



# Transfer Pricing in Oil & Gas and Real estate Industry

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# About the Instructor



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Topics: Transfer Pricing in Oil & Gas and Real estate Industry

Subtopic: Insights and strategies

# Agenda

Overview of UAE Transfer Pricing regulations

O&G Industry: Value chain and common structures

O&G Industry: Key transactions

O&G Industry: Key issues

O&G Industry: Operational TP issues

Real estate industry: Value chain and key transactions

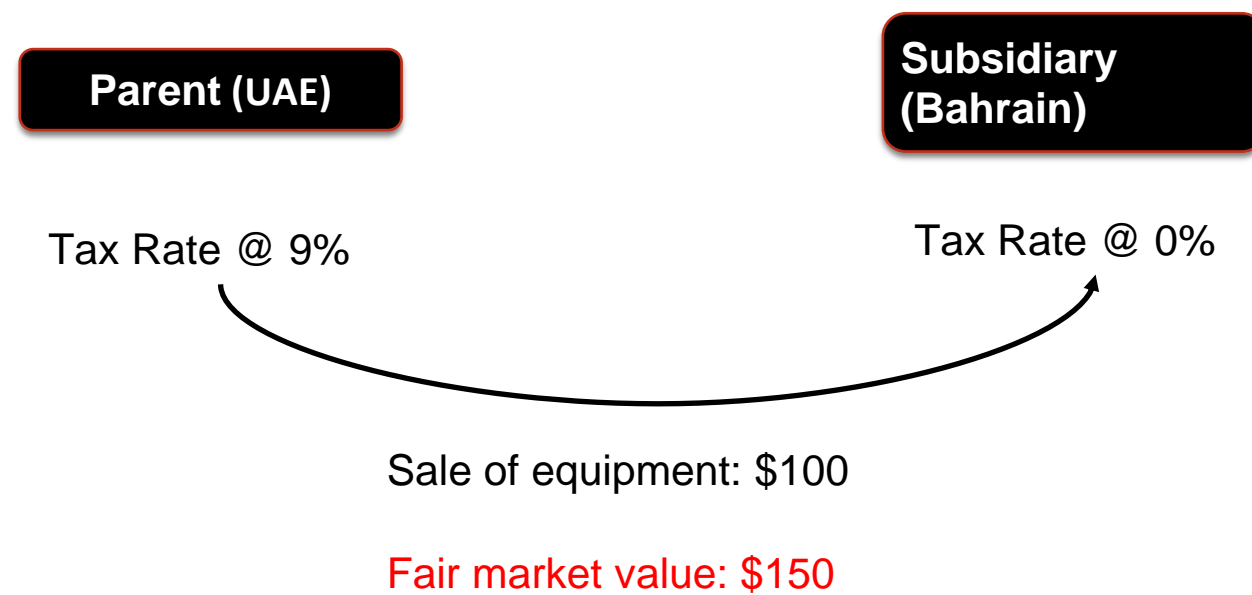
Real estate industry: Transfer pricing challenges

Real estate industry: Operational TP issues

Way forward

# Overview of UAE Transfer Pricing Regulations

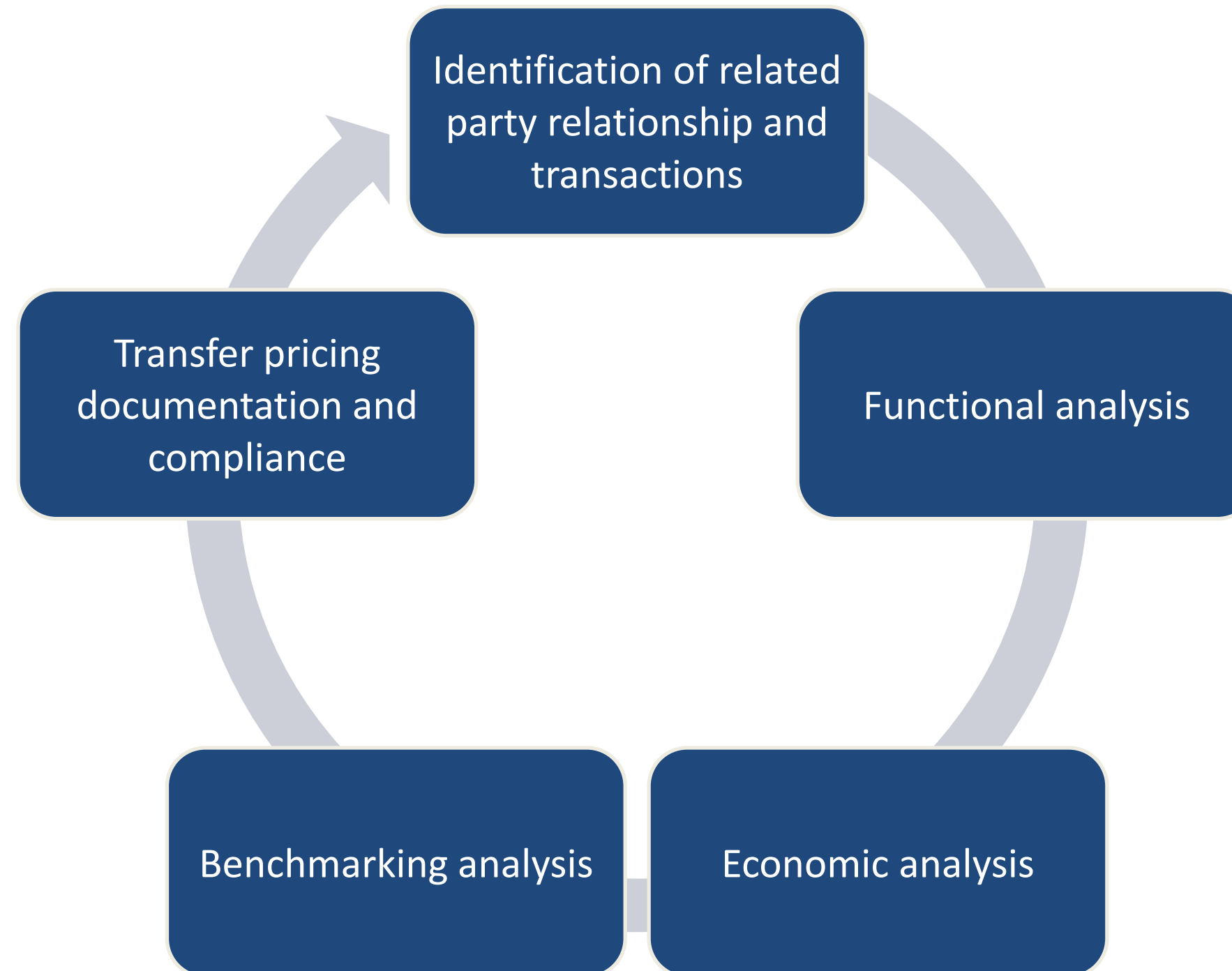
# Why Transfer Pricing Regulations?



