

Pragmatic approach to UAE Tax & TP Implementation

CORPORATE TAX IN UAE

Corporate Tax applicable on Net Taxable Profit

Net Taxable Profits: Net book profits subject to tax adjustments

Taxable Person – Legal Person (Resident, Non-Resident)

Taxable income and exempt income

Tax Rate: 0% and 9% means,

Net Taxable Profit up to AED 375,000/- ⇒ 0%

Net Taxable Profit above AED 375,000/- ⇒ 9%

Effective Date

CT regime will become effective for financial years starting on or after 1 June 2023.

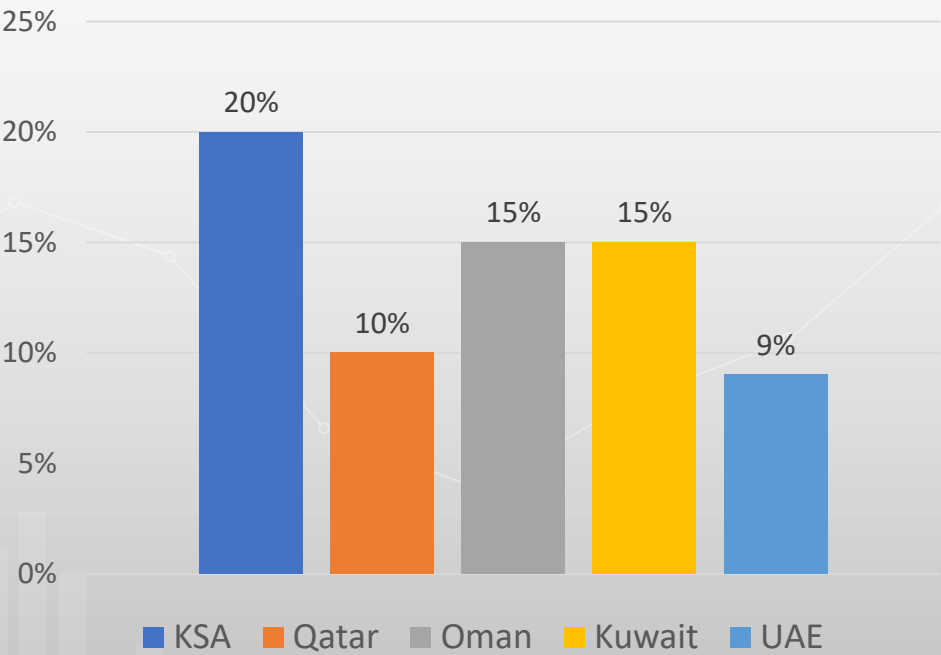
For a business with FY starting on 1 January 2023, UAE CT will be effective from 1 January 2024 (first FY starting on or after 1 June 2023)

