

## TRANSFER PRICING IN FINANCE MINISTRY'S FOCUS

As we have already wrote in our newsletter no. 86/2015, one of the 2016 policy objectives for the Finance Ministry ("FM") is transfer pricing audit. Taxpayers engaging in related party transactions that are not at arm's length were encouraged in FM's communiqué of 18 December 2015 to adjust their tax returns for periods between 2011 and 2015 until the end of first quarter 2016. Those who do so will be rewarded with a preferential rate of default interest at half the standard rate. On the flip side, FM announced increased transfer pricing audit activity in Q2 2016.

FM's communiqué of 5 February 2016 reveals the actions that the ministry intends to take to implement its TP audit plans. In first quarter, the focus will be on expanding human resources within the tax administration and developing their competences in the area of transfer pricing and tax evasion by corporate groups. The second quarter will mark the onset of audits targeted at those entities which did not pay CIT in previous years despite robust revenue growths.

FM also reveals which areas of transfer pricing and tax streamlining will attract the special attention of audit authorities:

- chain sales of company shares within a group to artificially boost the shares' book value;
- one-off contracts with a shareholder relating to future flows,
- inappropriate profit/cost allocation keys between a local subsidiary and the foreign headquarters,
- non-arm's-length royalties,
- financial transactions made on better-than-market terms.

If this issue pertains to your business and you are interested in our assistance, please contact your WTS&SAJA consultant or our office.

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