



PB First Global Tax Information Booklet

No.6. TRANSFER PRICING – THE LOCAL FILE



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LOCAL FILE

- 1 Definition of a Local File
- 2 Circumstances when a Local File is needed
- 3 Exemptions where a Local File is not needed
- 4 What areas are covered in a Local File?
- 5 Which Documents do I put in the Local File?
- 6 Thresholds
- 7 Flow Diagram for building a Local File



Welcome!

In this edition of the PB First Information Booklet, we take a look at one of the most vital and complex pieces of documentation that firms have to compile for compliance purposes.

Supporting MNE Master Files, the Local File collects together all of the statements, analyses and benchmarking reports that a firm must produce, in order to prove compliance with the notion of transacting at arms length.

Make no mistake, this is not an optional task. Neither is it possible to produce a Local File at short notice. Production must be seen as an on-going process of gathering and analysing data, so that when this information is required, it will be available within the 30 day deadline that the FTA issues when requesting such documents.

We hope you find the following details useful, and if you think you'd like our assistance, please drop us a line.

Definition of a Local File

LOCAL FILE

The local file holds a collection of documents which focus on a single entity in a single jurisdiction, detailing if and how that entity transacts with it's related parties and connected persons, within a tax period.



Following OECD guidelines (Annex 2 to Chapter 5), the UAE introduced Ministerial Decision No. 97 in 2023 which outlines its 3- tiered Transfer Pricing documentation system.

The Local File is the first step and it is the means by which the Federal Tax Authority (FTA) gains a clear view of detailed intra-group transactions, which allows them to assess transfer pricing risks.

Demonstrating compliance with arms length pricing across all entities within a group, the file details specific controlled transactions and arrangements with connected persons and related parties.

Financial data and analyses of these transactions are also found here, and these build the picture of compliance that the FTA will examine.

Circumstances when a Local File is needed

LOCAL FILE

- 1 Small Business Relief
- 2 Different Tax Rate
- 3 Cross-Border Transactions & Arrangements
- 4 Exempt Person Transactions & Arrangements



Small Business Relief: Controlled Transactions and arrangements with a Resident Person who benefits from Small Business Relief.

Example: A UAE Company purchases goods (worth AED 4m) from a related small business that qualifies for relief.

Different Tax Rate: Controlled Transactions and arrangements with a Resident Person subject to a different Corporate Tax rate.

Example: A UAE Company licenses Intellectual Property to its related Company in a Qualifying Free zone, for AED 5m.

Cross-Border Transactions & Arrangements: Controlled Transactions and arrangements with a Non-Resident Person subject to the same Corporate Tax rate.

Example: A UAE Company pays management fees of AED10m to its parent Company in Hong Kong.

Exempt Person Transactions & Arrangements: Controlled Transactions and arrangements with an Exempt Person who is not subject to Corporate Tax.

Example: A UAE Company provides technical services to a government entity.

REMEMBER! All controlled Transactions & Arrangements must be at arms length

Exemptions where a Local File is not needed

LOCAL FILE

- 1 Natural Persons
- 2 Partnerships
- 3 Same Tax Rate Permanent Establishments



Natural Persons: Controlled Transactions and arrangements with Natural Person who act independently.

Example: A UAE Company pays consulting fees to the CFO's wife for legitimate services at market rates,

Partnerships: Transactions and arrangements with Juridical Persons that are Related Parties solely because they are partners in an Unincorporated Partnership.

Example: A UAE Company sells goods to another Company (both are partners in an Unincorporated Partnership).

Same Tax Rate Permanent Establishments: Transactions and arrangements with a PE of a Non-Resident Person subject to the same Corporate Tax rate as the Taxable Person.

Example: A UAE Company provides services to the UAE branch of a UK company, where both are subject to the 9% tax rate.

REMEMBER! All controlled Transactions & Arrangements must be at arms length

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What areas are covered in a Local File?

