



Transfer Pricing for UAE family groups

The road ahead



Foreword

The introduction of the UAE corporate tax (CT) regime marks a pivotal shift in the country's tax framework, formally embedding transfer pricing (TP) as a core compliance requirement for transactions undertaken by taxpayers with related parties and connected persons.

For UAE family-owned business groups, characterized by multi-entity ownership structures, integrated operating models and centralized decision making, this requires the existing business operating models to be reassessed through the lens of arm's length pricing, documentation and compliance requirements.

Now that UAE taxpayers have concluded their first financial year under the CT regime, the focus is moving beyond initial compliance toward stabilizing and refining TP frameworks. While the first year was largely about understanding the rules, identifying related party transactions (RPTs), and meeting initial compliance obligations, the journey ahead calls for a more strategic approach, where TP is integrated into a group's day-to-day operations rather than addressed as a year-end compliance exercise.

This report outlines key takeaways from the first year of TP implementation for UAE family-owned business groups as they transition into the second year of compliance. It emphasizes the importance of robust governance, high-quality contemporaneous documentation, and alignment between operational conduct, financial reporting, and TP outcomes to support audit readiness and regulatory defensibility.

As the UAE continues to align with international tax standards, a proactive and structured TP approach will be critical for managing risk, supporting sustainable operations and navigating the evolving regulatory landscape.



01 | From readiness to sustained compliance

The implementation of TP rules under the UAE CT regime has emerged as a central area of focus, fundamentally shaping the business and compliance landscape particularly for UAE family-owned business groups.

UAE family-owned business groups typically operate through extensive, multi-jurisdictional structures with a large network of entities and integrated operations.

Built on trust, strong business relations, group-wide synergies, these groups have historically focused on operational efficiency and optimized performance.

The first year of compliance served as a test of preparedness for the TP regime, highlighting both the level of readiness and the practical and technical challenges faced during implementation.

As the UAE TP landscape matures, it is critical for taxpayers to build on the learnings from the initial filing, deepen their understanding of the regulatory framework and strengthen the documentation as they move into the next year of compliance.

¹Federal Decree-Law No. 47 of 2022 and Ministerial Decision No. 97 of 2023

02 Overview of UAE TP regulations

The UAE TP regulations apply the arm's-length principle across all related party and connected person transactions.

For family-owned business groups, the concept of connected persons has particularly significant implications as it extends to include founders, owners, shareholders, extending beyond typical scope covering the related party.

What the UAE TP regime requires:

- **Application of TP principles:** All transactions/arrangements (cross border as well as domestic) between related parties and connected persons must comply with the arm's length principle.
- **Disclosure under CT return:** The TP Disclosure Form is required to be submitted as part of the annual CT return. This form covers the summary and TP methodology of all the transactions undertaken with related parties. It is the first point of reference for the Federal Tax Authority (FTA) in assessing potential TP risk.
- **Documentation:** Preparation and maintenance of group master file and local files, capturing details of group structure, value chain, TP policies and methodologies, benchmarking analyses and comparables, relevant financial information.
- **Robust TP governance and controls for consistency between operational conduct, financial results, and TP outcomes** to support audit readiness and ongoing compliance.
- **Readiness to respond to FTA reviews and audits, noting the short audit response timelines** with information/documents to be submitted within 30 days to the FTA upon request.
- **Managing penalty exposure** arising from non-compliance, incorrect disclosures and tax understatements.

While the UAE TP regime is broadly aligned with OECD TP Guidelines, local application requires an emphasis on substance, governance, and documentation.

03 Key takeaways from the first year of TP compliance

The first year of TP disclosure filing and documentation marked an important learning and implementation phase for UAE family-owned business groups.

The first year of compliance cycle required addressing unique challenges in terms of technical and operational considerations, while building awareness, processes, and internal coordination across business, finance, and tax functions.

Historically informal operational practices needed to be formalized and documented to align with regulatory expectations.

Centralized management roles, shared service arrangements, and treasury functions, highlighted the need for clear functional responsibilities, risk ownership, and intra-group arrangements.

As family groups operate with complex domestic and cross-border structures, where decision-making is centralized among a limited group of family members or senior leadership, it was critical to articulate which entities perform specific functions, control risks, and utilize assets, to ensure TP documentation reflects these realities.

Several key areas required focused attention during the first year of compliance, including:

Identification and reporting of RPTs

As this was the first year of mandatory TP disclosure, tax teams invested significant effort coordinating with business and finance teams to collate data and identify reportable transactions.

Diversified group structures, including UAE and overseas entities, required systematic approaches to identify RPTs and apply TP policies consistently across the group.

Aligning functional characterization

The first year prompted UAE family-owned business groups to reassess the alignment between the actual activities performed by group entities and their TP characterizations. This exercise enabled groups to better understand where operational substance, decision-making authority, and risk control reside, laying the groundwork for improved alignment between substance and TP outcomes in future years.

TP documentation

Year one often marked the first preparation of formal TP policies and documentation. Groups focused on developing or enhancing TP policies, compiling supporting documentation, and formalizing intercompany arrangements, including intercompany agreements, internal approvals, and supporting analysis demonstrating arm's length compliance.

Comparability and benchmarking

Identifying reliable market comparables in the context of the UAE's evolving business environment required careful analysis.

Groups also started strengthening internal data collection processes to support internal comparability and benchmarking efforts, for future filings.

