

Transfer Pricing Policy

Introduction

This document outlines the Transfer Pricing rules and guidance to be applied to the Heriot-Watt University Group (also referred to as the “University”), including: Heriot-Watt UK, Heriot-Watt Dubai, Heriot-Watt University Malaysia Sdn Bhd, Heriot-Watt Services Limited and Heriot-Watt Trading Limited. This policy will take effect from the financial year ending 31 July 2025 onwards.

The University is required to have a transfer pricing agreement to comply with the law and tax regimes in the countries in which it operates. Generally, tax regimes require that intercompany transactions be as if conducted between unrelated parties. Non-compliance can lead to significant penalties and legal consequences.

Additional reasons for the University to maintain and apply a transfer pricing policy include:

- **Improved Cost/Profit Transparency:** Determining the costs to charge to another group company allows for better understanding of each entity's cost base and profit drivers. A well-defined transfer pricing policy also supports strategic planning by providing a consistent and fair framework for pricing intercompany transactions.
- **Correct Tax in Each Jurisdiction:** To ensure University records the correct profit in each location and therefore pays the correct tax in each location.
- **Tax Risk Management:** A well-documented transfer pricing policy helps reduce tax authority challenge and disputes with tax authorities.
- **Ethical Business Practice:** A formal transfer pricing policy supports the University's commitment to ethical business practices and demonstrates its dedication to responsible corporate governance.

Tax Regimes

1. United Kingdom

The University is an exempt Charity within the meaning of the Charities and Trustee Investment (Scotland) Act 2005 and, as such, is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act 1988. It is recognised as a charity by HM Revenue & Customs and is listed on the index of charities maintained by the Office of Scottish Charity Regulator. Consequently, Heriot-Watt University UK is potentially exempt from UK corporation tax on income and gains, provided the charitable exemptions are met, (i.e., all income and gains must be used to further the University's charitable objectives).

The University's UK subsidiaries, however, are limited companies and are not exempt from corporation tax. It is therefore imperative that income and costs are recognised within the correct entity to ensure the correct amount of corporation tax is paid by the UK subsidiaries.

2. Dubai

Corporation tax came into force in Dubai on 1st June 2023 and applies to taxable entities from the start of the first financial year beginning after 1st June 2023. For Heriot-Watt Dubai, this means tax legislation applies to the financial year starting on 1st August 2023. Corporation tax is charged at 9% of taxable profits. To protect tax revenues, Dubai legislation requires all tax paying entities to make an annual declaration as part of their corporation tax returns confirming compliance with transfer pricing legislation.

3. Malaysia

Malaysia has a more established corporate tax regime than Dubai. Each year, Heriot-Watt Malaysia submits accounts and a tax computation to the IRB (Inland Revenue Board). As part of the return, it must confirm that intercompany transactions are priced in line with Transfer Pricing legislation. In the absence of a formal Transfer Pricing policy this confirmation has not been possible, meaning Malaysia has not been fully compliant. In Malaysia a robust Transfer Pricing policy is required IRB submissions.

Transfer Pricing Framework

KPMG was engaged to review the types and nature of intercompany services and transactions among Heriot-Watt UK, Dubai and Malaysia. The goal was to help create a Transfer Pricing Framework applicable across the Heriot-Watt Group on a global, multi-directional basis covering, the three principal tax regimes.

The scope of KPMG's review was the international entities only, any UK to UK analysis has been performed as an internal review.

