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Are Your Intercompany Agreements in Place?

- Critical Reminder for UAE Transfer Pricing Compliance

Background

- Under the UAE Corporate Tax and TP Regulations, **all intercompany transactions are subject to FTA scrutiny**.
- The FTA requires related-party dealings to meet the **Arm's Length Principle (ALP)** and be supported by proper documentation.
- **Intercompany Agreements (ICAs)** are a critical part of this documentation and must be **robust, signed, and aligned with actual conduct**.
- **Para 6.6.2.1 of the UAE TP Guide** (aligned with OECD requirements) lists **"copies of all material intercompany agreements"** as **mandatory** for ALP compliance.

This makes ICAs a key document that the FTA can request and scrutinize during a TP audit.

Why Intercompany Agreements Matter Under UAE TP Rules ?

Legal Compliance Requirement

ICAs help demonstrate that **terms, pricing, responsibilities and risks** are aligned with what independent parties would agree.

Evidence or Substance & Commercial Reality

The FTA assesses:

- Who performs which functions
- Who assumes risks
- Who owns or uses assets
- Whether pricing is supported by economic analysis

Foundational Component of TP Documentation

Master File, Local File and the taxpayer's TP working papers are **expected to be consistent** with the terms of the ICA. Lack of proper agreements weakens the taxpayer's defence during audit.

Which Transactions Need Intercompany Agreements?

- **Management Services / Support Services:** HR, IT, accounting, administrative, procurement or strategic support.
- **Cost-Sharing or Cost-Recharge Arrangements:** Group allocations, shared resources, regional head office costs.
- **Cost Contribution Arrangements (CCA's)**
- **Sale or Purchase of Goods:** Trading, distribution, manufacturing, procurement hubs.
- **Intragroup Financing:** Loans, cash pooling, guarantees, interest-free funding.
- **Use of Intangibles / Licensing:** Brand fees, IP licensing, know-how sharing, Royalty.
- **Contract R&D or Contract Manufacturing**
- **Intercompany Leasing Arrangements:** If the arrangement exists **in practice**, it must be formalized **in writing**.

"Intercompany Agreements are no longer a formality — they are a regulatory requirement."
With TP audits accelerating in the UAE, ensuring that your ICAs are properly drafted, executed and aligned with TP documentation is essential for compliance and risk mitigation.

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What Should Intercompany Agreements Contain?

Clear Scope of the Transaction

- Nature of services / goods / financing / IP licence
- Specific deliverables or responsibilities
- Rights and obligations of each entity

Pricing & Transfer Pricing Methodology

- Explicit pricing mechanism (CUP, Cost-Plus, TNMM etc.)
- Basis of cost allocation (direct, indirect, drivers used)
- Mark-up applicable
- Periodic review clause

Substance & Risk Allocation

- Which entity performs key functions
- Which entity assumes risks (market, credit, operational etc.)
- Ownership or use of assets and intangibles

Operational Terms

- Payment terms
- Invoicing timelines
- Service usage conditions
- Termination and renewal process
- Governing law (usually UAE)

Immediate Step Wise Action Checklist for Businesses !!

Map All Intercompany Transactions

✓ List of all related party dealings

Check Whether Agreements Exist & Are Signed

✓ Check if ICAs exists and are **signed** by both the parties
✓ Reflets the **substance** of the transactions

Align ICAs With TP Documentation

✓ Ensure consistency with Master file, Local Files & benchmarking Reports

Update Outdated Agreements

✓ Reflect any changes in operations, functions, mark-ups, financing terms, or business model.

Maintain a Central Repository

✓ Maintain a repository for quick FTA Access

How SBC can help?

✓ **Gap Analysis:** Review existing ICAs for risks and inconsistencies
✓ **Drafting and Updates:** Create robust agreements aligned with OECD & FTA Standards
✓ **Alignment:** Ensure consistency between ICAs, TP Policies and actual conduct
✓ **Compliance Framework:** Set up system to ICAs update annually