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Transfer Pricing - *Understanding Intercompany Transactions and Compliances*

G. Joseph & Associates
Chartered Accountants

Transfer Pricing – Introduction

- Transfer pricing refers to the pricing of goods, services, and intangibles between related entities in a multinational enterprise (MNE). It plays a crucial role in international taxation, ensuring fair profit distribution across jurisdictions.

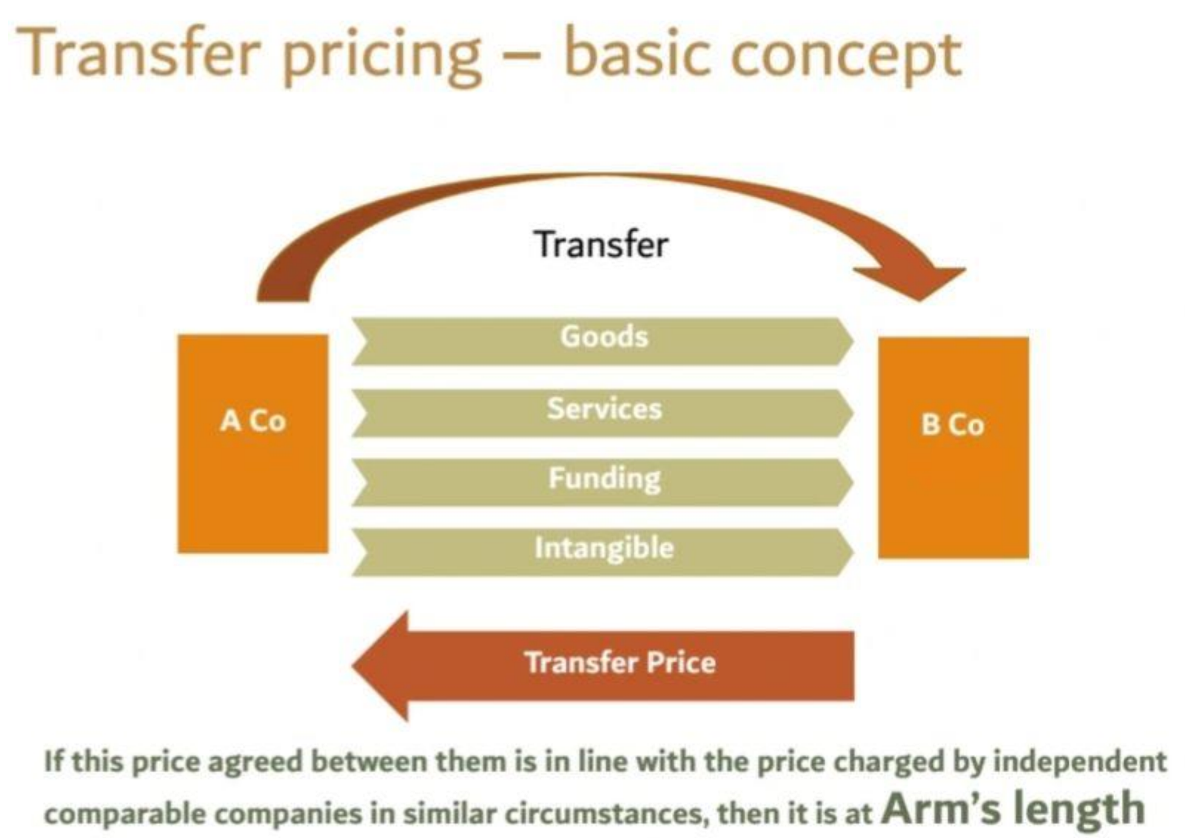
- Governments and tax authorities closely monitor transfer pricing practices to avoid profit shifting and tax evasion

Significance of Transfer Pricing

- Affects taxation, profitability, and regulatory compliance.

- Ensures transactions reflect market dynamics.

