September 2026

Segmental P&L Preparation for TP Documentation

The Data Challenge

INTRODUCTION

Transfer pricing analyses increasingly call for more than an entity's **consolidated financial statements**. Where a taxable person operates multiple **business lines, product categories, or geographies**, each carrying a distinct **functional and risk profile**, a single consolidated P&L masks the economics of the **controlled transaction itself**, and weakens the reliability of any **arm's length comparison** that follows.

Segmented (or disaggregated) P&L data isolates the results attributable to the transaction under review, supporting a defensible **tested-party selection, benchmarking exercise, and profit-level-indicator (PLI) computation**. Both the **UAE Corporate Tax regime** and the **OECD Transfer Pricing Guidelines** expect this level of segmentation, yet most accounting systems are simply not built to deliver it on demand.

REGULATORY BASIS

- **Federal Decree-Law No. 47 of 2022** — Article 55(2), statutory basis for TP documentation

Ministerial Decision No. 97 of 2023

— documentation thresholds and content requirements

FTA Transfer Pricing Guide (CTGTP1)

— Local File functional-analysis expectations

OECD TP Guidelines (2022)

— Chapters I–III, incl. paras 2.101, 2.116–2.117, 3.9–3.12

WHY SEGMENTATION MATTERS

Tested Party Accuracy

Isolates the controlled activity from unrelated business lines within the same entity.

Benchmark Integrity

Aligns PLI computation — Operating Margin, Net Cost-Plus markup — with the correct functional and risk base.

Local File Defensibility

Substantiates the arm's length position transaction-by-transaction, not entity-wide.

THE CORE DATA CHALLENGE

Turning Consolidated Books into a Defensible Segment View

1. **Map transactions —** Separate related-party from third-party revenue and cost lines
2. **Identify direct costs —** Isolate costs traceable to a specific segment without allocation
3. **Select allocation keys —** Choose a defensible basis for indirect/common costs — shared services, overheads
4. **Apply allocation —** Build the segment-level P&L using the chosen keys, applied consistently
5. **Reconcile —** Tie segmented totals back to the audited/statutory financial statements

COMMON ALLOCATION BASES

Allocation Key	Typical Basis	Best Suited For	Key Limitation
Revenue-based	% of segment revenue to total revenue	Sales / marketing overheads	Distorts if margins vary widely by segment
Headcount-based	Full-Time Equivalent count per segment	HR, admin, shared personnel costs	Ignores seniority / cost-per-head variance
Asset-based	Segment asset base / total assets	Capital-intensive cost centers (IT, facilities)	Data often not tracked at segment level
Time-based	Logged / estimated time by activity	Professional / management time, service fees	Reliant on self-reported estimates; weak audit trail

OECD PERSPECTIVE — Paras 2.116–2.117

The Guidelines are candid about the limits of this exercise: segmented data is typically produced through allocation and apportionment techniques that reduce its reliability relative to data drawn directly from the accounts. Where segmentation cannot be avoided, the allocation basis must be reasonable, consistently applied, and clearly documented — otherwise the PLI built on it carries the same weakness into the benchmarking analysis.

PITFALLS WE SEE IN PRACTICE

- ⚠ Allocation keys applied inconsistently from one year to the next
- ⚠ No documented allocation policy — the basis cannot be traced or defended
- ⚠ Segment definitions in the TP report drift from the accounting system
- ⚠ Common costs allocated without regard to the underlying functional driver
- ⚠ Segmented totals never reconciled back to the statutory accounts

REFINING THE SEGMENTED RESULT

Technical Considerations Beyond Allocation Mechanics

CHOOSING THE RIGHT SEGMENTATION LENS

- **By product / service line** — distinct functional and risk profiles (e.g., distribution vs. agency services within one entity)
- **By geography** — same product, materially different market conditions or regulatory risk
- **By counterparty type** — related vs. unrelated, isolating the controlled transaction's results from third-party business

NON-RECURRING & BELOW-THE-LINE ITEMS

- **One-off restructuring / impairments** — excluded from the operating PLI unless comparables reflect similar items
- **FX gains / losses** — treatment depends on operating vs. financing/translation origin
- **Intercompany eliminations** — segment-to-segment transactions must be eliminated or clearly flagged
- **Non-operating income** — kept outside the operating margin unless the comparables' PLI includes it

DATA RELIABILITY HIERARCHY

Highest	Direct segment-level GL accounts — revenue and costs booked to the segment at source
Moderate	Allocated costs using a documented, consistently applied key tied to a genuine cost driver
Lowest	Estimated or undocumented apportionment; allocation base not verifiable from records

PRACTICAL RECOMMENDATIONS

- Build segment-wise chart of accounts in the ERP
- Reconcile segmented P&L to audited financials
- Align segments with the functional/risk analysis
- Formalize a written allocation policy pre-year-end
- Retain allocation workpapers in the Local File pack
- Revisit allocation keys annually as business evolves

✓ HOW SBC CAN HELP

- Segmented P&L diagnostic — benchmarking your allocation approach against OECD and FTA expectations
- Allocation policy design — a documented, defensible cost-allocation framework your team can apply
- Benchmarking & PLI support — aligning segment results with your TP comparable set
- Local File preparation — translating segmented results into audit-ready TP documentation

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