

In the context of the UAE Corporate Tax, a related party is defined based on the relationship between entities or individuals that have the potential to influence each other's business decisions and operations. This definition aligns with international tax standards, particularly those outlined by the OECD (Organisation for Economic Cooperation and Development). The key points to consider are as follows:

1. **Ownership and Control:** A related party includes individuals or entities that own or control, directly or indirectly, 50% or more of another entity. This control can be in the form of voting rights, capital, or profits.

Example: Company A owns 60% of Company B. Since Company A has more than 50% ownership, it can control Company B's decisions and operations. Thus, Companies A and B are related parties.

2. **Significant Influence:** If an individual or entity can exert a significant influence over another entity's financial and operating policies, they are considered related parties. A significant influence typically involves owning 20% to 50% of voting power in an entity.

Example: Individual X owns 30% of Company Y. Although X does not have majority control, owning 30% of voting rights has a significant influence on Company Y's financial and operational policies. Therefore, Individual X and Company Y are related parties.

3. **Common Management:** Entities managed or controlled by the same individual or group of individuals are also regarded as related parties.

Example: Companies C and D have the same CEO and board. Common management implies that the same individual controls both the companies. Hence, companies C and D are the related parties.

4. **Joint Ventures and partnerships:** Entities involved in joint ventures or partnerships where the partners or participants have significant control or influence over the venture's operations are related parties.

Companies G and H form a joint venture, Company I, where each owns 50%. Both Company G and Company H have significant control over Company I's operations. Therefore, companies G, H, and I are related parties.

5. **Connected Persons:** Any person connected to the entity, such as directors or shareholders with substantial interest, can also be considered a related party.

Example: Ms. A is a director and owns 25% of Company J. Mr. B, a significant shareholder with a 35% stake in Company J, was Ms. A's brother. Ms. A and Mr. B are connected persons; thus, they are parties related to Company J.

6. **Family Relationships:** In the context of the UAE Corporate Tax, party relationships extend to various degrees of family relationships. This ensures that transactions within the family network are scrutinized to prevent tax evasion. Below is a detailed explanation of the degrees of relationship considered for the related parties:

Degrees of Family Relationships

a) First Degree Relatives

These are the closest family members:

- **Spouses:** Husband or wife.
- **Parents:** Both biological and adoptive parents.
- **Children:** Both biological and adoptive children(s).

Example: Mr. A owns 30% of Company X. His wife, Mrs. A owns 20% of Company Y. Mr. A and Mrs. A are first-degree relatives, making Companies X and Y related parties.

b) Second Degree Relatives

These include:

- **Siblings:** Brothers and sisters, including half-siblings.
- **Grandparents:** Both maternal and paternal grandparents.
- **Grandchildren:** Both biological and adoptive grandchildren.

Example: Ms. B owns 25% of Company Z. Her brother, Mr. C, owned 25% of Company W. Ms. B and Mr. C are second-degree relatives, making companies Z- and W-related parties.

c) Third Degree Relatives

These extend further to:

- **Aunts and Uncles:** Both maternal and paternal aunts and uncles.
- **Nieces and Nephews:** Children of one's siblings.
- **Great-grandparents and Great-grandchildren:** The grandparents of one's parents and the grandchildren of one's children.

Example: Mr. D owns 15% of Company M. His niece, Ms. E (the daughter of Mr. D's brother), owns 20% of Company N. Mr. D and Ms. E are third-degree relatives, making companies M- and N-related parties.

d) Fourth Degree Relatives

This category includes:

- **First Cousins:** Children of one's aunts and uncles.

Example: Ms. F owns 20% of Company P. Her first cousin, Mr. G (son of Ms. F's aunt), owned 25% of Company Q. Ms. F and Mr. G are fourth-degree relatives, making companies P- and Q-related parties.

Practical Implications

- **Example:** Family Holdings

Scenario: A family owns multiple businesses. The father owns 40% of Company A mother owns 30% of Company B, and the children collectively own

50% of Company C. Transactions between these companies must be carefully monitored and documented to ensure compliance with UAE Corporate Tax regulations, treating them as related parties.

