

PwC Middle East Transfer Pricing (TP) Survey 2019

Are you TP ready?

October 2019



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Introduction

With an increased global focus on taxation as a result of the Organization for Economic Cooperation and Development ('OECD's') Base Erosion and Profit Shifting ('BEPS') project, a number of jurisdictions in the Middle East have either adopted or are in the process of introducing detailed Transfer Pricing (TP) regulations.

Several countries in the region have signed up to the OECD's BEPS Inclusive Framework, most notably the United Arab Emirates (UAE), the Kingdom of Saudi Arabia (KSA), Oman, Qatar, Egypt and Bahrain. The Inclusive Framework brings together over 130 countries to collaborate on the implementation of the OECD's BEPS Package. The BEPS Package includes 15 actions that give governments the necessary tools to tackle both domestic and international tax avoidance. It also includes four minimum standards, of which one (Action 13) relates to necessary TP documentation and Country by Country Reporting ('CbCR').

As a result, there have been several recent TP related developments in the region to meet the minimum standard of Action 13, most notably:

- KSA publishing and finalizing their TP by-laws in February 2019, which introduced documentation requirements along with an annual TP certification requirement and a Controlled Transaction Disclosure Form.
- The UAE introducing CbCR legislation that requires either a filing or notification for UAE tax resident entities over a certain consolidated threshold.
- Qatar issuing a notice in respect to CbCR regulations requiring Ultimate Parent Entities (UPE's) that are tax resident in Qatar to file a CbCR if they are over a certain revenue threshold.
- Egypt publishing updated TP guidelines to align with the BEPS project.

Because of the adoption of TP regulations in the region, it is important for businesses operating in the Middle East to understand what TP is, what it means for them, as well as how to plan and develop an effective and compliant TP structure.

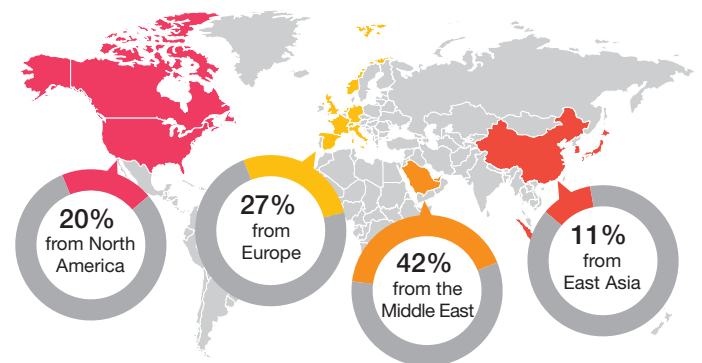
In order to understand how companies operating from or within the region view the above mentioned TP developments from a strategic, reputational and planning perspective, PwC Middle East has undertaken a survey of over 100 companies with operations in the Middle East. Within these companies, we have surveyed individuals in positions ranging from tax managers to C-suite executives in various industries such as Energy, Utilities & Resources, Consumer Products, Financial Services, Technology, Healthcare to name a few.

Survey respondents

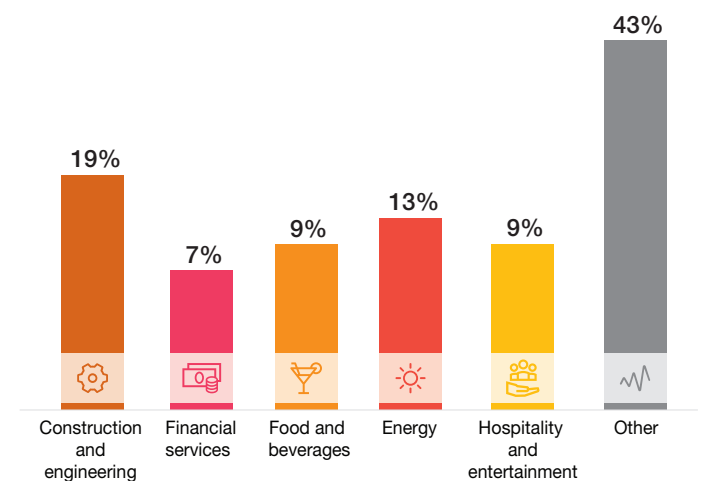
The survey has had a global reach, aiming to capture the views of respondents from all the major continents who deal with a taxable presence for their group in the Middle East region.