This policy addresses three main transaction categories:

Transaction category 1 (T1)

T1 is a value-based fee-akin to a franchise model-that grants Heriot-Watt Malaysia, Heriot-Watt Dubai, Heriot-Watt Services, and Heriot-Watt Trading access to:

- Use of the Heriot-Watt brand
- Academic Content (where relevant)
- Central Operational Support Functions – such as HR, IT, Finance, Marketing, Registry & Academic Support (Academic Quality, Academic Operations, Student Life, Student Service Centre, Records & Awards and Governance & Legal Services), Student Recruitment, Student Admission Services, Campus Services, Student Accommodation Services Health & Safety, Procurement, Library Services and Legal & Assurance
- IT license Costs

Transaction category 2 (T2)

T2 are charges between entities that **do not** fall under T1, are subject to a materiality threshold, set out in the procedure, and cover routine operational support services that may flow in any direction among the group entities. These services are priced at an arm's length cost-plus mark up. Any exceptions to the materiality threshold will be reviewed on a case-by-case basis and subject to approval by the Global Chief Financial Officer.

A table in Appendix A lists potential transactions. Broadly, two charge types may occur within the Group:

1. **T2 Services** – recovered with an arm's length markup.
2. **Third-Party Costs** – passed through at cost.

Examples of T2 are:

- **From Heriot-Watt University to Heriot-Watt Trading and/or Services**
 - Costs related to commercial consultancy
 - Any specific support that crosses the materiality threshold
- **From Heriot-Watt Trading and/or Services to Heriot-Watt UK**
 - Any specific support that crosses the materiality threshold
- **From UK to Dubai and/or Malaysia**
 - Campus specific support that fall out with generic support function, an example would be if a UK employee was seconded to work in another location or full time on a piece of work for another location.
- **From Dubai to Malaysia**
 - Course support
 - MRAC support
 - Any specific support that crosses the materiality threshold
- **From Dubai to the UK**
 - Student recruitment support
 - IT library support (global skills hub)
 - IT helpdesk support

- Course support across all schools
 - Any additional support that exceeds the materiality threshold and falls under T2
- **From Malaysia to Dubai**
 - student recruitment support
 - IT library support (global skills hub)
 - Course support across all schools
 - Any additional support that exceeds the materiality threshold and falls under T2
- **From Malaysia to UK**
 - student recruitment support
 - Specific Finance Support (e.g. dedicated staff members working on UK based tasks)
 - IT support
 - Course support across all schools
 - Any additional support that exceeds the materiality threshold and falls under T2

Transaction category 3 (T3)

T3 Covers the **Go Global** arrangement & Intercompany loans.

Go Global allows students from any Heriot-Watt campus to study at another campus for a semester or multiple years, provided the receiving campus offers the same course and the student can cover the related fees (outlined in the “Calculation Method” section below).

Intercompany Loan – Intercompany loans between any entity will require interest to be applied, the interest rate is to be determined from market rate analysis at that time.

Calculation Methods

Transaction 1 (T1)

Heriot-Watt University UK charges a fee based on the **net external revenue** of Heriot-Watt Malaysia and Heriot-Watt Dubai. The fee is calculated as a percentage of net external revenue from primary business activities (i.e. imparting education). If either Heriot-Watt Malaysia or Heriot-Watt Dubai report a loss in any financial year **before** the T1 charge, the T1 fee for that entity would be set to **zero**.

- **External revenue** refers to from the providing education and related services (e.g. tuition fees, research income, branded merchandise), excluding non-operational items (rental income, treasury income).
- **Net External Revenue** is the total gross external revenue less fee refunds, discounts, or similar adjustments.

Heriot-Watt University UK also charges a fee to Heriot-Watt Services and Heriot-Watt Trading, calculated as a percentage of their net external revenue. As with the foreign branch and subsidiary, if a UK subsidiary shows a loss in any financial year, its T1 fee would be set to zero.

- **External revenue (UK subsidiaries)** is statutory turnover, net of VAT, generated by each subsidiary.

KPMG conducted a benchmarking exercise and recommended an arm's length fee range for T1 transactions. Since the level of service is similar for Dubai and Malaysia, **both** pay the **same** T1 rate to maintain consistency.