Administration

Federal Tax Authority (FTA) will be responsible

An independent member of UHY International

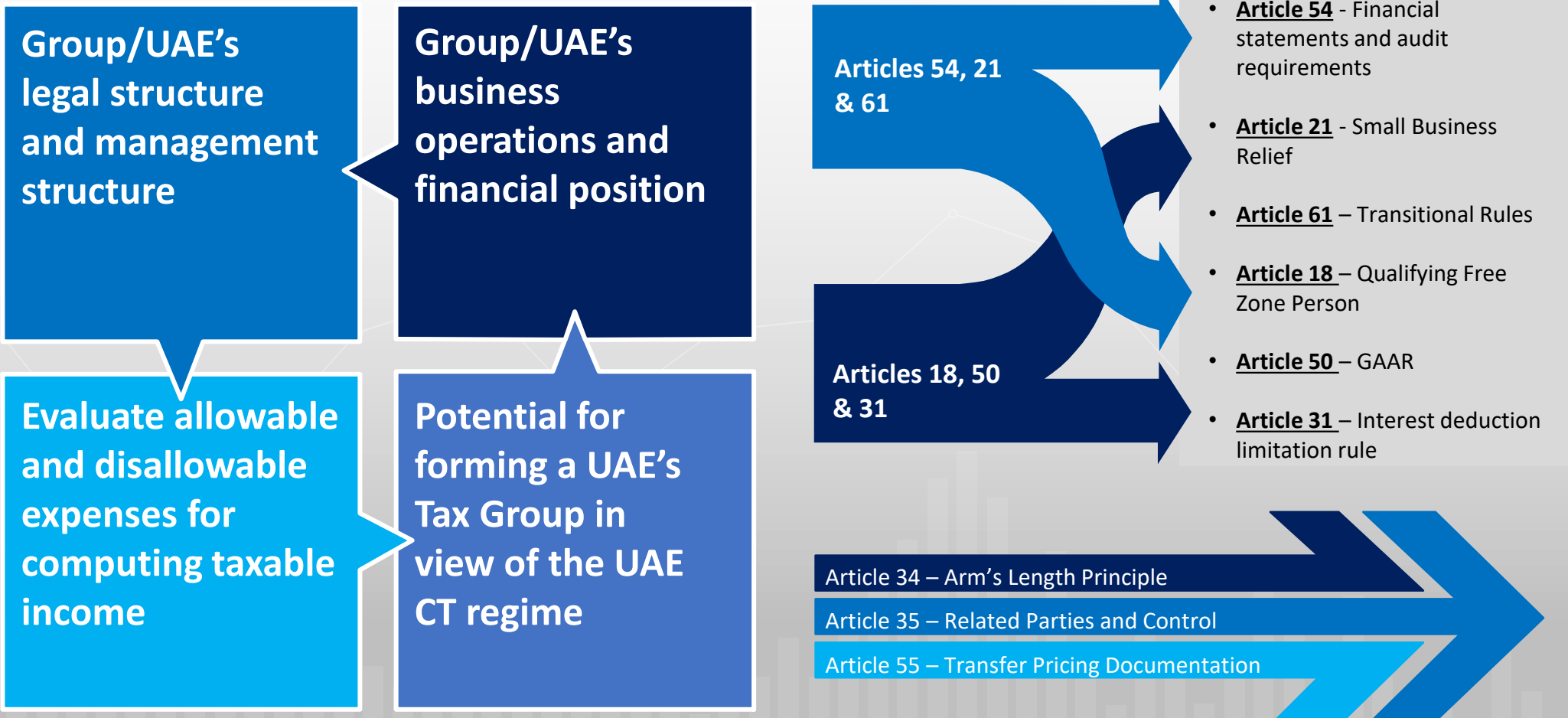
Tax Rate Comparatives



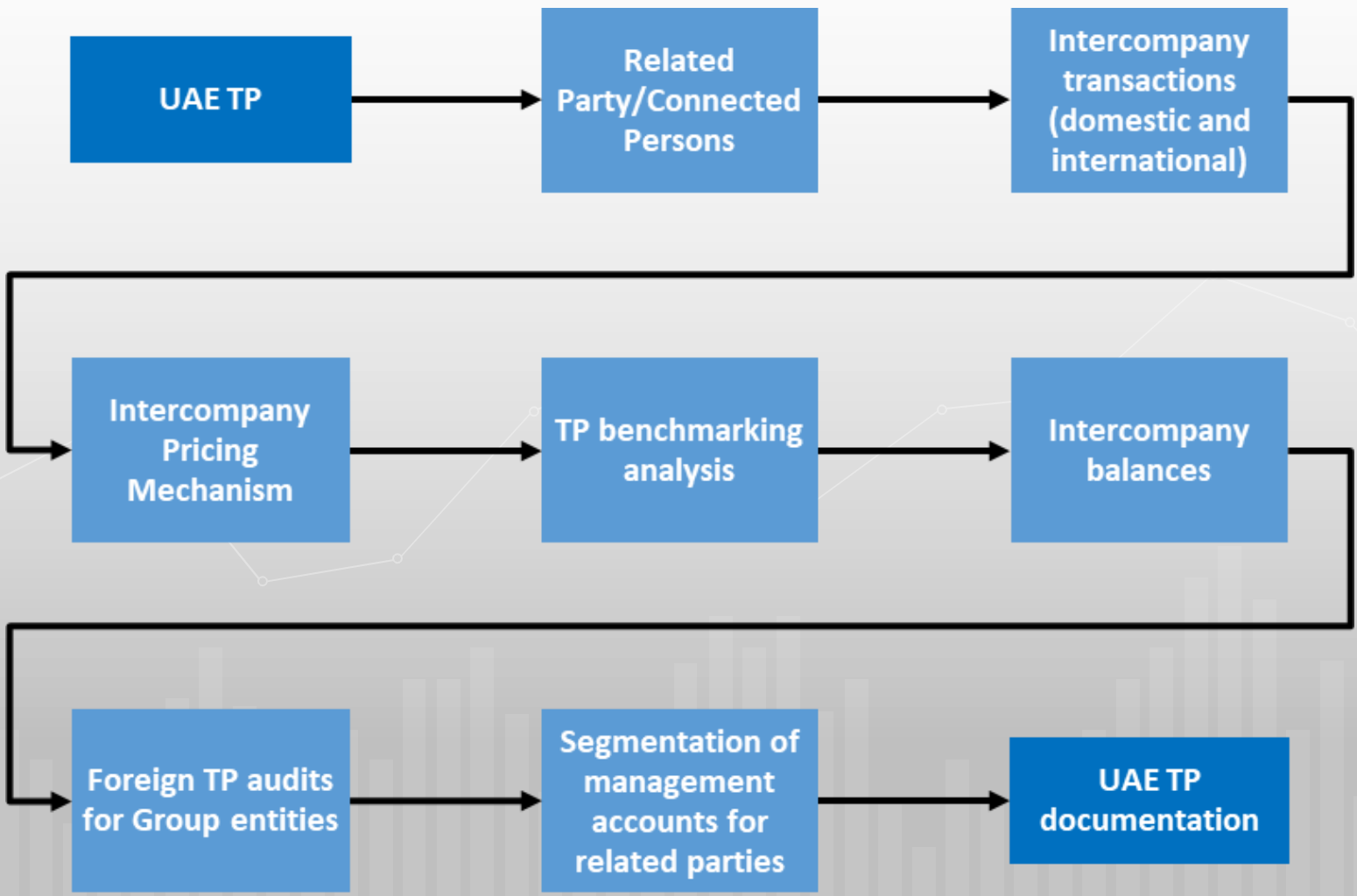
Keeping CIT at 9% to remain a global business and investment hub, without introducing payroll tax till date