- Helps MNCs meet the Arm's Length Principle (ALP)



Transfer Pricing – Basic Concepts

Arms's Length Principle (ALP)

- Arm's length principle (ALP) is the worldwide basis for transfer pricing rules. It states that related parties' transactions must be priced as though they were transacted between unrelated parties in similar situations. It ensures equitable taxation and avoids the manipulation of profit

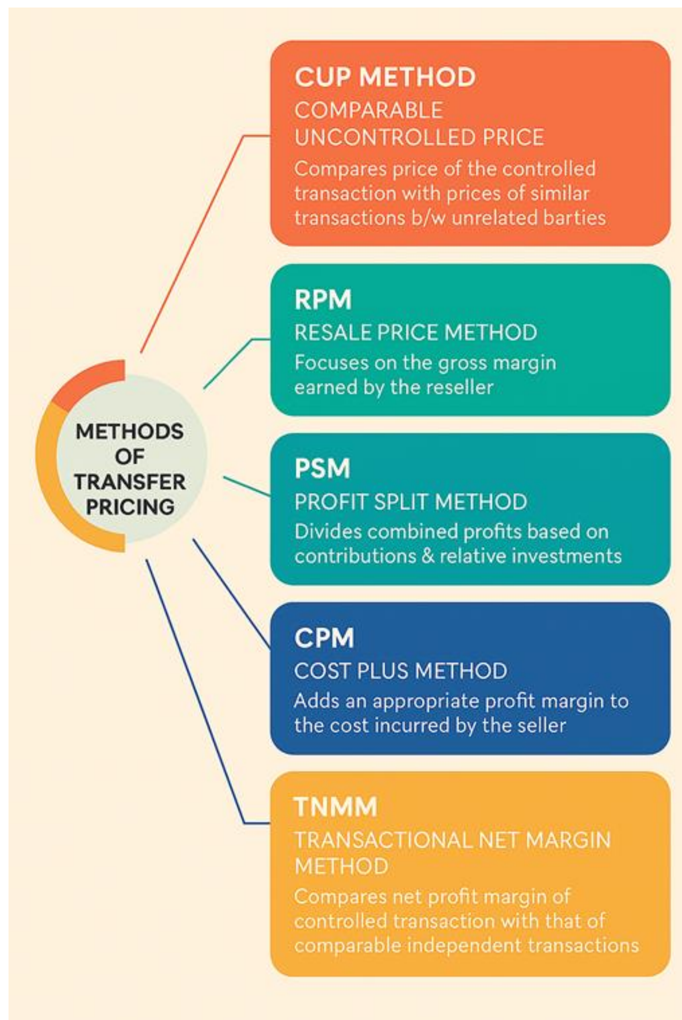
Why ALP

- Ensures fair taxation
- Prevents artificial profit shifting
- Aligns with OECD guidelines
- Reduces tax disputes & audits

Common Transfer Pricing Methods

Tax authorities identify various transfer pricing methods to fulfill the arm's length principle

- Comparable Uncontrolled Price (CUP)
- Resale Price Method(RPM)
- Profit Split Method (PSM)
- Cost Plus Method (CPM)
- Transactional Net Margin Method (TNMM)



Transfer Pricing- Regulations

Transfer Pricing Regulations and Compliance

- Various nations have passed transfer pricing legislation to prevent tax evasion and promote equitable profit allocation.

- The Organization for Economic Co-operation and Development (OECD) and the United Nations (UN) have created transfer pricing guidelines that will help countries regulate intercompany transactions.

- Governments and tax authorities closely monitor transfer pricing practices to avoid profit shifting and tax evasion

Maintaining TP Documentation – Indian Scenario

- Taxpayers are required to maintain information related to international transactions undertaken with Associated Enterprises.

- Such requirements can broadly be divided into two parts
    - Information on the ownership structure of the taxpayer, a group profile, and a business overview of the taxpayer and AEs, including prescribed details such as the nature, terms, quantity, and value of international transactions. The rules also require the taxpayer to document a comprehensive transfer pricing study

    - Adequate documentation must be maintained to substantiate the information, analysis, and studies documented under the first part of the rule. It also contains a recommended list of such supporting documents, including Government Publications, Reports, studies, technical publications, and market research studies undertaken by reputable institutions, Price publications

- Companies to which transfer pricing regulations are currently applicable are required to file their tax returns on or before November 30, following the close of the relevant tax year.

- The prescribed documents must be maintained for a period of eight years from the end of the relevant tax year and must be updated annually on an ongoing basis.