- **Recommended Arm's Length T1 fee is as follows:**

- (i) If Heriot-Watt Malaysia/ Heriot-Watt Dubai is making **operating loss, or a profit of [1%] or less**, prior to the payment of the value-based fee: **0%** for that particular entity
- (ii) If Heriot-Watt Malaysia/ Heriot-Watt Dubai is making **operating profit margin between [1%] to [7%]** prior to the payment of the value-based fee: **a percentage which leaves a routine return of [1%]** for that particular entity
- (iii) If Heriot-Watt Malaysia/ Heriot-Watt Dubai is making **operating profit margin of [7%] or more** prior to the payment of the value-based fee: **6%** for that particular entity.

For the UK subsidiaries (Heriot-Watt Services & Heriot-Watt Trading), the University Watt UK, provides the same level of access to brand and support services, **but** without academic content. Given the nature of the subsidiaries' activities, a more conservative approach is appropriate:

- **Recommended Arm's Length T1 Fee (UK Subsidiaries):**
 - (iv) If Heriot-Watt Services/ Heriot-Watt Trading is making **operating loss or a profit of [1%] or less**, prior to the payment of the value-based fee: **0%** for that particular entity
 - (v) If Heriot-Watt Services/ Heriot-Watt Trading is making **operating profit margin between [1%] to [3%]** prior to the payment of the value-based fee: **a percentage which leaves a routine return of [1%]** for that particular entity
 - (vi) If Heriot-Watt Services/ Heriot-Watt Trading is making **operating profit margin of 4% or more** prior to the payment of the value-based fee: **3% for that particular entity.**

Transaction 2 (T2)

T2 transactions are calculated using a cost-plus mark-up. The applicable cost base is determined case by case-for example, using the midpoint of relevant salary bands (including pension, national insurance) plus an allocation of overheads not included under T1, if staff time is being recharged.

1. Provision of any additional service not covered by T1 from any Heriot-Watt **UK based entity** to other Group entities, to the extent they fall under T2: **5%**
2. Provision of academic/teaching support services from Heriot-Watt **Malaysia** to other Group entities: **12.5%**
3. Provision of management support or operational services from Heriot-Watt **Malaysia** to other group entities: **6.5%**
4. Provision of academic/ teaching support services from Heriot-Watt **Dubai** to other Group entities: **8%**
5. Provision of management support or operational services from Heriot-Watt **Dubai** to other group entities: **5%**
6. Provision of management support or operational services from Heriot-Watt **Trading** to other group entities: **5%**
7. Provision of management support or operational services from Heriot-Watt **Services** to other group entities: **5%**
(Trading and Services don't provide academic/teaching support so a rate for this isn't applicable)

These mark-up rates should be reviewed every **three years** to ensure ongoing appropriateness.

Transaction 3 (T3) –

Go Global

Under Go Global, tuition fees are charged as follows:

1. **Malaysia/Dubai → UK:**
 - Pay the international tuition fee rate **minus 20%**
2. **UK → Malaysia:**
 - UK to Malaysia (Scotland, RUK)- Malaysia Home fee
 - UK to Malaysia (international students)- Malaysia international fee.
3. **Dubai → Malaysia:**
 - Malaysia International Fee
4. **UK/Malaysia → Dubai:**
 - Pay the Dubai international tuition fee rate

UK collects the Scottish and RUK grant money from the Government for eligible students and transfers this amount via the intercompany transactions to the required Malaysian or Dubai campus for students studying abroad. Any international students from the UK pay the Malaysia or Dubai campus directly if they transfer for a semester or more.

Go Global Students from Malaysia campus pay directly to the UK or Dubai campus.

Go Global Students from Dubai campus pay directly to the UK or Malaysia campus.