Detailed Practical Examples

Example 1: Direct Ownership

Scenario: Single Entity Ownership

- **Company A:** Owned 60% by Mr. X.

Explanation:

- Mr. X directly owns more than 50% of Company A, giving him control over the company's decisions and operations.
- Therefore, Mr. X and Company A are related parties.

Example 2: Indirect Ownership

Scenario: Multi-Level Ownership

- **Parent Company B:** Owns 80% of Subsidiary Company C.
- **Subsidiary Company C:** Owns 70% of Sub-subsidiary Company D.

Explanation:

- Parent Company B indirectly owns 56% (80% of 70%) of Sub-subsidiary Company D.
- The control exerted through multiple levels makes Parent Company B and Sub-subsidiary Company D related parties.

Example 3: Common Ownership

Scenario: Shared Ownership by Multiple Entities

- **Company E:** Owned 40% by Mr. Y and 30% by Mrs. Y (Mr. Y's spouse).
- **Company F:** Owned 45% by Mr. Y and 20% by Mrs. Y.

Explanation:

- Mr. Y and Mrs. Y collectively own significant portions of both Company E and Company F.
- Their combined ownership and spousal relationship make Company E and Company F related parties.

Example 4: Ownership through Family Relationships

Scenario: Family-Owned Entities

- **Company G:** Owned 35% by Mr. Z and 25% by his son, Mr. W.
- **Company H:** Owned 30% by Mr. Z's wife, Mrs. Z, and 20% by Mr. W.

Explanation:

- The family members collectively own significant portions of both Company G and Company H.
- The father-son and spousal relationships make Company G and Company H related parties.

Example 5: Corporate Group Structure

Scenario: Corporate Group with Multiple Subsidiaries

- **Parent Company I:** Owns 100% of Subsidiary Company J and 100% of Subsidiary Company K.
- **Subsidiary Company J:** Owns 60% of Company L.
- **Subsidiary Company K:** Owns 40% of Company M.

Explanation:

- Parent Company I indirectly controls Company L through Subsidiary Company J and Company M through Subsidiary Company K.
- Therefore, Parent Company I, Subsidiary Company J, Subsidiary Company K, Company L, and Company M are all related parties.

Example 6: Joint Ventures

Scenario: Joint Venture with Significant Ownership

- **Company N:** Owned 50% by Company O and 50% by Company P.
- **Company O:** Owned 60% by Mr. A.
- **Company P:** Owned 70% by Mr. B.

Explanation:

- Companies O and P both have significant influence over Company N.
- Mr. A and Mr. B's control over Companies O and P, respectively, makes Company N related to both Company O and Company P, as well as to Mr. A and Mr. B.

Example 7: Influence without Majority Ownership

Scenario: Significant Influence through Minority Ownership

- **Company Q:** Owned 30% by Ms. C and 25% by Mr. D.
- **Company R:** Owned 20% by Ms. C and 30% by Mr. D.

Explanation:

- Ms. C and Mr. D collectively own significant shares in both Company Q and Company R, allowing them to influence both companies' decisions.
- Their combined significant ownership makes Company Q and Company R related parties.

Documenting Related Party Relationships for Tax Purposes in UAE

Proper documentation of related party relationships is crucial for compliance with UAE Corporate Tax regulations, particularly in the context of transfer pricing and related party transactions. Here are detailed steps and guidelines on how to document these relationships effectively:

1. Transfer Pricing Documentation

a. Master File

The master file provides a comprehensive overview of the multinational enterprise (MNE) group, including the global business operations, transfer pricing policies, and financial arrangements.

- **Organizational Structure:** A detailed chart showing the ownership and control relationships within the group.
- **Business Description:** An overview of the main business activities of each group member.
- **Transfer Pricing Policies:** Description of the group's overall transfer pricing policies and methodologies.
- **Financial Information:** Consolidated financial statements and details of financial arrangements within the group.

b. Local File

The local file contains specific information about the taxpayer's intercompany transactions and supports the arm's length nature of these transactions.