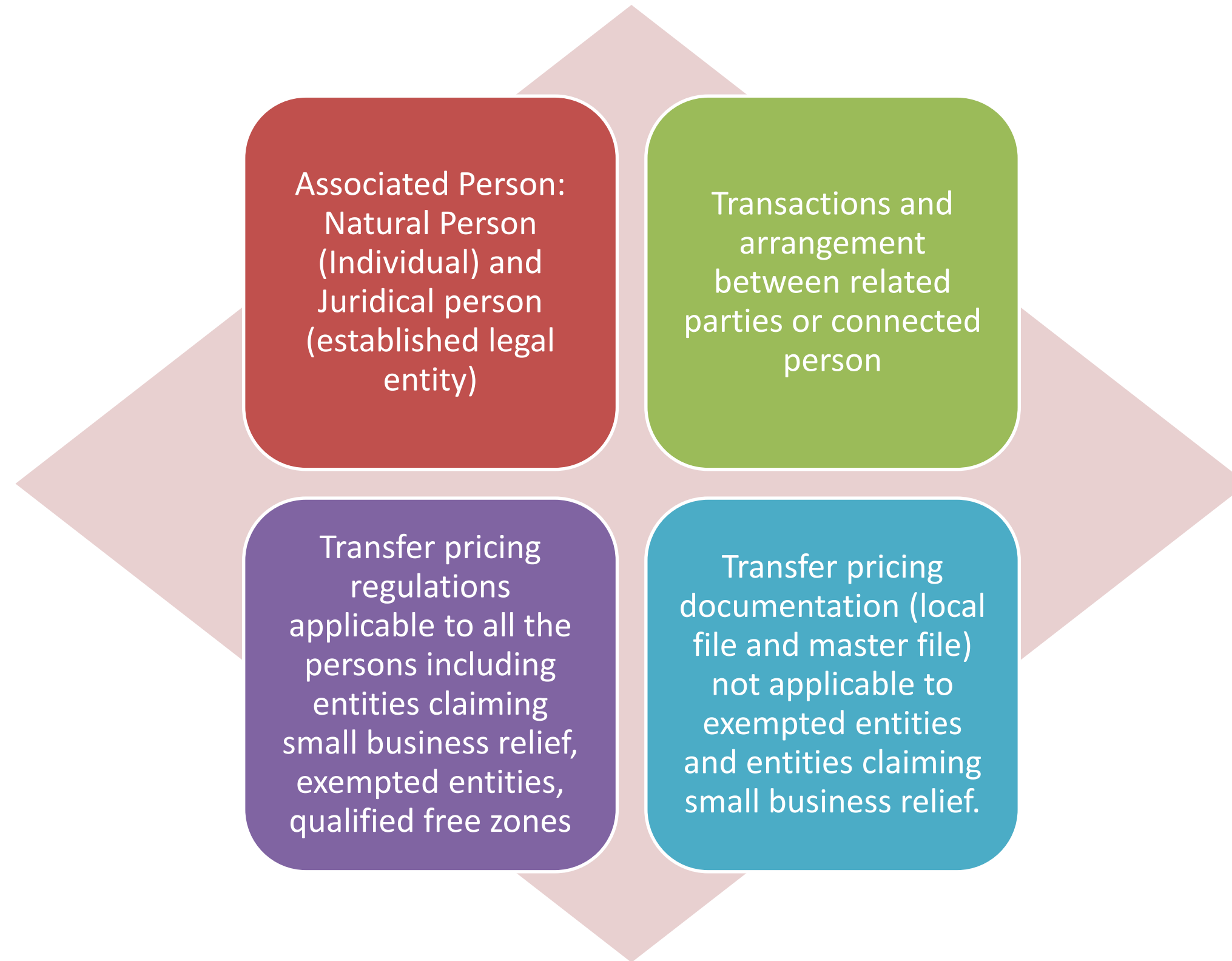
P&L of Parent (UAE)

Particulars	Existing Scenario	Arm's Length Scenario
Sale	\$100	\$150
COGS	\$80	\$80
<b>Gross Profit</b>	<b>\$20</b>	<b>\$70</b>
SG&A	\$10	\$10
<b>Net Profit</b>	<b>\$10</b>	<b>\$60</b>
<b>Tax @ 9%</b>	<b>\$0.9</b>	<b>\$5.4</b>

# Transfer Pricing life cycle

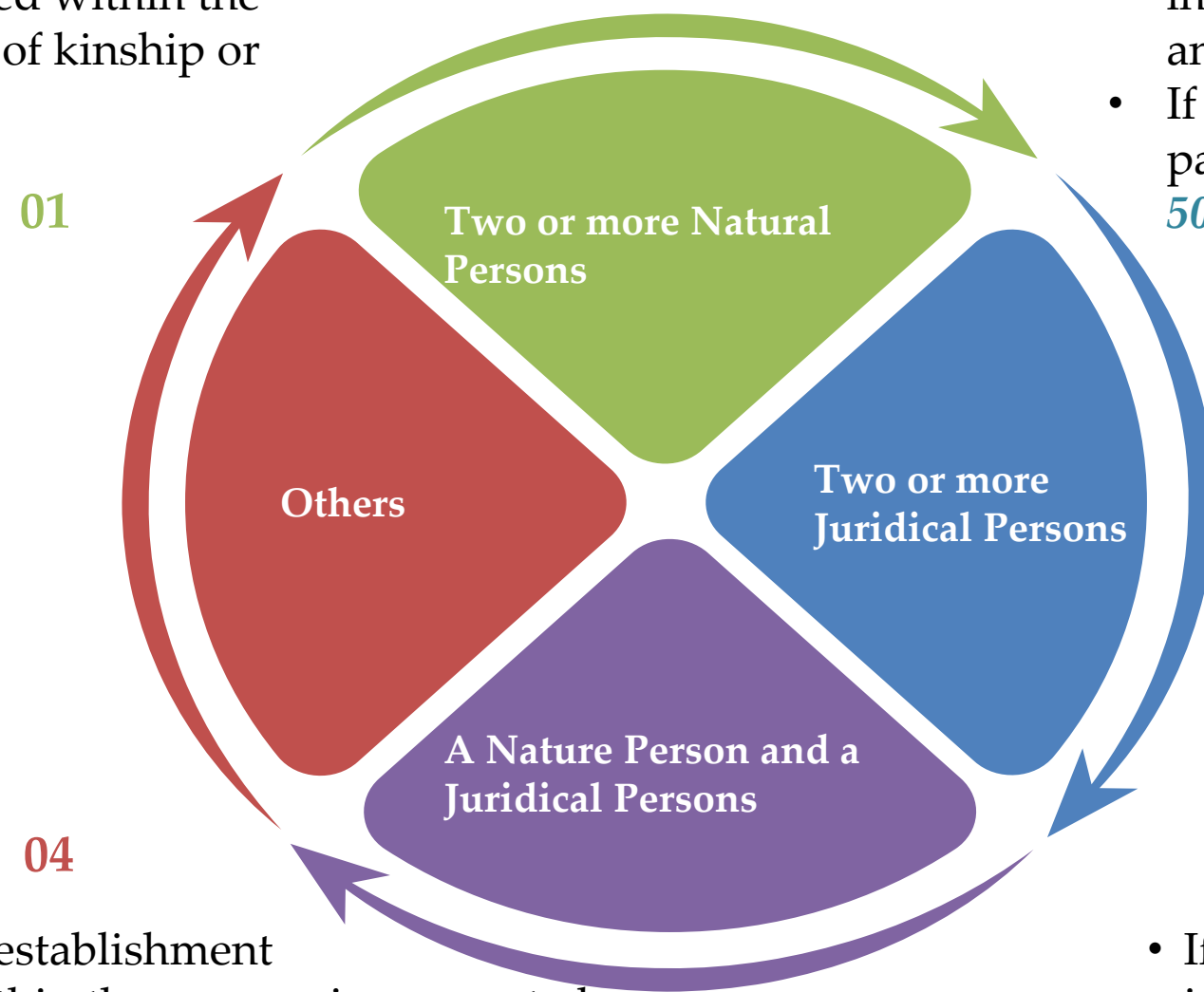


# Applicability of TP regulations



# Related parties

If two or more natural persons who are related within the *fourth degree* of kinship or affiliation