Committed to
your growth
story

FACTORS CONSIDERED FOR TAX IMPLEMENTATION



KEY POINTS TO LOOK FOR TP IMPLEMENTATION?



- Takeways**
- TP documentation maintenance thresholds clarified by the MoF (refer next slide)
 - No threshold provided yet for the filing of TP disclosure form
 - The formats of Group Master file, UAE Local file and TP disclosure forms yet to be clarified by the MoF/FTA
 - Penalties for non-compliance with the arm's length principles to be provided by the MoF/FTA
 - More clarity expected on TP documentation requirements for QFZP
 - Further clarity expected on the APA procedures in the UAE CT law
 - Whether tax neutral transactions domestic transactions are to be included in the TP disclosure form?

UAE TP DOCUMENTATION REQUIREMENTS

Transfer Pricing Disclosure Form

Direct reading of crucial transfer pricing information, ownership information, information on the controlled transactions and transfer pricing method applied, yearly submission. Threshold for filing of TP disclosure form is yet to be clarified by the FTA/MoF.

Master File – as per applicability

Group wide description, high-level description of IP and R&D management, group financing arrangements, consolidated group accounts, APAs and tax rulings

Local File – as per applicability

Local management structure, detailed functional analysis, economic analysis and reconciliation of transfer pricing to financial accounts

Country by Country Reporting – as per applicability

Revenues and profits, tax situation, capital and retained earnings, number of employees, total assets, complete list of entities and permanent establishments

TP DOCUMENTATION MAINTENANCE THRESHOLD

UAE Transfer Pricing Documentation (Group Master file and Local File) should be maintained under the following conditions:

Taxpayers which are part of a group with consolidated revenues of more than or equal to AED 3.15 billion in the relevant tax period

Taxpayers with more than or equal to AED 200 million revenues in the relevant tax period



TP DOCUMENTATION MAINTENANCE THRESHOLD

Inclusions and exclusions in the UAE TP Local file: Transactions of a Taxable Person with the following Related Parties and Connected Persons shall be included/excluded in the Local file

Inclusions

- ▶ A non-resident person
- ▶ An exempt person
- ▶ A resident person claiming Small Belief Relief
- ▶ A resident person subject to a different CT rate

Exclusions

- ▶ A resident person other than an exempt person, a resident person claiming small business relief, a resident person subject to a different CT rate
- ▶ Natural persons provided they are transacting independently
- ▶ Judicial person being being partner in an unincorporated partnership provided they are transacting independently
- ▶ Permanent Establishment of a Non-Resident Person in UAE taxed at the same rate as the Taxable Person

WHETHER INTERCOMPANY TRANSACTIONS BETWEEN A UAE FREEZONE AND MAINLAND ENTITY WOULD BE SUBJECT TO THE ARM'S LENGTH PRINCIPLE?

TP DOCUMENTATION MAINTENANCE

Why Transfer Pricing Documentation should be maintained even if the taxpayers do not qualify the financial thresholds?