- **Entity Information:** Detailed description of the local entity, including organizational structure, management, and business strategy.
- **Related Party Transactions:** Detailed information about each type of related party transaction, including amounts, terms, and conditions.
- **Comparability Analysis:** Analysis comparing related party transactions to transactions between independent entities (benchmarking studies).
- **Financial Information:** Financial statements of the local entity and reconciliation of transfer pricing adjustments.

2. Contracts and Agreements

a. Intercompany Agreements

- **Written Contracts:** Formal agreements outlining the terms and conditions of transactions between related parties.
- **Terms and Conditions:** Clear documentation of pricing, payment terms, and other relevant conditions.
- **Signatures:** Proper execution of contracts with signatures from authorized representatives of both parties.

b. Service Level Agreements (SLAs)

- **Scope of Services:** Detailed description of services provided by one related party to another.
- **Pricing and Payment:** Documentation of the basis for pricing and payment terms for the services.

- **Performance Metrics:** Defined metrics to measure the performance and quality of services.

3. Benchmarking Studies

a. Selection of Comparable Companies

- **Criteria:** Define criteria for selecting comparable companies (e.g., industry, size, geographic location).
- **Database Searches:** Use commercial databases to identify potential comparable.

b. Economic Analysis

- **Comparable Transactions:** Analyse transactions between independent entities that are comparable to related party transactions.
- **Arm's Length Range:** Determine an arm's length range for pricing based on the comparable transactions.

4. Internal Documentation

a. Organizational Structure Charts

- **Detailed Charts:** Create charts showing the ownership and control relationships within the group.
- **Updates:** Regularly update the charts to reflect any changes in ownership or control.

b. Board Minutes and Resolutions

- **Minutes:** Document board meetings discussing related party transactions and transfer pricing policies.
- **Resolutions:** Record formal resolutions approving related party transactions.

5. Financial Records

a. General Ledger and Sub-ledger

- **Transaction Records:** Maintain detailed records of all transactions with related parties in the general ledger and sub-ledger.
- **Reconciliation:** Regularly reconcile the ledger accounts to ensure accuracy.

b. Supporting Documents

- **Invoices and Receipts:** Keep copies of invoices and receipts for transactions with related parties.
- **Payment Records:** Document payment records, including bank statements and payment confirmations.

6. Disclosure and Reporting

a. Tax Returns

- **Disclosure Forms:** Complete and file disclosure forms required by the tax authorities, detailing related party transactions.
- **Compliance Certificates:** Provide compliance certificates, if required, confirming adherence to transfer pricing regulations.

b. Annual Reports

- **Financial Statements:** Include disclosures about related party transactions in the annual financial statements.
- **Notes to Accounts:** Provide detailed notes explaining the nature and amounts of related party transactions.

Practical Example

Example Documentation for a Related Party Transaction

Scenario: Company A sells goods to its related party, Company B.

1. **Master File:**
 - Organizational chart showing Company A and Company B's ownership structure.
 - Description of Company A's and Company B's business activities.
 - Transfer pricing policy document explaining the pricing method for the sale of goods.
2. **Local File:**
 - Detailed description of Company A's operations and management.
 - Specific details of the transaction with Company B (e.g., product description, transaction amount, payment terms).
 - Benchmarking study comparing the sale price to market rates.
3. **Intercompany Agreement:**
 - Contract between Company A and Company B specifying the terms of the sale, pricing, and payment terms.
 - Signed by authorized representatives of both companies.
4. **Financial Records:**
 - Invoice from Company A to Company B.
 - Payment receipt confirming the transaction.
 - Entries in the general ledger reflecting the sale.
5. **Disclosure in Tax Returns:**
 - Detailed disclosure of the transaction in the corporate tax return.
 - Compliance certificate confirming adherence to transfer pricing regulations.

By following these steps and maintaining comprehensive documentation, companies can ensure compliance with UAE Corporate Tax regulations regarding related party transactions. This documentation helps demonstrate that transactions are conducted at arm's length and are properly reported to the tax authorities.