(This has been summarised in a table in Appendix B below)

Intercompany Loans

In relation to the intercompany loans, these fees have been agreed as

- 4.5% on the loan from Heriot-Watt University UK to Heriot-Watt Malaysia
- 4.5% on the original intercompany loan from Heriot-Watt University to Heriot-Watt Services
- Base rate + 1% on the Tennis Facility loan from Heriot-Watt University to Heriot-Watt Services
- 5% on the intercompany loan from Heriot-Watt Dubai to Heriot-Watt University UK

Tax Implications

T1: Franchise like Fee

(i) Withholding Tax (WHT)

- **Malaysia:** Payments made by Heriot-Watt Malaysia to Heriot-Watt UK under this franchise-like model would generally **not be subject to Malaysian WHT at 10%**, unless the services are performed in Malaysia. This assessment is based on the nature of the arrangement and the OECD-aligned pricing model applied.
- **UAE:** There is currently **no WHT** applied on payments under such models. However, as the UAE's tax legislation is still developing, particularly in relation to corporation tax, WHT may be introduced in future as part of refinements to the broader tax regime.

(ii) Corporate Tax

The franchise-like (value-based) fees are paid to Heriot-Watt UK for access to the Heriot-Watt brand, academic content, and academic-delivery and operational support services. Some components may be treated as royalties or intellectual property payments, such as use of the University name, curriculum materials, or centralised systems.

Since Heriot-Watt University is a registered charity, this income is exempt from UK Corporation Tax if it is used for charitable purposes, in line with UK regulations on charitable trading. These value-based fees are therefore treated as income received in pursuit of the University's charitable activities (education), and not as income from a trading activity liable to Corporation Tax.

(iii) Tax Deductibility (Dubai and Malaysia)

The value-based fees paid under the T1 arrangement are expected to be deductible for tax purposes in both Malaysia and Dubai, subject to local rules. In particular:

- In **Malaysia**, deductibility is contingent upon the underlying documentation demonstrating that the transaction has **commercial substance** and is conducted at **arm's length** in line with Transfer Pricing regulations.
- In **Dubai**, the fee should also be deductible under similar principles, assuming proper documentation and justification are maintained in accordance with UAE transfer pricing rules and OECD guidelines.

(vii) VAT

Given the T1 fee only flows from the UK to Dubai and Malaysia it is only UK VAT that requires to be considered and not Malaysian Sales & Service Tax. The T1 fee will be outside of the scope of VAT as it is for services provided outside of the UK and therefore VAT will not be charged and it will not impact the partially exempt status.

T2: Inter-company provision of management/ support services & T3 Go Global

(i) Withholding tax

- **Malaysia:** WHT applies to technical, managerial, or consultancy fees where services are performed in Malaysia. If services are performed outside Malaysia, WHT may not apply.
- **UK:** No WHT on these types of payments.
- **UAE:** No WHT currently applies.

(ii) Corporate Tax

- **Malaysia/UAE:** Income from the provision of services under T2 will be taxable in Malaysia and the UAE, in accordance with local tax rules.
- **UK:** The UK corporate tax treatment of payments received by Heriot-Watt University UK would depend on the nature of the activity giving rise to the payment. Heriot-Watt Dubai is a branch of Heriot-Watt UK, so its financial results are consolidated into the Heriot-Watt UK tax return. Intercompany transactions between the UK and Dubai are important for Dubai's compliance but are effectively eliminated on consolidation from a UK perspective. The University's corporate tax position is thus determined by looking at the consolidated UK/Dubai results holistically.

(iii) VAT/ Sales and Services Tax ("SST") in Malaysia

Heriot-Watt Dubai is a branch of Heriot-Watt UK, there are less likely to be implications for VAT relating to T2 transactions but VAT recover rate could be influenced, this would be picked up via the UK VAT return.

However, regarding Heriot-Watt Malaysia and services to and from Heriot-Watt UK and Heriot-Watt Dubai the picture is more complicated. KPMG provided a table summarising the position in their report of June 2023, the University has considered this and outlined its position below.

Any T2 transactions relating to provision of teaching support or research related are outside the scope for VAT in the UK. Charges for professional services from the UK to Malaysia will be outside the scope for VAT as the place of supply is outside the UK.

