FINACT
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Corporate Tax | Transfer Pricing

Related Parties & Connected Persons

UAE Transfer Pricing Guide (CTGTP1)

Prepared for: Tax & Finance Leadership

Presented by: FINACT Consultancy LLC

Topics Covered

1

Kinship & Affiliation

Two natural persons are Related Parties through Kinship & Affiliation

2

Related parties by ownership

Article 35 gives three separate ways for ownership to make two Persons Related Parties.

3

Related parties by control

Persons may also be Related Parties through direct or indirect Control

4

Connected Persons

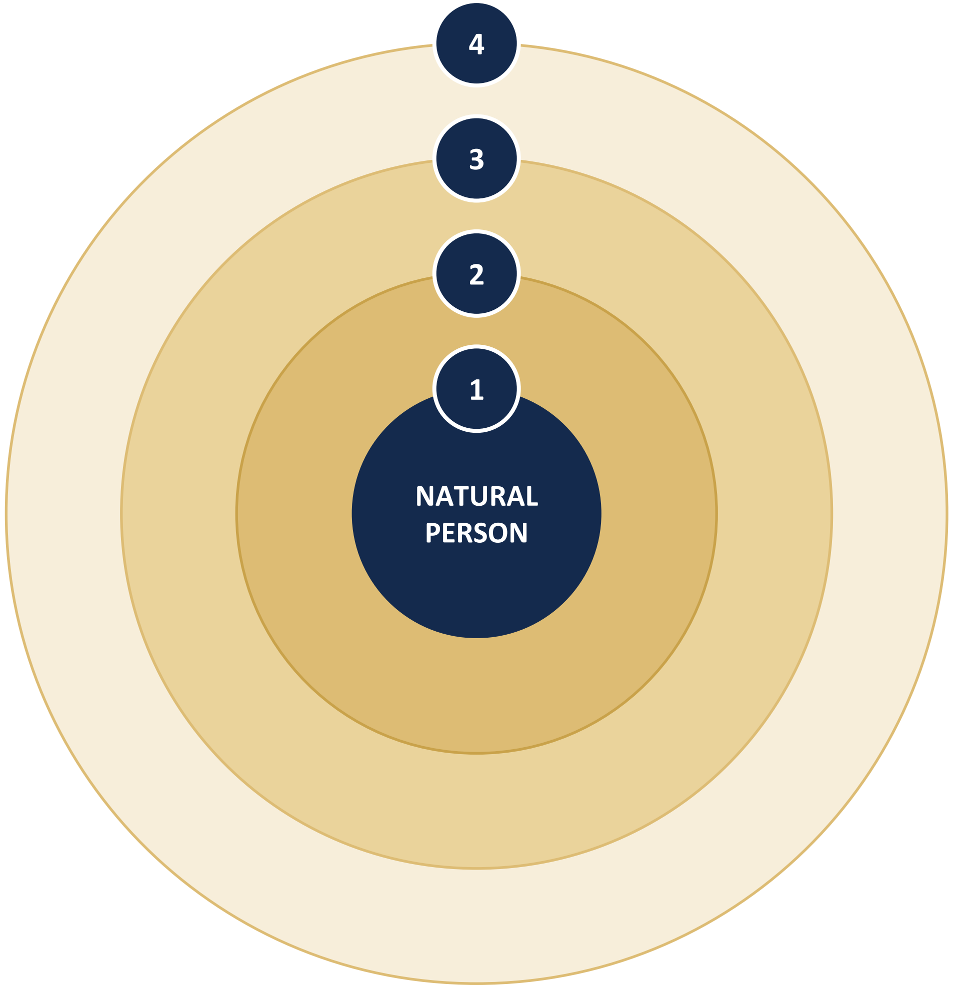
A payment or benefit to a Connected Person is deductible only up to the Arm's Length Price, and only if it is incurred wholly and exclusively for the Taxable Person's Business.

SECTION 02

Two natural persons are Related Parties if…

kinship or affiliation

Degrees of Kinship: How Far Does the Test Reach?



1

1st degree

Parents and children + parents and children of the spouse.

2

2nd degree

Grandparents, grandchildren, and siblings + Grandparents, grandchildren, and siblings of the spouse

3

3rd degree

Great-grandparents, great-grandchildren, uncles, aunts, nieces, and nephews + Great-grandparents, great-grandchildren, uncles, aunts, nieces, and nephews of the spouse.

