



PB First Global Tax Information Booklet

No.8. TRANSFER PRICING – THE MASTER FILE



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MASTER FILE

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Welcome!

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

This is another document that requires detailed preparation and it is impossible to produce a Master 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 Master File

MASTER FILE

The Master file is aimed at providing a high-level overview of the Transfer Pricing policies of an MNE. There are three tiers to the OECD-prescribed approach to standardised TP documentation: The Local File, the Master File and the Country by Country Report.



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 Master File represents the second tier after the Local File, and it is the means by which the Federal Tax Authority (FTA) gains a general overview of a Multi-National Entity (MNE).

The Master file will assist the FTA in evaluating significant Transfer Pricing risks and determining the MNE Group's Transfer Pricing practices in their global economic, legal, financial, and tax context.

The purpose of the Master file therefore, is to provide a kind of 'blueprint' of an MNE's global business operations, its Transfer Pricing policies, information on key value drivers, and a global allocation of income and economic activity.

Circumstances when a Master File is needed

MASTER FILE

1 MNE revenue above AED 3.15 Billion

OR

3 UAE Entity Revenue above AED 200 Million



1. When the UAE Taxable Person for any time during the relevant Tax Period, is a Constituent Company of an Multi National Entity (as defined in the Cabinet Resolution No. 44 of 2020) and that entity has total consolidated group Revenue of AED 3,150,000,000 (three billion one hundred and fifty million Dirhams), then as per Ministerial Decision No. 97 of 2023, it is required to maintain both a Master File and a Local File.
2. When the UAE Taxable Person's Revenue in the relevant Tax Period is AED 200,000,000 (two hundred million Dirhams) or more, then as per Ministerial Decision No. 97 of 2023, it is required to maintain both a Master File and a Local File.

Exemptions where a Master File is not needed

MASTER FILE

- 1 Thresholds not met.
- 2 A UAE-Only Business



A Taxable Person not meeting either of the Thresholds (MNE global revenue above AED 3.15 Billion dirhams, OR UAE revenue above AED 200 million) is NOT required to maintain either a Master or Local File, but still required to keep reasonable records to support the arm's length nature of its transactions with Related Parties and Connected Persons.

Be prepared; the FTA can request this information is produced within 30 days.

Any Taxable Person that is part of a UAE headquartered group that is not an MNE group (i.e. a group that does not have business establishments outside the UAE), is NOT required to maintain a Master File. However, they are required to still maintain a Local File should they meet or exceed the above thresholds.

What areas are covered in a Master File? Part 1

ORGANISATIONAL CHART

The Organisational Chart illustrates the MNE Group's legal and ownership structure together with the geographical location of all operating entities.



BUSINESS DESCRIPTION

- 1 Description of Important drivers of business profit
- 2 5 Largest Products / Services' Supply Chain Diagram
- 3 List & Description of Intra-group Service Arrangements
- 4 Description of the Capabilities of Principal Locations
- 5 Transfer Pricing Policies for Intra-group services
- 6 Description of the Principal Geographic markets
- 7 Functional Analysis of group entities' contributions to value creation
- 8 A Description of any important recent restructuring, acquisitions & divestitures during the year



What areas are covered in a Master File? Part 2

INTANGIBLES

- 1 Group Strategy Description: development, ownership and exploitation of intangibles; principal R&D locations and R&D management locations
- 2 List of Intangibles / R&D and their legal ownership
- 3 List of cost contribution, service and license agreements
- 4 General description of TP policy related to intangibles and Research & Development
- 5 Description of any recent transfers of interest in intangibles inc. entities, countries & costs

FINANCIAL TRANSACTIONS

- 1 Copies of all Policies
- 2 Copies of all Third-Party Arrangements
- 3 Description of any MNE Group members that provide a central financial function to the group.
- 4 Details of the country where these group members were formed.

What areas are covered in a Master File? Part 3

FINANCIAL POSITION

- ❖ Details of the allocation of Tax
- ❖ Annual Consolidated Financial Statements
- ❖ List of any unilateral advance pricing agreements (APAs)
- ❖ List and details of any relevant Tax Rulings

Presentation By Line Of Business

MASTER FILE

“A presentation by line of business is permitted where well justified by the facts (for example, where the structure of the MNE Group is such that some significant business lines operate largely independently or were recently acquired).

Where line of business presentation is used, care should be taken to assure that centralised Group functions and transactions between business lines are properly described in the Master File.

Even where a line of business presentation is selected, the entire Master File consisting of all business lines should be available to each jurisdiction in order to assure that an appropriate overview of the MNE Group’s global business is provided.”

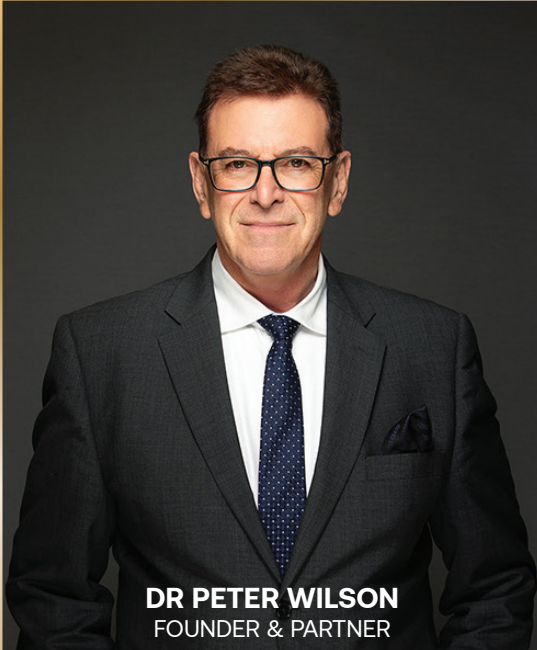
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Allow Us To Help You!

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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