WILLOW
TAX & LEGAL

FTA Public Clarification Sets Out Requirements for Downward Transfer Pricing Adjustments

The FTA has issued **Public Clarification CTP011**, setting out the disclosure requirements and key considerations applicable where a Taxable Person makes a downward transfer pricing adjustment in its Corporate Tax Return.

The clarification applies where transactions or arrangements with Related Parties have not been recorded in the Taxable Person's Financial Statements in accordance with the arm's length standard.

Key points

Requirement to apply the arm's length standard

Under Article 34(1) of the Corporate Tax Law, all transactions and arrangements between Related Parties must satisfy the arm's length standard. Where the amounts recorded in the Financial Statements do not reflect an arm's length outcome, the Taxable Person is required to make an appropriate transfer pricing adjustment in its Corporate Tax Return. Such an adjustment may either increase or decrease Taxable Income.

No prior FTA approval required

The UAE Corporate Tax regime operates on a self-assessment basis. Accordingly, a Taxable Person is not required to obtain prior approval from the FTA before making an upward or downward transfer pricing adjustment.

However, any adjustment made in the Corporate Tax Return may be subject to review as part of a Tax Audit.

Mandatory disclosure of all downward adjustments

All transactions and arrangements with Related Parties in respect of which a downward adjustment is made must be disclosed in the Corporate Tax Return, **irrespective of their value or nature.**

This differs from the general Related Party disclosure requirement, which applies only where the relevant prescribed thresholds are exceeded.

Supporting documentation

A Taxable Person making a downward adjustment should maintain sufficient contemporaneous documentation, including:

- a detailed rationale explaining why the original pricing recorded in the Financial Statements did not satisfy the arm's length principle;
- an arm's length analysis, including an appropriate benchmarking study;
- a reconciliation between the amounts recorded in the Financial Statements and the arm's length amounts disclosed in the Corporate Tax Return; and
- evidence of symmetrical corresponding adjustments made by the relevant Related Parties.

Scope of the clarification

CTP011 applies only to transfer pricing adjustments required under **Article 34(1)** of the Corporate Tax Law. It does not apply to corresponding adjustments under Articles 34(10) and 34(11).

Practical implications

Although prior approval is not required, downward adjustments reduce Taxable Income and may therefore receive heightened scrutiny from the FTA. Businesses should avoid treating the adjustment as a return-only exercise.

Before making a downward adjustment, Taxable Persons should ensure that:

- the adjustment is supported by a defensible arm's length analysis;
- the relevant benchmarking evidence is current and appropriate;
- the adjustment can be reconciled to the Financial Statements;
- the transaction is fully disclosed in the Corporate Tax Return; and
- the relevant Related Party has reflected a symmetrical corresponding adjustment where applicable.

Failure to maintain adequate support may expose the adjustment to challenge during a Tax Audit.

Follow us on LinkedIn and Telegram to stay updated on our upcoming posts! To stay informed about our latest news and events, subscribe to our mailing list. If you require any further information, please feel free to contact us or visit thenewsroom.

Best regards,

Willow Tax & Legal

Maria Nikonova

PhD, Partner

m.nikonova@willow.law

Andrey Nikonov

Partner

a.nikonov@willow.law

Elizaveta Iasco

Associate

e.iasco@willow.law

Shraya Thiyagarajan

Associate

s.thiyagarajan@willow.law

The Offices 2, Level 3, One Central,
Dubai World Trade Center

+971 50 258 9570
+971 54 417 3060

info@willow.law

www.willow.law