Arrangements with connected persons

As part of the first TP compliance cycle, many family businesses undertook a structured review of transactions and arrangements with connected persons, including directors and family members involved in the business. This exercise increased awareness around the need to clearly define roles, responsibilities, and the commercial basis for remuneration. In many cases, businesses strengthened documentation and improved alignment between actual functions performed and compensation received, a valuable governance enhancement beyond tax compliance.

Common RPTs where significant work was undertaken

Financial transactions

UAE family-owned business groups undertook detailed review of intercompany financing arrangements, including loans, advances, and long-outstanding balances. This process involved evaluating commercial rationales, developing approaches to arm's length interest pricing, and beginning to introduce credit assessment considerations to support the financing transactions from a TP perspective.

Services and cost allocation arrangements

Many groups reviewed shared employee arrangements, service models, and other support activities to better understand the nature of services provided, appropriate charging mechanisms, allocation keys, and benefit tests. Other considerations like withholding tax, potential challenges on deductibility in service recipient tax jurisdiction etc. were also analyzed in detail.

This initial work supported clearer differentiation between chargeable services and shareholder activities and led to the gradual formalization of intercompany service agreements and documentation frameworks.

Centralized functions

UAE family-owned business groups invested significant efforts in streamlining and formalizing the TP policies for their centralized functions like treasury, procurement, centralized management oversight etc.

This process involved mapping group-wide activities, clarifying decision-making roles, documenting service flows, and aligning cost allocation and pricing mechanisms with actual conduct.

These efforts not only supported TP compliance but also strengthened operational efficiency, internal alignment, and group-wide synergies.

Overall, the first year of TP compliance served as a foundational phase for the taxpayers in the UAE. The efforts undertaken during this period have highlighted the importance of clear governance structures, robust documentation practices, and standardized intercompany policies.

TP compliance should be viewed as an ongoing governance exercise rather than a one-time, annual compliance requirement. With foundational frameworks and documentation largely established in the first year, the focus should now transition toward embedding TP principles into routine business operations, enhancing process efficiency, and reinforcing internal control mechanisms.

04 Areas requiring ongoing focus after year one of compliance

As UAE family-owned businesses move into their second year of compliance, the focus shifts from meeting initial filing requirements to building strong TP frameworks that can withstand regulatory scrutiny and support business decision-making. The first year provided clarity on technical expectations; the second year is about embedding TP into governance, operations, and risk management.

Integrating TP with governance and operations

TP must move beyond a compliance exercise and become part of the governance framework. Centralized oversight, defined roles and responsibilities, and periodic internal reviews are increasingly important to ensure consistency across entities. Leveraging technology and enhancing internal awareness through targeted training can further support this transition and improve control over RPTs and compliance with arm's length principle.

Enhancing cost allocation and management service models

Focus on technical refinement of intra-group service pricing mechanisms is key and can be undertaken by clearly identifying and documenting cost centers, determining appropriate allocation keys aligned with value drivers (e.g. FTE, headcount, usage), and the preparation of contemporaneous benefit analyses for recipient entities.

Periodic internal controls and review procedures and over-cost recharge mechanisms will be critical to support arm's length outcomes and ongoing compliance.

Revisiting/implementing robust TP financing policies

Year two presents an opportunity to revisit, or where necessary establish, robust intra-group financing frameworks encompassing formal credit assessment methodologies, arm's-length interest pricing supported by comparable loan data, and monitoring of thin-capitalization and interest coverage metrics.

Clear cash-pooling policies enhance transparency by defining remuneration, risk allocation, and documenting commercial rationale underpinning intra-group funding arrangements.

Strengthening substance and functions for entity characterization

The focus should be on strengthening entity characterization by documenting functional profiles that accurately reflect actual operational conduct, decision making authority and risk control.

This includes ensuring consistent alignment between day-to-day operational activities and TP documentation to support robust, arm's-length positions particularly with entities undertaking strategic decisions, centralized management, treasury, shared service arrangements.

Structured governance for arrangements with connected persons

Looking ahead, the focus for Year Two naturally shifts toward embedding structure and sustainability. Family businesses are now better positioned to formalize policies around arrangements and transactions with connected persons (including benefits provided) to demonstrate adherence with market value. This also involves ensuring consistency between contracts, financial outcomes, and TP disclosures, creating a repeatable framework that supports both compliance and good governance.

Contemporaneous documentation and audit readiness

In the evolving tax landscape, contemporaneous documentation and periodic testing is becoming increasingly important.

Implementing periodic margin testing, real-time tracking of intercompany transactions, and regular benchmarking updates enables groups to identify issues early and reduce year-end adjustments. Consistency across tax filings, agreements and TP documentation will be essential in managing audit risk and responding effectively to information requests within short timelines.

05 | Navigating the next chapter

Year two marks a turning point for UAE family groups where the UAE TP landscape shifts from being compliance focused to building mature TP frameworks in an increasingly enforcement-driven environment.

Looking ahead, potential tax scrutiny and alignment with international standards, including OECD Pillar Two implementation, underscores the importance of proactive monitoring, strategic planning, and robust governance to ensure sustainable, long-term business success.

UAE family-owned business that proactively strengthen governance, documentation, and align operational conduct with transfer pricing outcomes will be best positioned to manage tax risk, support sustainable growth, and navigate the UAE's evolving TP landscape.



How we can help

KPMG has a dedicated team of TP professionals in the UAE with extensive experience of assisting UAE family-owned business groups across various industry sectors.

The team's deep knowledge, combined with familiarity with local and regional legal frameworks, allows us to help you navigate the requirements set out in the TP provisions as outlined in the CT Law and the OECD TP Guidelines.

We are happy to discuss your specific requirements and determine the way forward; please reach out to our UAE team members below.

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