

The United Arab Emirates (UAE) Corporate Income Tax (CIT) law includes specific provisions regarding payments to Connected Persons. According to the law, payments or benefits from UAE-based taxable entities to Connected Persons are deductible for corporate tax purposes only if they can be justified as being at Market Value.



Definition of a Connected Person



A Connected Person in the UAE can be:

- a director or officer of the Taxable Person, or a Related Party of the said director or officer; or
- a partner in an Unincorporated Partnership, and any Related Parties of such partner.
- an individual, who directly or indirectly owns an ownership interest in the Taxable Person or Controls such Taxable Person, or a **Related Party** of such individual.

Arm's length principle



- According to CIT provisions, a payment or benefit to a Connected Person is deemed to be at Market Value if it can withstand scrutiny at arm's length.
- Typically, higher compensation is justified for senior risk-controlling positions, while routine tasks align with industry norms for remuneration. It is crucial to clearly define the roles and responsibilities of Connected Persons and compare them against internal or publicly available compensation data.

Related Parties within degrees of Kinship

From an UAE CIT perspective, two or more Natural Persons can be considered as Related Parties if they related within the fourth degree of kinship. This includes:



The first-degree of kinship and affiliation: A Natural Person's parents and children, as well as the parents and children of their spouse.



The second-degree of kinship and affiliation: Additionally, includes a Natural Person's grandparents, grandchildren, and siblings, as well as the grandparents, grandchildren, and siblings of their spouse.



The third-degree of kinship and affiliation: Additionally, includes a Natural Person's great-grandparents, great-grandchildren, uncles, aunts, nieces and nephews, as well as the great-grandparents, great grandchildren, uncles, aunts, nieces and nephews of their spouse.



The fourth-degree of kinship and affiliation: Additionally, includes a Natural Person's great-great-grandparents, great-great-grandchildren, grand uncle, grand aunt, grandniece, grandnephew and first cousins, as well as the great-great-grandparents, great-great-grandchildren, grand uncle, grand aunt, grandniece, grandnephew and first cousins of their spouse.

Fourth



Third



Second



First degree



Natural Person

Documentation requirements



- Taxpayers must keep contemporaneous transfer pricing (TP) documentation for their controlled transactions with Connected Persons to comply with TP regulations and ensure the accuracy of their Corporate Tax reporting.
- These transactions, along with the payments made to Connected Persons and the TP method used, must be detailed in the annual transfer disclosure form.

Further Considerations



Understanding the concept of Connected Persons in the UAE is essential for businesses to ensure compliance with the CIT law. Payments or benefits provided to Connected Persons must be at Market Value to be deductible for CIT purposes, as per the arm's length principle. Benchmarking these payments will require a unique and tailored approach. Furthermore, it is crucial for businesses to document their transactions with Connected Persons and comply with TP regulations to avoid penalties. By following these guidelines, businesses can navigate the complexities of CIT regulations in the UAE and ensure fair and transparent dealings with Connected Persons. Finally, we note that if any adjustment will need to be made as a result of the benchmarking analyses, we advise clients to update the employment agreements before the end of the financial year.

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