- If a Juridical Person directly or indirectly *owns >= 50% or controls* another Juridical Person.
- If a taxpayer alone, or with a related party, directly or indirectly *owns >= 50% share* of each *or controls them*

02

03

- Permanent establishment
- Partners within the same unincorporated partnership
- Trustees, founders, settlors, and beneficiaries of trusts or foundations and their related parties

- If a Natural person directly or indirectly *owns >= 50%* in a juridical person
- If a Natural person directly or indirectly *Controls* the juridical person

## Control is defined as:

- Exercise 50% or more voting rights
- Appoint more than 50% of Board of directors
- Receive more than 50% of profits
- Determine or exercise *significant influence* over conduct of business

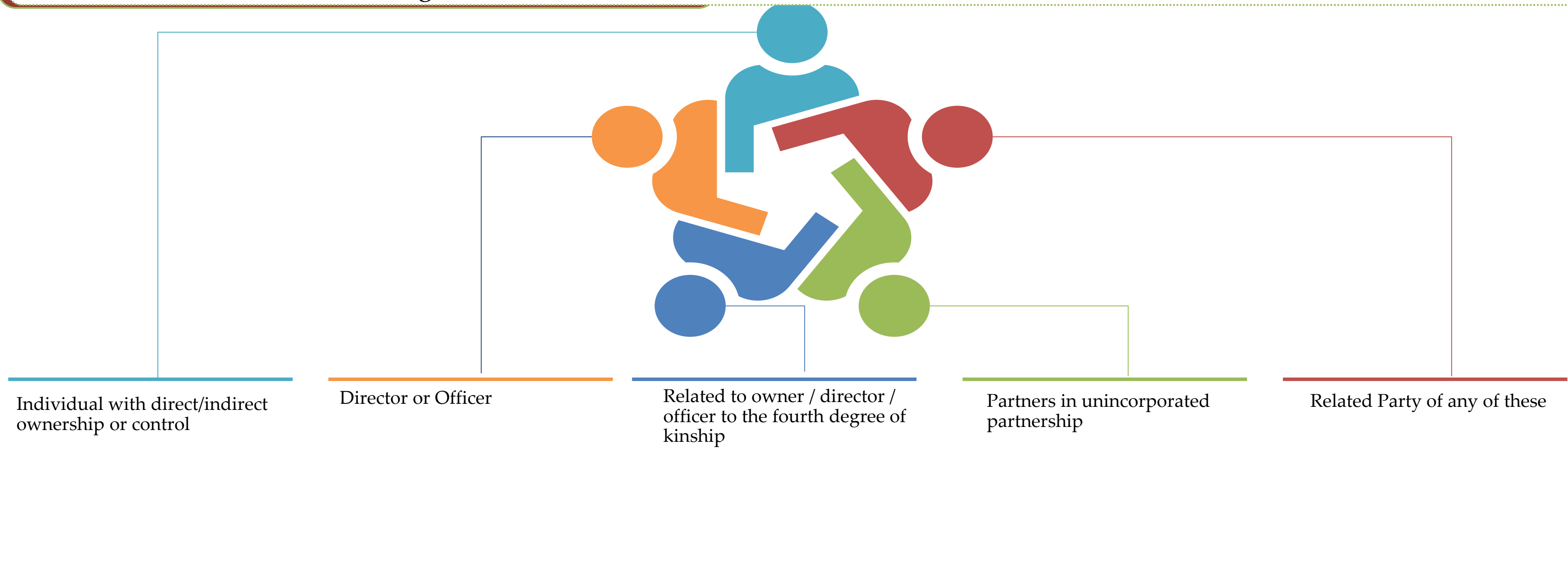
## Significant Influence includes:

- **Based on Debt** - The loan from one Company constitutes 50% of the total capital of another Company.
- **Entitlement to Profit Share** - A royalty agreement that grants one party entitlement to 50% of the profits generated by another party from use of Intangible Property.
- **Key Management Functions** - The person owns less than 50% in a Taxable Person but performs the management of day to-day operations, development of strategies, and formulation of the key market decisions are performed by that person.



# Connected person

- Any payment made to “*Connected Persons*” is not deductible if:
  - ✓ Not occurred wholly and exclusively for the business; and
  - ✓ Not at market value/arm’s length.



# Fundamentals of Transfer Pricing

**Arm's Length Principle:** Transactions between related parties should be conducted as if they were between independent entities, ensuring fair pricing that reflects market conditions.

**Comparability Analysis:** Assess the economic conditions, functions performed, assets used, and risks assumed in transactions to find comparable transactions between independent entities.

**Substance :** Ensure that the economic substance of transactions aligns with their legal form, reflecting the actual business conduct and economic reality, and that transfer pricing arrangements are supported by genuine business activities and operational capabilities.

**Documentation Requirements:** Maintain detailed records and documentation to substantiate transfer pricing policies and practices in compliance with local and international regulations.

**Risk Management:** Identify and manage transfer pricing risks, including financial, tax, and reputational risks, associated with cross-border transactions.

**Global Alignment:** Ensure transfer pricing practices are consistent with global standards and guidelines, such as those set by the OECD.

**Dispute Resolution:** Prepare for potential disputes with tax authorities by implementing robust transfer pricing policies and seeking resolution through mechanisms like Advance Pricing Agreements (APAs) or Mutual Agreement Procedures (MAPs).