4

4th degree

Great-great-grandparents, great-great-grandchildren, grand-uncles/aunts, grandnieces/nephews, and first cousins + Great-great-grandparents, great-great-grandchildren, grand-uncles/aunts, grandnieces/nephews, and first cousins of the spouse.

Includes relationships by adoption, guardianship, and through affiliation i.e., by marriage

What is Kinship and Affiliation?

Kinship

Common blood ties, determined by the individual's ancestors or a common ancestor

Affiliation

Relationship by marriage or where one natural person's spouse is related by kinship to the other natural person.

An 'ancestor' or 'common ancestor' includes a guardian or adoptive parent i.e., kinship isn't limited to a strict blood line.

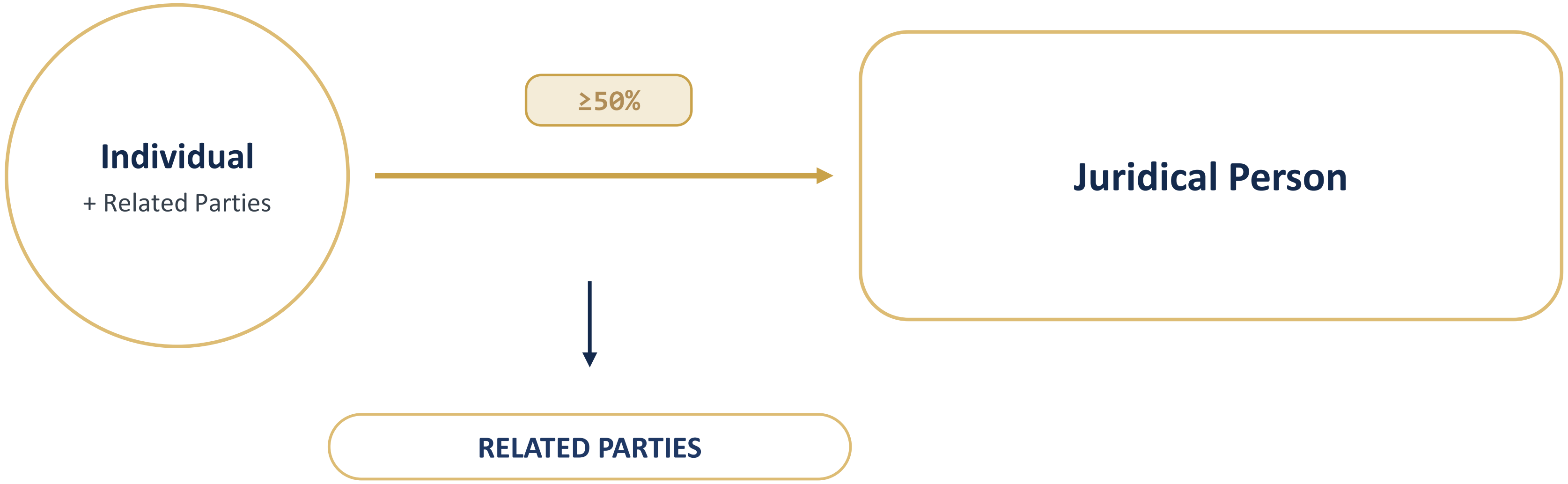
