.

Transfer pricing becomes expensive when it is reconstructed after the year has closed. A quarterly control cycle allows finance and operational teams to identify new arrangements, correct inconsistent invoicing and collect evidence while it still exists. It also makes the annual Local File, where required, a consolidation exercise rather than an investigation.

For business leaders, the practical test is simple: could an informed reviewer understand the transaction without relying on the person who designed it? If the file shows the parties, purpose, conduct, pricing, outcome and evidence in one consistent sequence, it is doing its job.

Official sources

SOURCE CHECK Official UAE government references. Links verified 4 August 2026.

1. **Federal Tax Authority: Transfer Pricing Guide CTGTP1**
2. **UAE Ministry of Finance: Ministerial Decision No. 97 of 2023**
3. **UAE Ministry of Finance: Corporate Tax in the UAE**

Online edition: **https://iraaglobal.com/insights/uae-transfer-pricing-related-party-documentation/**

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1. Confirm the responsible legal entity and registration position.
2. Reconcile the accounts, tax adjustments and supporting evidence.
3. Document ownership, review and approval before filing.

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