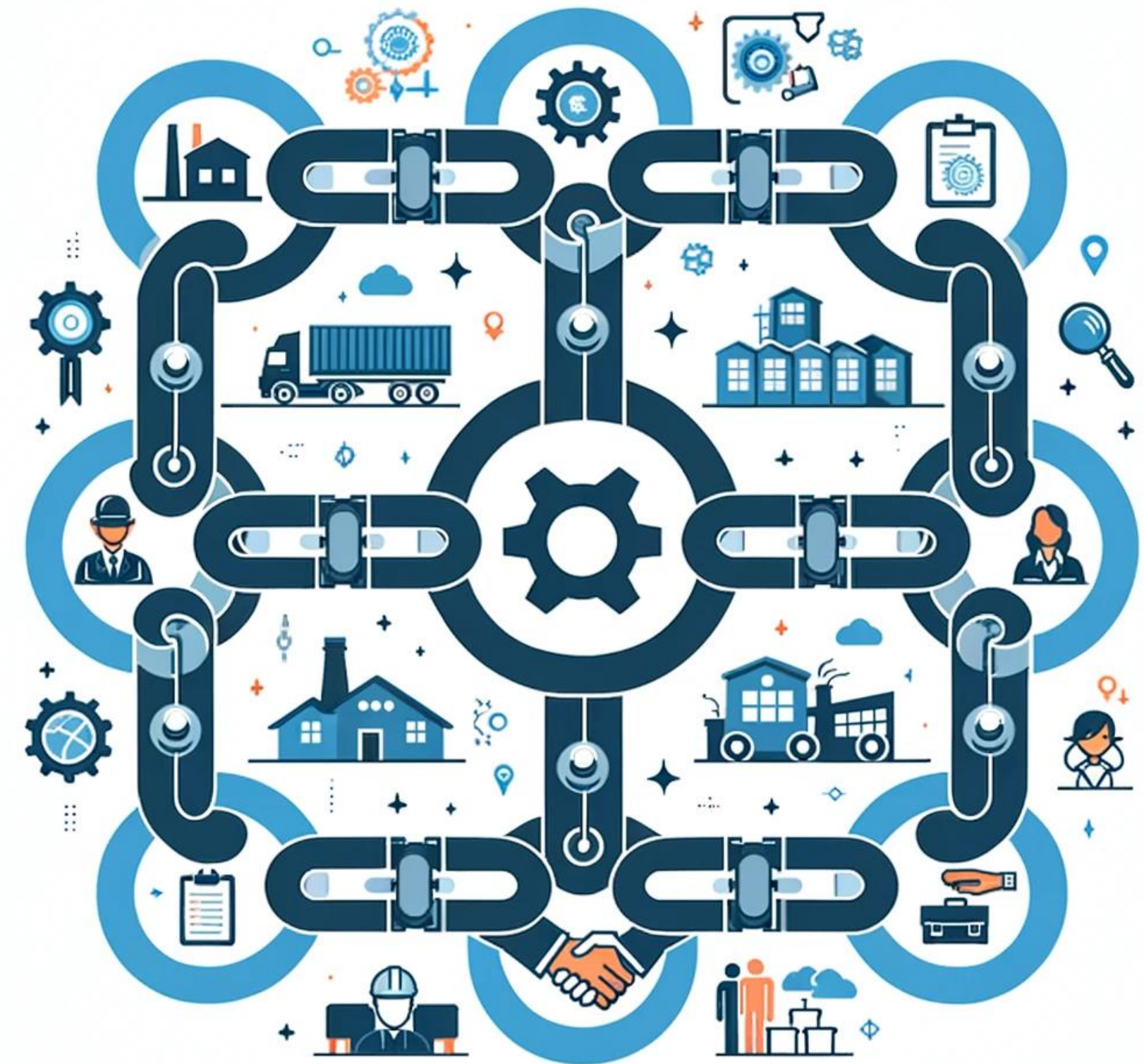
# Value chain analysis

## Definition of Value Chain Analysis (VCA):

- VCA is a process of breaking down a company's activities into primary and support functions to understand the value creation process.
- It helps identify where value is added within the organization and the associated costs.

## Components of Value Chain:

- Primary Activities: Inbound logistics, operations, outbound logistics, marketing and sales, service.
- Support Activities: Procurement, technology development, human resource management, firm infrastructure.



# Oil & Gas Industry in UAE

- **Top Producer:** United Arab Emirates ranks among the world's top 10 oil producers.
- **Significant Reserves:** Boasts 6th largest proven oil reserves globally (around 100 billion barrels).
- **Dominant Emirate:** Abu Dhabi holds a staggering 96% of the UAE's oil reserves.
- **Production Powerhouse:** Averages 3.2 million barrels of oil production per day.
- **Natural Gas Focus:** Home to the world's 7th largest natural gas reserves (over 215 trillion cubic feet).
- **Growth Ambitions:** ADNOC, the state-owned oil giant, aims for 5 million barrels per day production capacity by 2030.

# Corporate Tax for Oil & Gas

## Exemption Criteria:

- Direct or indirect holding or interest in a right, concession, or license issued by a local government for extractive business
- Effective taxation under applicable Emirate legislation
- Notification to the federal government in agreed form and manner with local government

## Scope of Exemption:

- Applies only to income derived from extractive and non-extractive natural resource businesses
- Other business activities subject to normal corporate tax regime

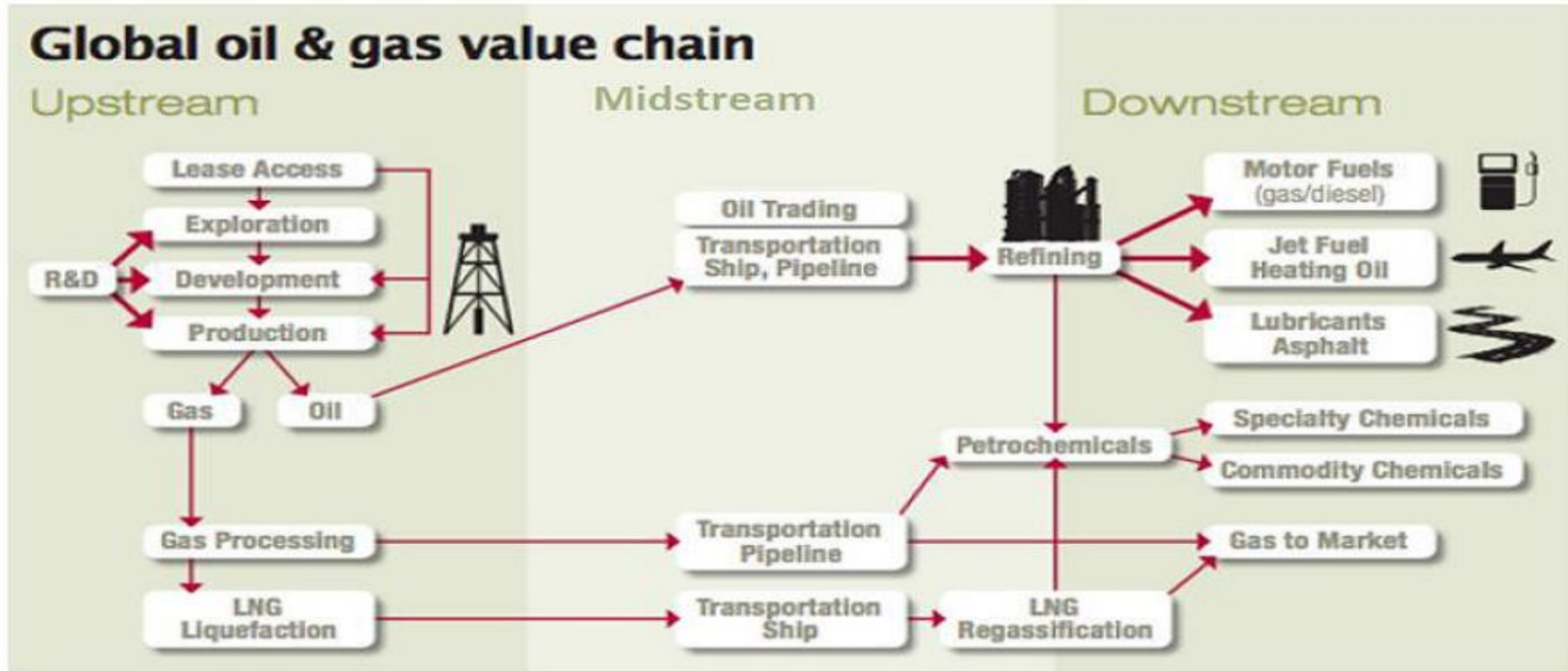
## Non-Exempt Business Activities:

