

Transfer pricing policy:
the document that ties your TP compliance together

Many taxpayers have some elements of transfer pricing compliance in place: an intercompany agreement, a benchmarking study, a disclosure completed at filing. What is often missing is the link between them: a written policy that explains which transactions are covered, how prices are set, who decides and how the result is tested. The gap becomes visible when the Tax Return is prepared: why was this method chosen, who approved the price, and does practice match the paper?

We believe a TP policy is important not only for large groups. Any taxpayer with transactions with Related Parties should prepare one in advance. It is the policy that turns a set of separate documents into a consistent and defensible position.

Where the requirement comes from

The Corporate Tax Law does not use the term "transfer pricing policy" as a standalone document. The expectation follows from several provisions read together:

- Transactions with Related Parties must be priced at arm's length (Article 34). The pricing method must be chosen with regard to the facts of the deal, including the functions, assets and risks of the parties.
- The company must disclose these transactions in its Tax Return, keep a Master File and Local File where the relevant thresholds are exceeded, and provide supporting information within 30 days of an FTA request (Article 55).

The FTA's TP Guide CTGTP1 turns this into a clear expectation. Documentation should be maintained at the time of the transaction or, at the latest, by the time the Tax Return is submitted. The FTA expects it to demonstrate that the taxpayer's "Transfer Pricing policies" comply with the arm's length principle, and expects those policies and the supporting documentation to be reviewed and reassessed at least annually to reflect changes in the business, structure and regulatory environment (section 6.3). Taxable Persons below the Master File and Local File thresholds must still keep reasonable records supporting the arm's length nature of their transactions and provide them on request (section 6.6.3). A policy does not meet this requirement on its own, since reasonable records still need an analysis of comparables and supporting evidence, but it gives those records a structure fixed before the transaction rather than after it. The same approach is reflected in the OECD Guidelines: documentation prepared at the time of the transaction, or by filing, restrains taxpayers from developing justifications after the fact (paragraphs 5.7–5.8). They also describe documentation as the place where taxpayers explain the reasoning behind their transfer pricing policies (paragraph 5.9).

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For Qualifying Free Zone Persons, TP compliance is a condition for keeping the preferential status (CTGFZP1, sections 3.2.6 and 4.5.3). Here the absence of a policy can cost not an adjustment but the regime itself.

Read together, these provisions do not require a document called a policy, but they do require its content: the method and the reasons for choosing it, the approach to comparables, the way year-end differences are corrected and who takes pricing decisions. The same content is needed in several places at once: the Tax Return and its disclosures, the Master File and Local File, the reasonable records of smaller taxpayers, the response to an FTA request within 30 days and, for free zone entities, the QFZP conditions. A policy is the only document in which this content exists before the transaction, rather than being reconstructed separately for each of these purposes.

What the policy should contain

A transfer pricing policy is often confused with the Master File and the Local File, but each of these documents does a different job. The Master File (CTGTP1, section 6.6.1) gives the FTA a high-level picture of the MNE Group: what it does and how income is allocated within it. It is also expected to describe the group's transfer pricing policies, both overall and for intra-group services, intangibles and financing. For a group above the threshold, the policy is therefore the source for this part of the Master File. Without a written policy, that section has to be reconstructed each year from the transactions themselves, which creates a risk of inconsistency between years and between the Master File and the Local Files of individual group entities. The Local File (CTGTP1, section 6.6.2.1) shows the specific transactions of a given Tax Period and the analysis behind their prices. **A transfer pricing policy answers a different question: how the entity sets prices in the first place, that is, the rules it follows each time it enters into a deal with a Related Party.** The first two describe and evidence the results, while the policy governs the process that produces them.

The law does not prescribe a template for a TP policy, but in practice it is built around the following blocks:

1. The entities and counterparties covered, the owner of the policy and who approves it.
2. The types of transactions the company concludes with its counterparties (goods, services, financing, intangibles, management remuneration), with the pricing principle for each category.
3. General functional analysis of the operating model: the functions, assets and risks of each entity and who actually takes the key decisions. The policy should reflect who actually takes these decisions, not assign them on paper. Formal approval of decisions made elsewhere, or setting general rules for managing a risk, does not by itself demonstrate control over that risk (OECD Guidelines, paragraph 1.66).



4. The selected method, the reasons for selecting it and, where relevant, the tested party and profit indicator.

5. Benchmarking approach: data sources, search strategy, the order of geographic preference (local, then regional, then other regions), possible comparability adjustments, expected arm's length range and how often the search is updated.