◆ SECTION 03

Three separate ways for ownership to make two persons Related Parties

Related parties by ownership

RELATED PARTIES BY OWNERSHIP

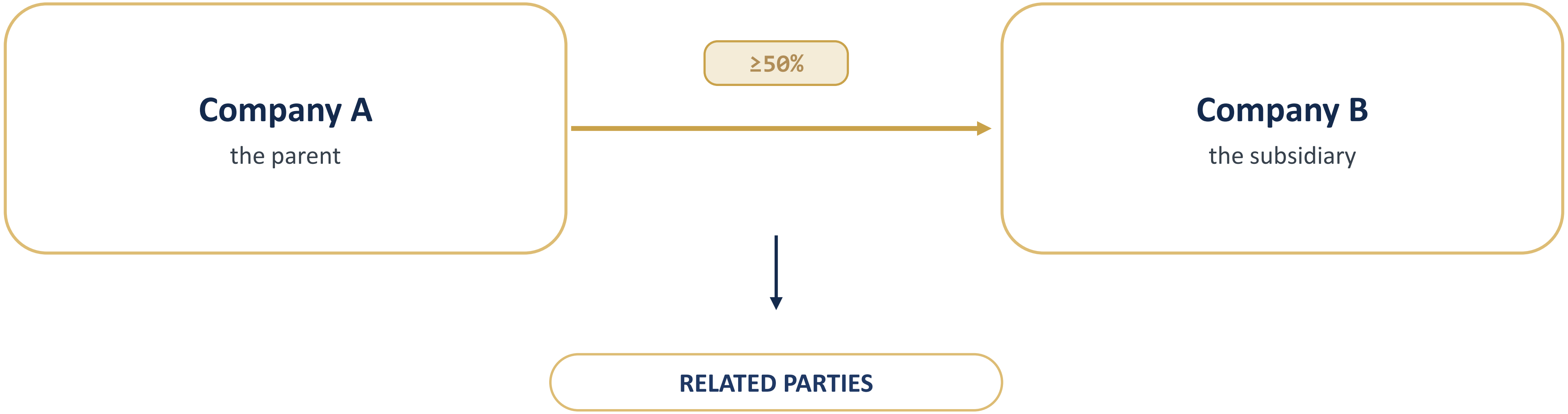
An individual who owns a company



A natural person and a juridical person (a company) are Related Parties where that individual — or the individual together with their own Related Parties acting as fellow shareholders — holds a 50% or greater ownership interest in the company, direct or indirect. This is Article 35(1)(b)(1).

RELATED PARTIES BY OWNERSHIP

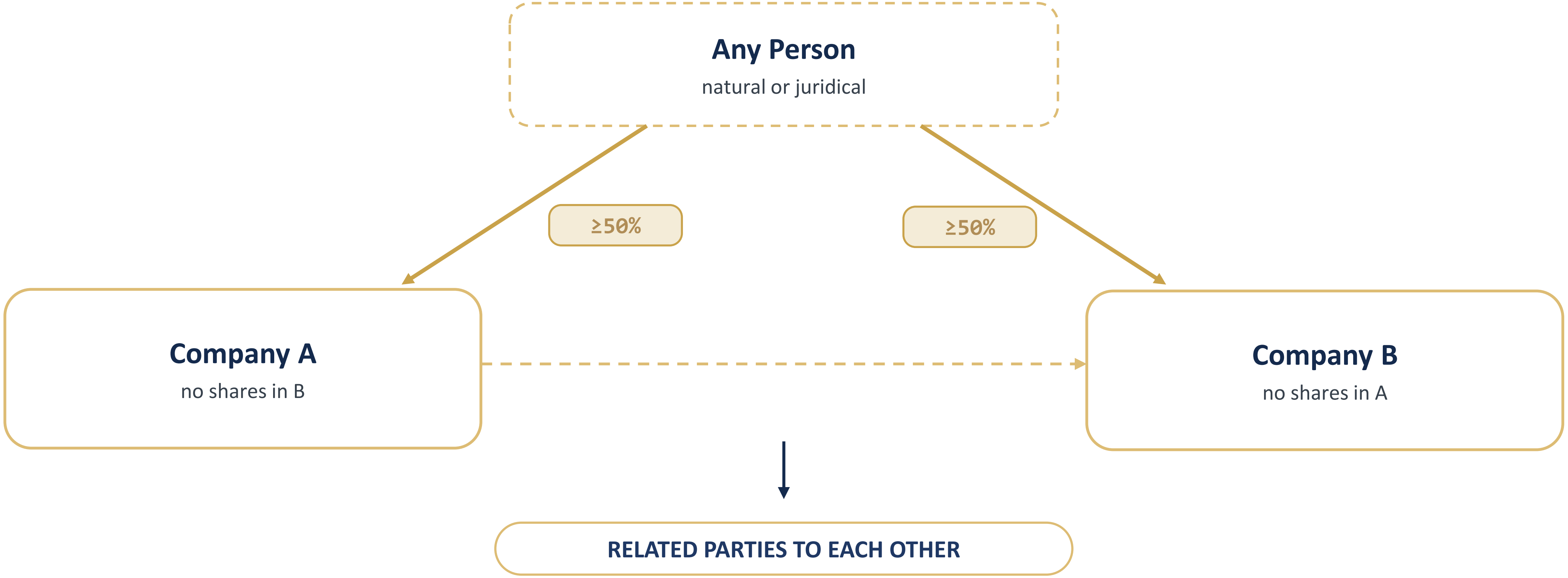
One company that owns another



Two juridical persons are Related Parties where one of them, alone or together with its Related Parties, directly or indirectly owns 50% or greater of the other