- Non-ancillary or non-incidental business to extractive or non-extractive natural resource business
- Ancillary or incidental business with revenue exceeding 5% of total revenue in a tax period

## Exclusions from Exemption:

- Contractors, subcontractors, suppliers, or any other person involved in the performance of extractive or non-extractive natural resources business

# Value chain in O&G Industry



# Value chain in O&G Industry

Stage	Process	Products	Uses
Upstream	Exploration	-	Finding potential hydrocarbon reserves
	Development	-	Planning and infrastructure development for extraction
	Production	Crude Oil, Natural Gas	Extracted raw materials for processing
Midstream	Transportation	Crude Oil, LNG	Transporting crude oil and gas to refineries and storage
	Oil Trading	-	Buying and selling crude oil based on market demands
Downstream	Refining	Gasoline, Diesel, Jet Fuel, Heating Oil, Lubricants, Asphalt	Production of consumable fuels and byproducts
		Industrial Chemicals, Plastics	Used in manufacturing a wide range of products
		Dyes, Coatings, Additives	Used for specific applications requiring high purity and performance
		Polymers, Solvents	Widely used in industrial and consumer products
		Processed Natural Gas	Supplying natural gas for domestic and commercial use

# Common transfer pricing structures

## 1. Trading Hub

Oil and gas companies establish trading hubs in strategic locations to efficiently manage the buying and selling of commodities, taking advantage of local tax incentives. These hubs need substantial economic substance.

## 2. Procurement Hub

centralized procurement organizations, known as procurement principals, are established to manage the purchase and sale of products to related entities. These principals conduct strategic procurement beyond mere volume aggregation, involving activities like product testing and engineering services, to add significant value.





# Common transfer pricing structures

## 3. Intra-group services

- **Administrative Services:** This includes support functions like treasury, finance, accounting, information systems, legal, human resources, and insurance.
- **Technical Services:** Services such as geological & geophysical analysis, engineering, health, environment and safety, project management, logistics, and crewing.
- **Engineering and Consulting Services:** Offered particularly in the upstream sector for project initiation and execution.
- **Oilfield Services:** Providing equipment, tools, and services for exploration, drilling, completion, and lifting activities.
- **Marketing and Sales Support:** Services related to the promotion and sale of O&G products.
- **Logistics and Crewing Services:** Managing the transportation of goods and personnel within O&G operations.



# Common transfer pricing structures

## 4. Vessel and Rig charter

- Vessel and rig charters in the O&G industry involve leasing offshore equipment for activities like construction, servicing, and drilling.
- These charters are often between related companies, creating transfer pricing challenges.
- Offshore service companies own and lease out equipment and vessels but don't engage in oil and gas extraction themselves.
- A typical structure sees one entity owning the rig or vessel and leasing it on a bareboat basis to another group entity.
- The leasing entity, with support from the group, enters into external charters with third-party customers.
- Such arrangements can lead to permanent establishment (PE) issues, affecting tax obligations in the countries where operations occur.



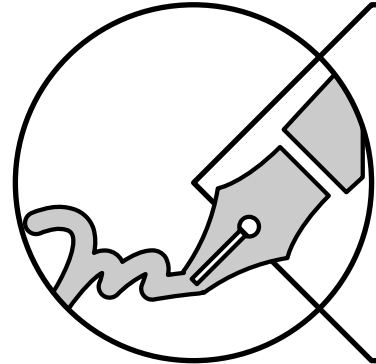
# Common transfer pricing structures

## 5. Financing

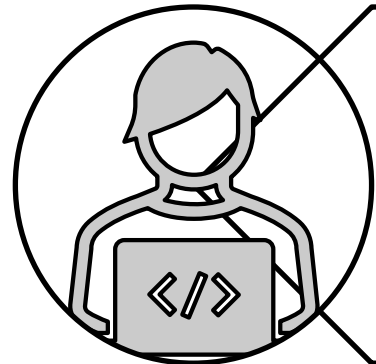
- Funding supports various value-chain phases: exploration, development, transportation, refining, production, and distribution.
- Transfer pricing considerations include ensuring arm's length interest rates and guarantee fee payments and managing thin capitalization.
- A subsidiary's loan interest rate is based on its credit rating; a parent company with a higher credit rating can guarantee the loan to reduce this rate.
- The difference in interest rates due to the parent's guarantee results in a guaranteed fee.
- Performance guarantees by the parent to subsidiaries introduce additional transfer pricing complexities.



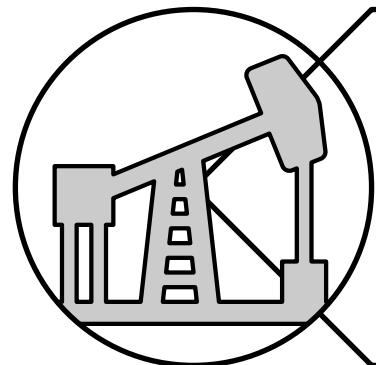
# Key Transactions



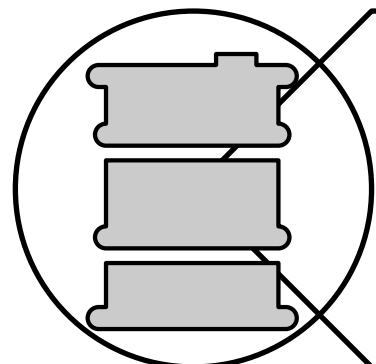
**Licensing of Exploration Rights and Joint Venture Agreements:** When licensing exploration rights or entering joint venture agreements, it's critical to establish terms that reflect an arm's length transaction. One way to ensure this is by benchmarking against similar agreements in the industry and considering the specific conditions of the jurisdictions involved.



**Provision of Technical Services:** Providing technical services to affiliates should be priced based on the nature and complexity of the services. The use of cost-plus methods can be appropriate, but the markup must be aligned with what independent entities would negotiate under comparable circumstances.

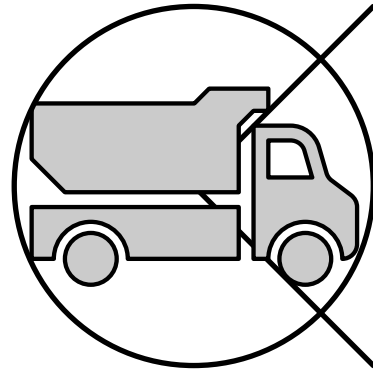


**Sale of Crude Oil or Gas to Affiliated Entities:** For sales of crude oil or gas to affiliates, reference to international benchmarks like Brent or WTI may be relevant, depending on the region. Adjustments may be necessary to account for differences in quality, transportation costs, and market conditions.