Importantly, capturing respondents from a diverse range of industries has been critical in demonstrating the views of all types of groups on the subject of TP. Whilst TP and its tax effects can impact different industries in different ways, having such a diverse range of industries represented in the survey has enabled a greater understanding of the topic's importance across the global business environment in the context of the Middle East.

Percentages of respondents by region



Percentages of respondents by Industry sector



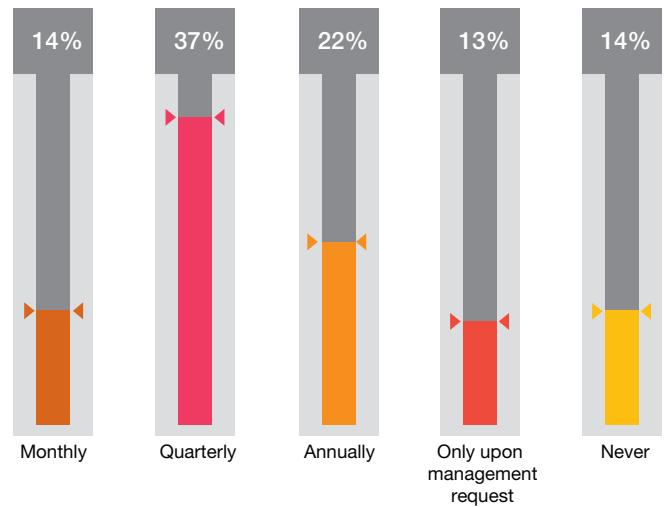
Survey findings

How often is TP a topic of discussion within your organization?

51% of people responded that TP is discussed at least on a quarterly basis within their business.

As a result of global TP developments, it is more likely than not that TP discussions will take place on a more regular basis, especially around the time of quarterly financial reporting and annual compliance with TP regulations.

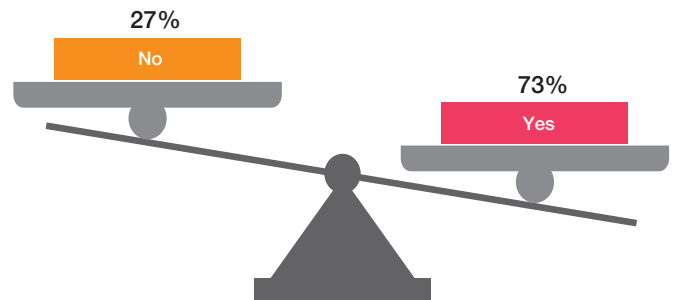
With the introduction of TP regulations in multiple Middle East jurisdictions, more and more companies are discussing the interplay between TP, other areas of tax like VAT and customs as well as their wider operating model, a trend that will continue increasing.



Does your company consider TP to be a reputational risk?

73% of respondents consider TP to be a potential reputation risk to their business and are concerned about increased media, political, and activist group interest in TP.

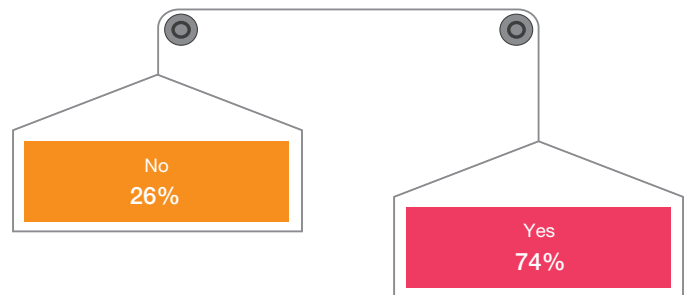
We expect this sentiment to continue in the foreseeable future. However, TP is a new and developing concept for many groups headquartered in the Middle East. It is likely that the groups that currently do not consider TP to be a reputational risk may change their view as TP audits begin in the region. In the last few months in particular, there has been an increase in TP audits in the region, especially in countries like KSA and Egypt. We expect this trend to continue.