RELATED PARTIES BY OWNERSHIP

Two companies under one owner



Any person (individual or a company) who owns 50% or more of two different companies makes those two companies Related Parties of each other, even though neither company owns any share of the other at all. Common ownership, not mutual shareholding, is what links them.

◆ SECTION 04

Related Parties through direct or indirect Control

Related parties by control

Voting Rights/Composition of BOD/ Profits/ Significant Influence

1. Exercises 50% or more of the voting rights of another Person. — ≥50%

OR

2. Determines the composition of 50% or more of the board of directors of another Person. — ≥50%

OR

3. Receives 50% or more of the profits of another Person. — ≥50%

OR

4. Determines, or exercises significant influence over, the conduct of the Business and affairs of another Person. — JUDGMENT

↓

RELATED PARTIES

Persons may also be Related Parties through direct or indirect Control. One Person's direction and influence over another. Control can be established in several ways; meeting any ONE test below is enough.

Not all four tests count the same way

Fixed thresholds	
Voting rights of another Person	≥50%
Composition of the board of directors	≥50%
Profits of another Person	≥50%

Usually just confirms a relationship that was already obvious.

Judgment-based test

Significant influence over the conduct of the Business and affairs of another Person — NO FIXED %

Facts and circumstances specific to the scenario being tested (a case-by-case call, usually needs more analysis)

Three of the four determinants are fixed 50% thresholds (usually confirms the relationship that was already obvious). The fourth, significant influence, has no fixed percentage. It depends on facts and circumstances specific to the scenario being tested, so it usually needs more analysis.

SECTION 05

A payment or benefit to a Connected Person

Connected persons

CONNECTED PERSONS

A Person is a Connected Person if:

1. An individual who directly or indirectly owns an interest in, or Controls, the Taxable Person (or a Related Party of that individual)

OR

2. A director or officer of the Taxable Person (or a Related Party of that director or officer)

OR

3. A partner in an Unincorporated Partnership (and any Related Parties of that partner)

↓

CONNECTED PERSON

A payment or benefit a Taxable Person gives a Connected Person is deductible only up to the Arm's Length Price, and only if it is incurred wholly and exclusively for the Taxable Person's Business.

CONNECTED PERSONS - EXCEPTIONS

Some Taxable Persons are exempt from the cap

1

Publicly Traded

A Taxable Person whose shares are traded on a recognised stock exchange.

2

Regulated Entities

A Taxable Person subject to the regulatory oversight of a competent authority in the UAE.

3

Cabinet-Designated

Any other Person as may be determined in a decision issued by the Cabinet.

Article 36(6) names Taxable Persons whose payments or benefits to Connected Persons are NOT restricted to the Arm's Length Price (i.e., the Market Value test does not apply to these three categories)

Who counts as a 'director'? – CTP010

Board of directors?

YES

Director = anyone holding a board seat i.e., executive, non-executive, temporary, permanent, or alternate (including any board-committee member)

NO

Director = anyone holding the equivalent seat on the entity's governing body (e.g. board of trustees, board of governors) named in its constitutional documents.

Job title is not the test.

Having “director” in a title doesn't make someone one a director. Similarly lacking it doesn't exclude them to be a director. What matters is the seat itself.

CTP010 clarifies Article 36(2)(b): a 'director' is whoever holds the governing-body seat (not just whoever has the title)

Who counts as an 'officer'? – CTP010

An 'officer' is defined by authority, not by job title. Meeting any one of these three tests is enough:

1. Possesses the authority and responsibility for planning, directing, and controlling the Taxable Person's activities.

OR

2. Has the authority to make strategic decisions on financial, operational, or commercial matters.

OR

3. Has the authority to enter agreements, or approve actions, that legally or contractually bind the Taxable Person.

↓

OFFICER

Excludes anyone without final/ultimate strategic decision-making or binding authority.
Typically: CEO · GM · CFO · COO · CCO · an authorised representative with discretionary authority ("C-suite").