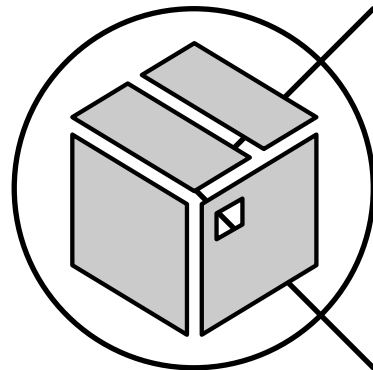


**Provision of Drilling Services:** Drilling services should be priced on the basis of market rates for such services. This could be influenced by the equipment and technology used, the risk assumed, and the expertise provided.

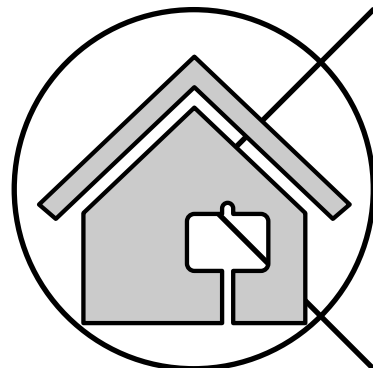
# Key Transactions



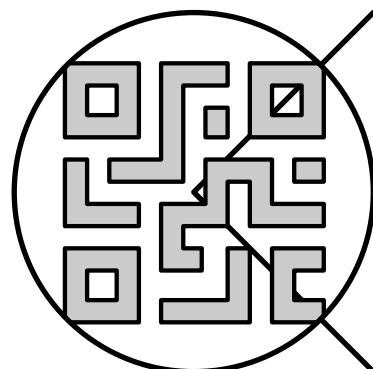
**Transportation Services Between Affiliated Entities:** For transportation services, costs may be allocated on a per-barrel or per-mile basis, with an appropriate profit element that reflects the market rate for such services.



**Leasing of Storage Facilities:** Leasing rates should be based on comparable leases for similar storage capacity in similar locations, with adjustments made for factors such as term length and risks borne by the lessor.



**Sale of Finished Products to Distributors or Retailers:** The pricing of finished products to distributors or retailers requires careful consideration of the market conditions, competitive environment, and the functions performed and risks assumed by the entities involved.



**Licensing of Brand and Technology:** When licensing brands and technology, companies must ensure that royalty rates are consistent with what would be agreed upon by unrelated parties dealing at arm's length. This may involve a detailed analysis of the profits attributable to the intangibles.

# Transfer Pricing issues in Oil & Gas

**Cross-border Taxation and Permanent Establishments (PEs):** Identifying and managing PEs due to operational activities in various jurisdictions is complex. When an O&G company operates across borders, it might create taxable presences subject to different local tax laws.

**Shareholding services :** There's often a long gap between when a company starts exploring for oil or gas and when it actually starts producing it. Many exploration costs are incurred before a legal entity is established, and if exploration fails, recovering these costs can be difficult.

**Cost Contribution Arrangements for Joint Ventures:** O&G ventures often involve joint operations where multiple parties share costs and risks. Determining the arm's length charge for shared services and contributions to joint operations can be intricate.

**Valuation of Intangibles:** O&G companies frequently develop valuable intangibles such as proprietary technology for exploration and extraction. Valuing these intangibles for transfer pricing purposes, especially when they are shared or transferred within the group, is challenging.

**Financing and Treasury Activities:** Complex financial arrangements, such as intercompany loans and guarantees, especially in capital-intensive activities like project financing for exploration and drilling operations, require careful analysis to determine arm's length conditions.

# Transfer Pricing issues in Oil & Gas

**Background:** ABC Energy Group, based in the UAE, has extensive operations across the oil and gas value chain. It has recently embarked on a joint venture, "GulfQuest," with Horizon Oil for exploration in the Gulf region.

## Facts:

- ABC and Horizon Oil have shared technology and capital in the joint venture.
- A drilling rig is chartered from ABC's subsidiary, "DeepDrill LLC," potentially creating a permanent establishment.
- Crude oil, post-exploration, is sold to ABC Trading for global distribution.
- Centralized administrative and shareholding services are provided to the joint venture by ABC.
- Specialized drilling services are provided by another subsidiary, "GulfDrill Operations."
- A procurement hub has been set up to manage the group's purchase and sale of products.
- The refined oil products are distributed by ABC Refineries.

# Operational TP issues

Company A faces challenges in automating its transfer pricing calculations for the sale of refined products to related parties due to the lack of integration between its pricing and billing systems..

Company A faces challenges in monitoring the profitability of its intercompany transactions and making necessary adjustments due to the lack of a robust monitoring system and the infrequent reviews of its transfer pricing practices.

Company C participating in a multinational oil extraction joint venture, faces difficulties in accurately allocating costs and revenues according to the arm's length principle due to complex shared operations and unclear cost contribution agreements.

The complexities of international logistics, including shipping and pipeline transport, coupled with diverse tax regimes, require sophisticated transfer pricing strategies to ensure that transport charges between related entities are compliant and optimized for tax purposes.

The volatility in oil prices and project investment needs lead to fluctuating cash flow requirements, making it challenging to set arm's length interest rates on intercompany loans and accurately reflect the financial transactions within the group.



# Strategies and Way forward

- **Integrate Operational and Financial Data:** Develop robust systems to integrate operational data with financial reporting, enhancing real-time transfer pricing adjustments and compliance.
- **Maintain Robust Transfer Pricing Documentation:** Ensure that documentation is comprehensive, up-to-date, and reflects the complexity of intercompany transactions, providing a clear rationale for transfer pricing methodologies used.
- **Strengthen Intercompany Agreements:** Regularly review and update intercompany agreements to reflect the current business operations and transfer pricing policies, ensuring they are consistent with actual business practices.
- **Focus on Conduct:** Ensure that the actual conduct of the business matches the contractual relations with the related parties, aligning economic reality with legal form.
- **Develop a comprehensive transfer pricing risk assessment framework** to proactively identify and address potential issues in exploration, production, and distribution activities
- **Optimize Transfer Pricing for Intangibles:** Establish clear methodologies for valuing proprietary technology and ensure that royalty payments reflect the contribution
- **Establish a strong co-ordination** between the tax, finance, and legal teams to ensure a holistic approach to transfer pricing planning and implementation

# Transfer Pricing issues in Real estate Industry

# Real estate industry in UAE

**Economic Diversification Catalyst:** contributing approximately 5.5% to the GDP, is pivotal in driving economic diversification, reducing reliance on oil and gas sectors.

**Rental Market Surge:** The rental sector in Dubai saw a significant upswing, with a 40.7% increase in rental agreements in Q3 2023.

**Innovative business model:** The adoption of fractional ownership and blockchain in real estate transactions

**Sustainability in Real Estate and Construction:** The focus on green building and sustainable urban

**Integration with Tourism and Retail:** The synergy between real estate, construction, tourism, and retail sectors in the UAE necessitates focus on property management, construction services, and hospitality.