LOCAL ENTITY

- 1 Corporate Structure, Entity Organisation and Management Framework
- 2 Principal Officers; UBOs and Lines of Reporting
- 3 Description of the Business and it's Strategy
- 4 Business Restructurings and / or Intangibles Transfers
- 5 Identification of Key Competitors



CONTROLLED T & A'S

- 1 Descriptions of Material Transactions & Arrangements
- 2 Volume of Payments / Receipts by jurisdiction
- 3 List of Associated Enterprises
- 4 Material Inter-company Agreements
- 5 Examples of Tested Parties, with supporting commentary including comparability adjustments
- 6 Functional Analysis Report
- 7 Transfer Pricing methodology
- 8 Arms Length Pricing Justifications



FINANCIAL INFO

- 1 Annual Financial Accounts of the firm
- 2 Audited Statements
- 3 Allocation Schedules linking to statements
- 4 Financial Data for comparables
- 5 Sources of Data used in analyses



Which Documents do I put in the Local File?

LOCAL ENTITY

- 1 Corporate Structure & Management Charts
- 2 Material Inter-Company Agreements
- 3 Business Strategy & Key Competitors statements
- 4 F.A.R. for each Transaction & Agreement
- 5 Identification of Tested Parties



TRANSFER PRICING METHOD

- 1 Transfer Pricing methodology and Justification
- 2 Comparable Search Methodology
- 3 Comparability Adjustments statement
- 4 Comparable Transactions / Companies List
- 5 Multi-year Analysis: explanatory rationale
- 6 Arms Length Findings and Conclusion



FINANCIAL INFO

- 1 Annual local entity Financial Accounts
- 2 Audited Statements
- 3 Allocation Schedules linking to statements
- 4 Financial Data used in Transfer Pricing Analysis
- 5 Sources of Data used in analyses
- 6 Inter-Company Payments analysis



Thresholds

MNE GROUP

+AED 3.15 Billion – Total Consolidated Group Revenue

- ❖ Confirm your global revenue is above AED 3.15B
- ❖ Identify all T & As with Related Parties
- ❖ Prepare Local File regardless of UAE Entity revenue
- ❖ Master file required above AED 3.15B



LOCAL ENTITY

+ AED 200 Million – Revenue in the Tax Period

- ❖ Confirm entity revenue is above AED 200M
- ❖ Document all controlled T & As
- ❖ Prepare Local File even if not part of an MNE
- ❖ Local file required



BELOW THRESHOLD

Even if you are below the threshold you must:

- ❖ Be prepared to produce documentation within 30 days of the FTA request.
- ❖ Follow arms length for ALL controlled T & A's. Document the basis for pricing T & As at arms length
- ❖ Keep records supporting arms length pricing



Flow Diagram for Building a Local File

LOCAL FILE

STEP 1

Analyse your Controlled Transactions and Arrangements

Highlight and categorise all intra-group transactions & arrangements



STEP 2

Prepare your Functional Analysis

Note all functions, risks and assets for each transaction & arrangement



STEP 3

Conduct your Benchmarking

Identify comparable businesses / transactions & arrangements



STEP 4

Finalise your documentation

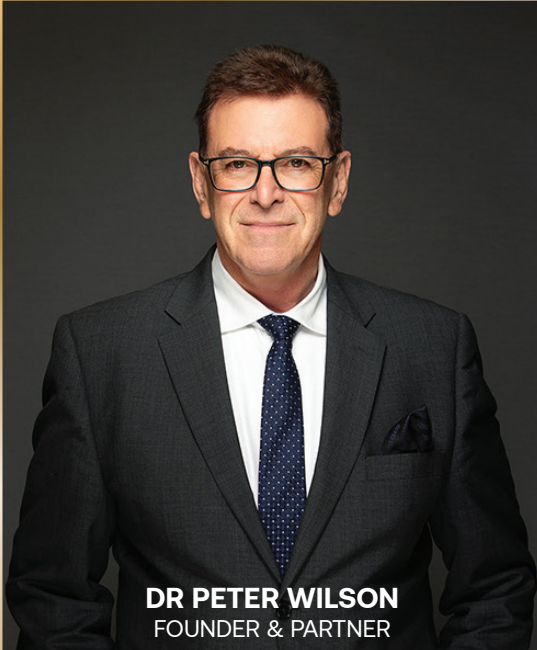
Combine items from previous steps to create a Local File

Allow Us To Help You!

At PB First, we only focus on difficult and complex International Tax cases, Functional Analyses, Benchmarking Studies and Transfer Pricing Reports.

Feel free to contact us and set up a call with one of our experts
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