Evidence to proof that the intercompany transactions are carried out on arm's length terms

1

Support the transfer pricing methodology provided in the Transfer Pricing disclosure form

2

To follow best practices followed globally to achieve full transfer pricing compliance

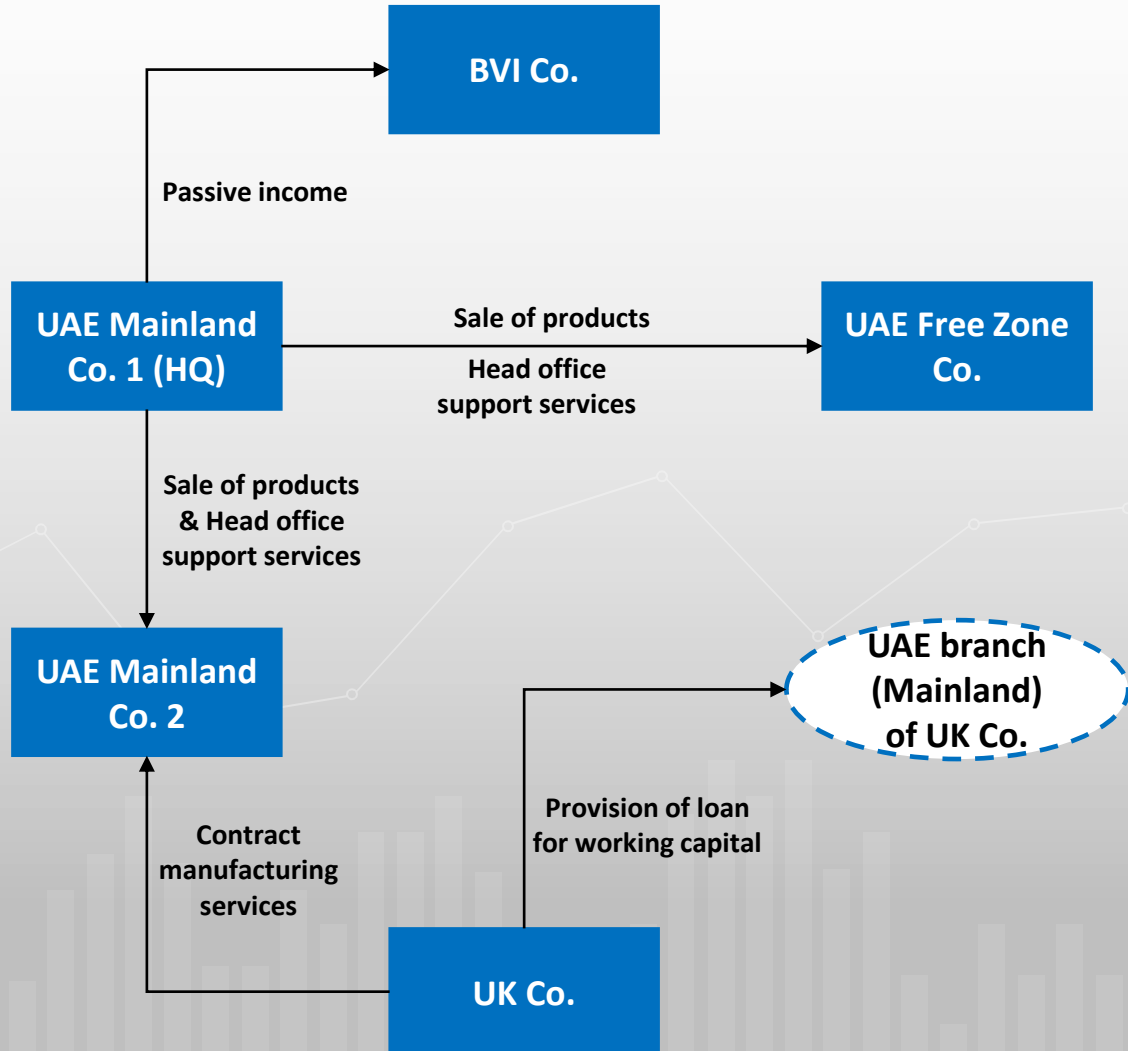
3

To safeguard on organisation's readiness to tax audits focusing on transfer pricing issues

4

Based on my experience in advanced TP jurisdictions (e.g., UK and The Netherlands), taxpayers who do not qualify materiality thresholds in respective jurisdictions still opt to prepare TP Local files or TP memorandum from a best practices perspective. A TP memo typically is a shorter version of a TP Local file but provides a high-level description of IC transactions, functional analysis, economic analysis and benchmarking analysis.

CASE STUDY: FOOD FOR THOUGHT?



Key Tax & TP considerations?

- Assess the potential to form a UAE tax Group?
- Treatment of passive income from UAE Mainland Co. 1 to BVI Co?
- Qualifying and Non Qualifying Income of a UAE Free Zone
- Review the Group TP policy to understand the arm's length nature of the following intercompany transactions:
 - Sale of products
 - Head office support services
 - Provision of loan for working capital requirements
 - Contract manufacturing services
- TP disclosure forms for UAE entities
- Applicability of TP documentation requirements
- Readiness of ERP systems to accommodate CT & TP requirements



Thank You