# Qualifying Free Zone Person

## Non-qualifying property transactions

- Residential & land property transactions
- Mixed-use property transactions
- Potential transfer pricing issues for intercompany transactions

## Allocation of income & expenses

- Accurate allocation between FZ and mainland entities
- Misallocation may lead to transfer pricing disputes

## Investment structuring considerations

- Assess holding non-qualifying properties via mainland or FZ entities
- Optimize structure from transfer pricing & tax perspective

## Compliance measures

- Identify non-qualifying properties in portfolio
- Review & restructure intercompany transactions
- Maintain robust TP documentation
- Monitor regulatory changes & adapt policies

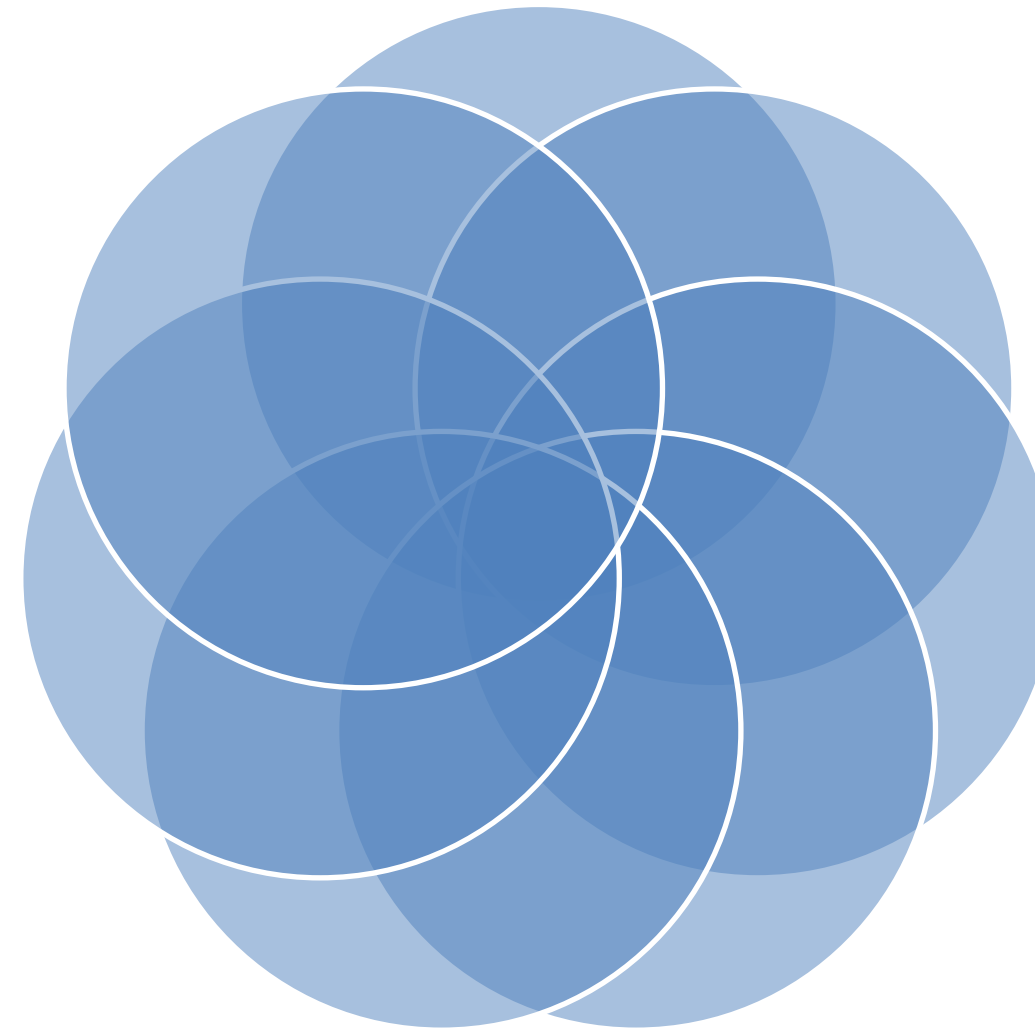
# Real estate industry in UAE

**Property Development:** This model involves purchasing land, developing it through construction, and then selling or leasing the finished property.

**Real Estate Marketing and Consultancy:** These firms provide market research, advisory, and consultancy services to property developers, investors, and owners.

**Leasing and Rentals:** This model involves owning property and earning income by leasing or renting it to tenants. This can include residential, commercial, or retail properties

**Property Management:** Companies specializing in property management handle the day-to-day operations of real estate properties,



**Construction:** Construction companies are involved in the actual building of structures. They earn revenue through contracts for constructing residential, commercial, or infrastructure projects.

**Real Estate Investment Trusts (REITs):** REITs are companies that own, operate, or finance income-producing real estate across a range of property sectors. Investors can buy shares in a REIT, which earns income through leasing, renting, and selling properties

**Brokerage Services:** Real estate brokers and agencies facilitate transactions between buyers and sellers or landlords and tenants

# Value chain of real estate industry

Stage	Key Activities	Key Related Party Transactions
Land Acquisition and Pre-Development	<ul style="list-style-type: none"> <li>Identifying and purchasing land</li> <li>Conducting feasibility studies</li> <li>Obtaining permissions</li> </ul>	<ul style="list-style-type: none"> <li>Purchase of land from related entities</li> <li>Joint venture agreements</li> </ul>
Design and Development	<ul style="list-style-type: none"> <li>Engaging architects and engineers</li> <li>Securing financing</li> <li>Designing the project</li> </ul>	<ul style="list-style-type: none"> <li>Contracting related entities for design and engineering services</li> <li>Financing arrangements with related parties</li> </ul>
Construction	<ul style="list-style-type: none"> <li>Physical building</li> <li>Managing construction costs and timelines</li> </ul>	<ul style="list-style-type: none"> <li>Construction contracts with related construction firms</li> <li>Procurement of materials from related suppliers</li> </ul>
Marketing and Sales	<ul style="list-style-type: none"> <li>Developing marketing strategies</li> <li>Engaging with agents and brokers</li> </ul>	<ul style="list-style-type: none"> <li>Sales of properties to related parties</li> <li>Agency agreements with related entities</li> </ul>
Property Management	<ul style="list-style-type: none"> <li>Maintaining the property</li> <li>Managing tenants and facilities</li> </ul>	<ul style="list-style-type: none"> <li>Management service agreements with related entities</li> <li>Leasing of properties to related entities</li> </ul>
Supporting Activities	<ul style="list-style-type: none"> <li>Legal services</li> <li>Financial and accounting activities</li> <li>Regulatory compliance</li> </ul>	<ul style="list-style-type: none"> <li>Intercompany agreements for support services</li> <li>Financing and capital contributions from related parties</li> </ul>

# Land Acquisition (CUP)

"Alpha developer LLC," is acquiring land for a new development project in Dubai from its holding company Alpha Group LLC . To determine the arm's length price for this land acquisition, we look for comparable transactions, i.e., recent land sales in Dubai that are similar in terms of location, zoning, size, and potential use.

**Controlled Transaction:** Sale of Land by Alpha Group LLC to Alpha developer LLC at \$1 million

**Uncontrolled transaction:** Sale of nearby commercial land between independent parties for \$950,000

Factor	Controlled Land (CL)	Uncontrolled Land (UL)	Adjustment Required	Adjusted UL Value
Base Price	\$1,000,000	\$900,000	None	\$900,000
Size (acres)	10	8	Increase for size	\$1,125,000
Zoning (commercial/residential)	Commercial	Residential	Increase for commercial (20% premium)	\$1,350,000
Proximity to Highway	Close	Very close	Increase by 10% for access, decrease by 5% for noise	\$1,417,500

# Land Acquisition (DCF)

Company A owns land and intends to sell it to its group Company, Company B. To determine the arm's length price, a DCF analysis is performed based on the land's potential to generate income as a commercial complex.