Exemptions – Indian Scenario

Taxpayers having aggregate international transactions below the prescribed threshold of INR 10 million and specified domestic transactions below the threshold of INR 200 million are relieved from maintaining the prescribed documentation

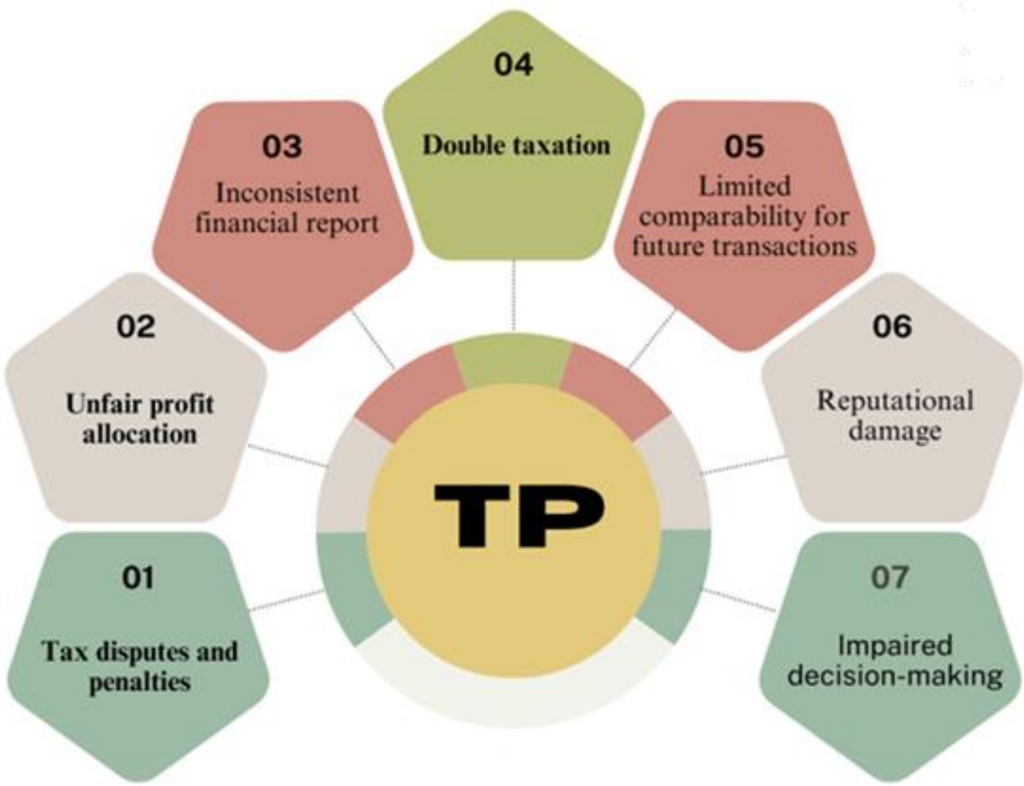
Transfer Pricing- Issues

Transfer pricing presents a few problems for corporations as well as tax administrations, such as:

Impracticality in Implementation: Finding arm's length prices in case of a specific transaction becomes challenging.

Risk of Double Taxation: Conflicts between tax authorities of different countries can lead to double taxation.

Regulatory Compliance: Complying with changing transfer pricing regulations consumes a lot of effort and paperwork



Notice to the reader

In relation to this publication, you may contact:

George Joseph, Managing Partner
Cell : +91 97464 00575
Email: gj@gja.co.in

P. Rajagopal, Jt. Managing Partner
Cell : +91 93886 09990
Email: pr@gja.co.in

Shaji Varghese, Partner
Cell : +91 98470 44030
Email: shaji.varghese@gja.co.in

Umesh Bhat, Partner
Cell : +91 98472 74567
Email: umeshbhat@gja.co.in

Reuben Joseph, Partner
Cell : +91 98952 09307
Email: reuben.joseph@gja.co.in

N. Vijayakumar, Principal (Indirect Tax.)
Cell: +91 94463 62533
Email: vjkumar@gja.co.in

Allen Joseph, Partner
Cell : +91 90483 06882
Email: allen.joseph@gja.co.in

Raphael Sharon, Partner
Cell : +91 99462 03087
Email: raphael.sharon@gja.co.in

Nithin Siva, Partner
Cell : +91 77368 93698
Email: nithin.s@gja.co.in

George Nettady, Partner
Cell : +91 94950 07758
Email: george.nettady@gja.co.in

37/2038, 1st Floor, Muttathil Lane
Kadavanthra, Cochin – 682 020, Kerala

Phone: +91 484 2207 411
Email - mail@gja.co.in

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Authors

Gowry Krishna, Articled Assistant
gowry.k@gja.co.in

Umesh L Bhat, Partner
umeshbhat@gja.co.in

Editorial board of GJA Learning

G. Joseph & Associates
Chartered Accountants