Does your organization take TP into consideration when making strategic decisions?

74% of respondents felt that TP considerations are taken into account when making organizational and strategic decisions. This demonstrates that a vast majority of businesses are well aware of the risks that could potentially materialize from not having a robust TP model in place.

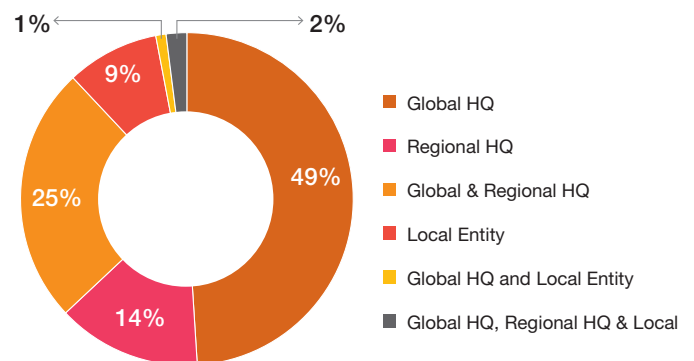
It is recommended that a robust, effective, and sound TP policy be the preferred course for companies operating from and within the Middle East. At the same time, TP should not only be viewed as a compliance requirement but should go hand in hand with business planning and wider strategic decisions.



Who makes strategic decisions with respect to TP matters?

49% of respondents felt that the Global Headquarter ('HQ') function is primarily engaged in making strategic decisions concerning TP in their group.

Strategic decisions such as a restructuring of the organization or transactions such as mergers or acquisitions can have a significant impact on the TP profile of a group. As such, it is critical that TP is a key consideration in strategic decisions affecting the group's operations, its subsidiaries, branches, and other presence in countries where the group operates.



Do you make use of Tax or TP technology

75% of respondents have indicated that they do not use any tax or TP technology, however, are interested in doing so in the future.

For companies to better manage TP risk and compliance, it is important that they make tax technology enhancements that will enable them to analyze the impact of TP on their business more efficiently.



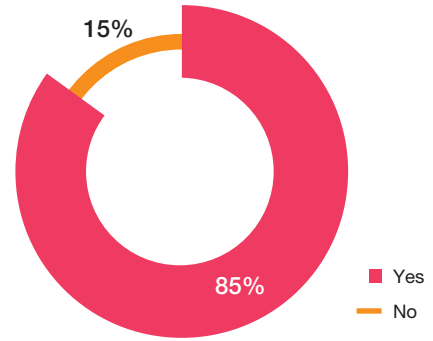
Special Country Focus: KSA and Egypt

KSA

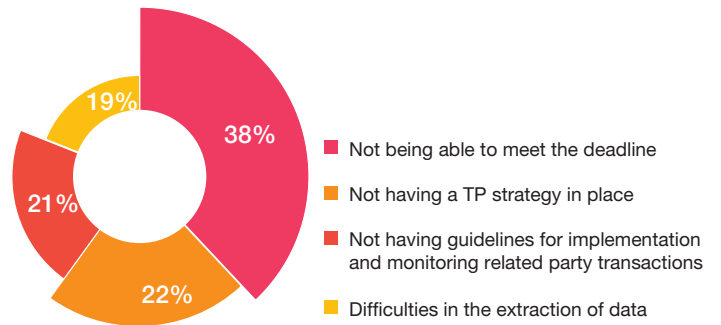
While there is awareness of the KSA TP by-laws amongst 85% of respondents, there are still a vast majority that do not fully understand the TP by-laws or need additional guidance.

The biggest concern that respondents had is not being able to meet future deadlines followed by not having a TP strategy in place and not having guidance for TP implementation. These are due to people not entirely understanding KSA TP by-laws and not being fully ready to meet future TP deadlines in KSA.

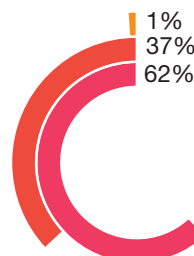
Is your organization aware of the new TP by-laws in KSA?