Particulars	Details
Project timeline	<ul style="list-style-type: none"> <li>• <b>Construction Period:</b> 2 years (no income)</li> <li>• <b>Operational Life:</b> 20 years (generating income)</li> </ul>
Financial Projections	<ul style="list-style-type: none"> <li>• <b>Initial Rental Income:</b> \$500,000/year</li> <li>• <b>Annual Income Growth:</b> 3%</li> <li>• <b>Terminal Value (End of Year 22):</b> \$10 million</li> </ul>
Discount rate	8% (reflects the investment's risk and time value of money) with WACC
DCF Calculations	<ul style="list-style-type: none"> <li>• <b>Years 1-2:</b> No income (construction phase)</li> <li>• <b>Years 3-22:</b> Rental income starts at \$500,000 and grows by 3% annually</li> <li>• <b>End of Year 22:</b> Terminal value of \$10 million</li> </ul>
Calculation Example (Year 3)	<ul style="list-style-type: none"> <li>• <b>Projected Income:</b> \$500,000</li> <li>• <b>Present Value (PV):</b> = <math>\\$500,000 / (1 + 0.08)^3</math></li> </ul>
Outcome	<ul style="list-style-type: none"> <li>• The DCF method yields an arm's length value of approximately \$8,111,578 for the land.</li> </ul>



# Financing

## Overview of Financing in Real Estate

- Debt financing is commonly provided to project entities (Special Purpose Vehicles or SPVs) by related parties.
- The interest rates on these loans must reflect market terms, ensuring compliance with the arm's length principle.

## Transfer Pricing and Financing Costs

- Conduct regular transfer pricing studies to validate that the interest rates are at arm's length.
- Factors to consider include the borrower's credit rating, the timing of the loan, subordination, and the security provided against the loan.

## Credit Capacity Analysis

- Essential to justify the debt levels within the SPVs to prevent reclassification of debt into equity by tax authorities.
- Analysis should align with market standards and reflect the genuine borrowing capacity of the project entity.

## Arm's Length Arrangement Considerations

- Ensure the terms of financing, such as interest rate, loan amount, and duration, are consistent with what independent parties would have agreed upon under similar circumstances.
- Regular benchmarking and documentation are key to defending the arm's length nature of the financing arrangements.

# Performance Guarantee

## Parties Involved:

- Client (unrelated entity contracting with the group)
- Contractor (group company responsible for project execution)
- Guarantor (group company providing the performance guarantee)

## Justification of Fees:

- Fees for guarantees are justifiable when there is a deliberate group action benefiting the contractor, indicating a real economic transaction.

## Valuation Approaches for Transfer Pricing:

- **Internal Comparables:** Look at fees the guarantor charges to third parties for similar guarantees or what third parties charge for comparable guarantees.
- **External Comparables:** Benchmark against market fees for similar guarantees, using public data like SEC disclosures.
- **Competitive Offers:** Compare with real third-party offers for similar guarantee services.
- **Compensation Payment:** Calculate based on the guarantor's cost of funds, considering notional interest and additional costs or Weighted Average Cost of Capital (WACC).
- **Monte Carlo Simulations:** Use to estimate the potential maximum loss under the guarantee, with a separate rate determination for the guarantee fee.

## Methodological Approach:

- Employ a triangulation of these methods to ensure a robust and defensible valuation of intra-group performance guarantees.

# Transfer Pricing challenges

- **Lack of Benchmark Data:** Scarcity of comparable transactions for complex or unique properties and services necessitates robust economic analysis and adjustments.
- **Intangible Valuation:** Accurately valuing IP used in development or management can be challenging due to their often-unique nature.
- **Impact of Market Cycles:** Volatile market conditions and fluctuating property values necessitate regular adjustments to transfer pricing policies.
- **Tax Risks and Controversy:** Aggressive transfer pricing strategies can trigger tax audits and penalties.
- **Transfer Pricing Regulations:** Each jurisdiction has its own transfer pricing rules and interpretations, requiring careful consideration during cross-border transactions.



# Operational TP issues

Difficulty integrating transfer pricing calculations into accounting systems, leading to manual processes and greater risk of errors

Challenges in obtaining timely and accurate data on property revenues, costs and valuations from different sources to determine arm's length prices

Inconsistent application of transfer pricing policies across different properties, jurisdictions and teams due to lack of standardized processes and controls

Lack of clear accountability and oversight for the operational implementation of transfer pricing, compared to the initial design of policies

Potential for material errors or disputes in the final transfer pricing numbers and invoices raised, if not subject to robust review and true-up processes

# Strategies and Way forward

- **Maintain Robust Transfer Pricing Documentation:** Ensure that documentation is comprehensive, up-to-date, and reflects the complexity of intercompany transactions, providing a clear rationale for transfer pricing methodologies used.
- **Strengthen Intercompany Agreements:** Regularly review and update intercompany agreements to reflect the current business operations and transfer pricing policies, ensuring they are consistent with actual business practices.
- **Focus on Conduct:** Ensure that the actual conduct of the business matches the contractual relations with the related parties, aligning economic reality with legal form.
- **Implement Market Cycle Adjustments:** Regularly review and adjust transfer pricing methodologies to reflect the volatile nature of real estate markets, ensuring that intra-group transactions remain at arm's length.
- **Standardize Transfer Pricing Processes:** Develop and implement standardized transfer pricing processes across all real estate activities and jurisdictions to ensure consistency and compliance.

# Case Study

## Case Study: Multi-Layered Real Estate Development Project

**Entities Involved:** Alpha Real Estate Group (Parent in Free Zone), Beta Development LLC (Subsidiary on mainland), and Gamma Services Ltd (Related entity providing specialized services).

**Project:** Large-scale mixed-use development in Dubai, including residential units, commercial spaces, and a shopping mall.

### Land Acquisition:

- Alpha acquires land from a related party at a premium price.
- Challenge: Justifying the arm's length nature of the price amidst fluctuating market values and scarcity of comparable uncontrolled transactions.

### Project Financing:

- Beta Development LLC secures funding from Alpha Real Estate Group.
- Challenge: Establishing arm's length interest rates and terms considering the inherent risks and market volatility.

### Construction and Development:

- Contracting with Gamma Services Ltd for construction and engineering services.
- Challenge: Pricing complex intercompany services, including allocation of overheads and profit margins, in line with the OECD's profit split method.

### Management Services:

- Gamma provides ongoing property management services post-construction.
- Challenge: Determining market-based fees for these services, considering the intangible value of brand reputation and operational expertise.

### Sales and Leasing:

- Selling and leasing of developed properties to related and third parties.
- Challenge: Benchmarking sales and rental prices, especially for unique or premium properties, and dealing with intercompany leases.

### Performance Guarantees:

- Alpha provides performance guarantees to external financiers for Beta's project execution.
- Challenge: Valuing such guarantees, considering the financial standing of the guarantor and the project's risk profile.

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