If Heriot-Watt Malaysia charges either Heriot-Watt University UK or Heriot-Watt Dubai, under SST, Heriot-Watt Malaysia may have to account for reverse charge SST subject to the nature of the service and the totality falling above RM500K. As Heriot-Watt Malaysia's trading relates to exempt activities (the provision of educational services), they are not presently registered for SST. If they are to breach the RM500K threshold, then such registration will be a requirement.

Any VAT / SST charges can be offset against VAT payable in Heriot-Watt Dubai as there is no partial exemption. In the UK only a proportion of the VAT will be reclaimed under the partial exemption methodology. This is similar to current services provided and shouldn't be any different assuming VAT legislation is being followed correctly. Heriot-Watt UK will have to apply reverse charge principles where services are received from Malaysia.

Invoices from Heriot-Watt Services and/or Heriot-Watt Trading to and from Heriot-Watt university are fully taxable and VAT will be applied in line with current procedures and processed via the relevant VAT return.

Policy Application

In accordance with the applicable Memoranda of Agreement, this policy will take effect from **1 August 2024**.

Appendix A

The table below shows the high-level charge identified between entities for Transaction type 2.

	Support from Malaysia to UK	Support from Malaysia to Dubai	Support from Dubai to UK	Support from Dubai to Malaysia	Support from Services to UK	Support from Trading to UK
MRAC- Student recruitment services	T2		T2	NA	NA	NA
MRAC- Marketing and communication services	T2	N/A	T2	NA	NA	NA
MRAC- Student Admission services	T2	N/A	T2	NA	NA	NA
Campus Services	N/A	N/A	N/A	NA	NA	NA
Student Accommodation Services	N/A	N/A	N/A	NA	NA	NA
Registry and Academic Support ACADEMIC QUALITY	N/A	N/A	N/A	NA	NA	NA
Registry and Academic Support ACADEMIC OPERATIONS	N/A	N/A	N/A	NA	NA	NA
Registry and Academic Support STUDENT LIFE	N/A	N/A	N/A	NA	NA	NA
Registry and Academic Support STUDENT SERVICE CENTRE / STUDENT RECORDS & AWARDS	N/A	N/A	N/A	NA	NA	NA
Registry and Academic Support GOVERNANCE AND LEGAL SERVICES	N/A	N/A	N/A	NA	NA	NA
HR support services	N/A	N/A	N/A	NA	NA	NA
Finance support	T2	N/A	N/A	NA	NA	NA
Procurement	N/A	N/A	N/A	NA	NA	NA
Information Services - IT	N/A	N/A	N/A	NA	NA	NA
Information Services - Library	T2	N/A	T2	NA	NA	NA
Legal and Assurance	T2	T2	T2	NA	NA	N/A
Health and Safety	N/A	N/A	N/A	NA	NA	NA
EGIS	T2	T2	T2	T2	NA	NA
EPS	T2	T2	T2	NA	NA	NA
SoSS	T2	T2	T2	T2	NA	NA
HW Global College	T2	N/A	T2	NA	NA	NA
MACS	T2	T2	T2	NA	NA	NA
Graduations	N/A	N/A	N/A	NA	NA	NA

Appendix B

The table below shows the T3 Go Global transactions in a tabular format

Go Global Students Financial Arrangements		What should happen		Financial Arrangements
From	To			
Malaysia/Dubai	UK	Students are charged the international tuition fee rate minus 20%		Students pay tuition fee directly to UK campus
UK (Scottish and RUK)	Malaysia	Pay the Malaysia domestic tuition fee rate		Student tuition fee is collected by UK and transferred to Malaysia through intercompany
UK (international) / Dubai	Malaysia	Pay the Malaysia international tuition fee rate		Students pay tuition fee directly to Malaysian campus
UK (Scottish and RUK)	Dubai	Pay the Dubai domestic tuition fee rate (domestic rate is same as international rate in Dubai)		Student tuition fee is collected by UK and transferred to Dubai through intercompany
UK (international) /Malaysia	Dubai	Students are charged the international tuition fee rate (this is the same as the domestic rate)		Students pay tuition fee directly to Dubai campus