CTP010 provides meaning of officer. Check the substance over form (the label on a business card is evidence, never proof)

Substance over form (title is evidence, not proof)

Counts as an officer	Not an officer
Division head with final say on financial or operational strategy	Division head who only reports up and follows instructions
HR head who sets strategic workforce policy	HR head limited to routine payroll or leave administration
Employee whose power of attorney grants real discretionary authority	Court-appointed trustee carrying out only assigned duties

Note: A formal appointment or C-suite title is an indicator, but never the sole test. Someone with real planning, directing, controlling, strategic, or binding authority is an officer even without the title. And a titled Person without real authority is not. Only a natural person can be a director or officer of a Taxable Person.

A Person who is both a Related Party and a Connected Person of the same Taxable Person is treated only as a Related Party.

SECTION 06

Arm's length, benchmarking, and documentation

Three separate questions govern every related-party transaction

Three tests, not one

1

Arm's length

Always applies to every Controlled Transaction, from dirham one. No size test, no carve-out for entity type.

2

Benchmarking

Scales with risk. A safe harbour or a validated group study can stand in for a fresh comparability study.

3

Documentation

Scales with size. Nothing is filed at all until you cross a specific AED revenue threshold.

Related Party and Connected Person dealings raise three separate questions — and none of the three thresholds line up with each other.

Layer 1 - Always, no threshold

Any transaction with a Related Party or Connected Person?

LAYER 1 · ARM'S LENGTH PRINCIPLE

No minimum value. No exemption for size, sector, or relationship type

Art. 34(1) & Art. 36(1)

Low-value service

Safe harbour: cost + 5%

Group-wide TP policy

Re-test if comparables missing

Anything else

Full comparability analysis

Price has to be supportable. Keep the workpapers

Art. 55(4): the FTA can ask for that support at any time

Exemptions: Exempt Persons, SBR electors, and standalone entities with no Related Party transactions still need to meet the arm’s length principle on any Controlled Transaction they do have

Layer 2 – Benchmarking, the proof, not the rule

A

Low value-adding services

Cost + 5% safe harbour, no detailed benchmarking study, if the 4-part test is met.

B

Group-wide TP policy with study

Can support only if transactions genuinely match it and it already reflects local or regional comparables.

C

All other cases

A full comparability search is expected, refreshed at least every three years with annual financial updates.

None of this is optional once you have a Controlled Transaction. The burden of proof sits with the Taxable Person.

Layer 3 - Documentation

UAE-HQ MNE + CONSOL. REV ≥ AED 3.15bn

CbCR

Country-by-Country Report

notify FY-end · file ≤ 12 months · Cabinet Res. 44/2020

GROUP REV ≥ AED 3.15bn OR OWN REV ≥ AED 200m

Master File + Local File

Contemporaneous; material transactions only

produced ≤ 30 days on request · MD 97/2023

MATERIALITY THRESHOLD MET

Disclosure Form

Related Party / Connected Person transactions during the Tax Period

with Tax Return ≤ 9 months · Art. 55(1)

BASELINE. EVERY CONTROLLED TRANSACTION

Reasonable records

No revenue test. Kept from the first dirham

produced ≤ 30 days if asked · Art. 55(4), 56

The four filings, precisely

REQUIREMENT	TRIGGER	DEADLINE
Disclosure Form	Related Party / Connected Person transactions in the Tax Period, above a materiality threshold.	With the Tax Return ≤ 9 months after Tax Period end
Master File	Constituent Company of an MNE Group, consolidated group revenue ≥ AED 3,150,000,000, or own revenue ≥ AED 200,000,000.	Contemporaneous; ≤ 30 days after an FTA request
Local File	Same revenue tests as the Master File. Applies even to a UAE-only group with no foreign establishments.	Contemporaneous; ≤ 30 days after an FTA request
Country-by-Country Report	UAE-headquartered MNE Group, consolidated group revenue ≥ AED 3,150,000,000 in the preceding Fiscal Year.	Notify by Fiscal Year-end; report ≤ 12 months after
Additional information on request	Any Taxable Person, any Controlled Transaction. (including those with no other filing obligation at all)	≤ 30 days after the FTA's request, or a later date it allows

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Thank You

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