6. Standard terms for intercompany agreements and invoicing, kept consistent with actual practice.

7. Year-end adjustments: how a difference between booked and arm's length values is corrected in the Tax Return, with a reconciliation to the financial statements, the target result against which the difference is measured and the mechanism agreed with the counterparty for a corresponding adjustment on its side (CTP011).

If the group has a group-wide policy, it should be tested against UAE conditions. Where local or regional comparables exist but were not considered, the policy should be re-evaluated in accordance with them (CTGTP1, section 7.8.1).

The situation in the UAE

The regime is still young, and the FTA's guidance is consistently focused on substance. The TP disclosure is filed with the Tax Return within nine months of the end of the Tax Period (CTGTP1, section 6.5). Supporting documents are requested within 30 days (Article 55(4)), and the FTA may ask for access to a private database used to support transfer prices (CTGTP1, section 5.3.2.2). A policy cannot credibly be written once such a request arrives, because documentation is expected to exist at the time of the transaction or by the time of filing. Preparing the policy in advance, rather than on demand, is therefore a sensible choice for any taxpayer with Related Party.

The FTA's public clarification on downward adjustments (CTP011, July 2026) shows why this matters in practice. A Taxable Person no longer needs the FTA's prior approval to reduce its Taxable Income through a transfer pricing adjustment in the Tax Return. In return, every transaction affected by such an adjustment must be disclosed, whatever its value, and the adjustment must be supported by a rationale explaining why the amounts in the financial statements were not at arm's length, an arm's length analysis including a benchmarking study, a reconciliation between the financial statements and the Tax Return, and evidence of a corresponding adjustment by the Related Party. A policy makes these elements easier to support. Where it sets a target result and a year-end true-up mechanism in advance, the adjustment is the planned application of an agreed rule rather than an unexplained departure from the booked amounts. Where the true-up applies in both directions, the policy also shows that the taxpayer does not adjust only when the result happens to be favourable. And where the mechanism is written into the intercompany agreement, the Related Party has a contractual basis for its matching adjustment.

In OECD terms, a policy of this kind combines setting prices on the basis of information available when the transaction is entered into with testing the actual outcome at year-end (OECD Guidelines, paragraphs 3.69–3.71).

A simple example shows the difference. A UAE distributor buys goods from a related manufacturer abroad. Under the group's policy, the distributor earns an operating margin within a benchmarked range, and any excess is returned to the manufacturer at year-end. If the margin ends up above the range and the true-up was not booked before the accounts were closed, the downward adjustment in the Tax Return rests on a target and a mechanism that existed before the year began, and the manufacturer's matching adjustment follows from the same agreement. Without a policy, the same adjustment looks like a one-off correction made once the results are known, and the counterparty has no contractual basis for a matching entry.

How a policy helps

- In an audit, the FTA starts from the pricing method the company actually used, as long as that method suits the facts of the deal (Article 34(6) of the Corporate Tax Law). A policy records why the method was chosen, which makes it easier to show that it does.
- Similar deals are priced the same way across years and entities, and the evidence the FTA may ask for (functional analysis, benchmarking, agreements, workpapers) is already in one place (CTGTP1, section 6.1).
- For groups, it shows how a group-wide policy was adapted to UAE conditions.
- For groups above the Master File threshold, it provides the description of transfer pricing policies that the Master File must contain.
- Where an adjustment reduces Taxable Income, it provides the rationale that CTP011 requires and a contractual basis for the counterparty's matching adjustment.

It is important that a TP policy does not establish arm's length pricing by itself: results and actual conduct must match what it says, and actual conduct takes priority over the document (OECD Guidelines, paragraph 1.45).



HOW CAN WILLOW HELP?

We have extensive experience preparing transfer pricing policies for companies of different sizes and across a range of sectors, from owner-managed businesses to subsidiaries of international groups. Our work covers scoping the controlled transactions, selecting and justifying methods, setting the benchmarking approach, aligning intercompany agreements and governance with practice, and preparing the supporting documentation for the Tax Return. The result is a policy that stands up to review and that the company can rely on.



Maria Nikonova

PhD, Partner

m.nikonova@willow.law



Andrey Nikonov

Partner

a.nikonov@willow.law



Evgenia Eremina

Head of Transfer Pricing Practice

e.eremina@willow.law



Victoria Kruchinina

Associate

v.kruchinina@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