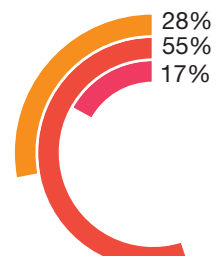
What is your organizations biggest TP concern at the moment?



Are the KSA TP by-laws understood by your organization?



Is your organization ready to meet future TP deadlines?



- Yes
- More or less/need some guidance
- No

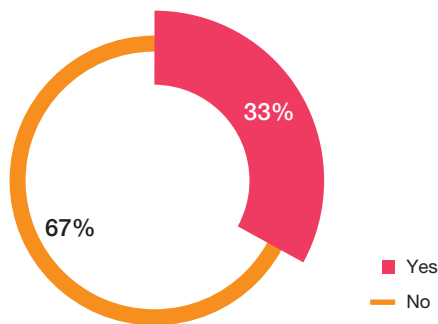


Egypt

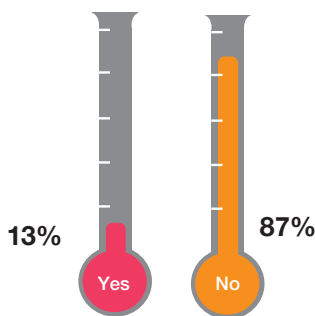
Awareness of new developments in Egypt do not appear to be widespread as 67% of respondents are not aware of the updates in the Egypt TP guidelines and generally lack awareness of the Egypt CbCR requirements.

61% of respondents have said that they are not contemplating obtaining a unilateral Advanced Pricing Agreement (APA) in Egypt, which is a unilateral agreement with the Egypt Tax Authority for future TP arrangements. This could be attributed to a lack of awareness regarding the updated TP guidelines in Egypt or to the decreased importance placed on a unilateral APA due to it not applying to other jurisdictions.

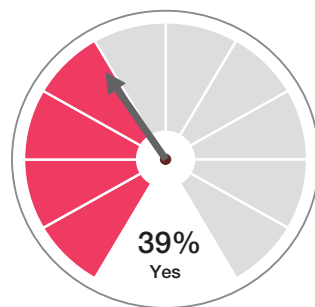
Is your organization aware of the new TP guidelines in Egypt?



Are you aware of the lower CbCR threshold (EUR 145 million compared to the OECD threshold of EUR 750 million)?



Are you contemplating applying for the unilateral APA in Egypt?



Key Takeaways:

Our first Middle East TP Survey has captured some key insights into many global businesses operating from and within the Middle East and how their various senior finance and tax executives are viewing TP developments in the region, not only from a tax perspective, but also from a financial reporting, commercial and strategic perspective.

Some of the key takeaways from the survey are as follows:

1. TP is now a very regular topic of discussion within businesses for a variety of commercial reasons beyond just tax.
2. Senior stakeholders within groups operating in the Middle East view the potential impact of getting TP wrong as a real reputational risk to their business.
3. Overwhelmingly, TP is now a key feature of organizational and strategic decisions within groups.
4. Groups operating in the Middle East have real concerns about meeting the KSA and Egypt TP requirements.

In today's rapidly changing Middle East TP regulatory environment, businesses operating in the region need act fast to ensure that their groups' TP needs are fully met.

Key contacts

For further discussion please contact any of our experts listed below:

Mark Schofield

Tax and Legal Services Leader
PwC Middle East
E: mark.d.schofield@pwc.com

Mohamed Serokh

PwC Tax Partner & Middle East Transfer Pricing Leader
PwC Middle East
E: mohamed.serokh@pwc.com

Mohammed Yaghmour

Zakat and Tax Leader
KSA & Egypt
E: mohammed.yaghmour@pwc.com

Lav Chadha

PwC Tax Partner – Transfer Pricing
PwC Middle East
E: chadha.lav@pwc.com

Safae Guennoun

Transfer Pricing Director
PwC Middle East
E: safae.guennoun@pwc.com

Saumyanil Deb

Transfer Pricing Director
PwC Middle East
E: saumyanil.d.deb@pwc.com

Husain Miyasaheb

Transfer Pricing Director
PwC Middle East
E: husain.m.miyasaheb@pwc.com

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