

Transfer Pricing Services

Circumstances likely to trigger Transfer Pricing Audits

Transfer pricing has emerged in the global economy as one of the most important tax issues for multinational companies. Tax authorities increasingly choose to focus on transfer pricing when auditing the tax returns of multinational companies as tax authorities become cognizant of the fact that commercial relations within a multinational group may fail to reflect the arm's length principle.

We highlight below examples of circumstances that are likely to trigger a transfer pricing audit or adjustment in related party transactions involving management services, sale of goods and financial assistance:

Management Services

- Management Services provided from a low tax jurisdiction e.g. Mauritius or Bermuda;
- Loss making local company;
- Management fees based on turnover of local company;
- Percentage ratio of management fees to turnover material e.g. more than 10%;
- Fully fledged local operation that does not warrant provision of management services;
- Lack of evidentiary support of provision of management services e.g. physical visits by provider and invoices;
- Lack of evidence of benefit derived by local company from the management services provided;
- Absence of evidence of the arrangements between provider and recipient e.g.

written management service agreements and transfer pricing documentation.

Goods

- Low gross margins as compared to industry averages;
- Purchase of goods from low tax jurisdictions e.g. Mauritius;
- Goods shipped from supplier rather than from the related party vendor;
- Loss making local company;
- Bulk of cost of sales made up of related party purchases;
- Absence of evidence of the arrangements between the vendor and purchaser e.g. written agreements and transfer pricing documentation.

Financial Assistance

- Thinly capitalized local company;
- High rates of interest as compared to the market;
- Financial assistance provided from a low tax jurisdiction e.g. Mauritius and Bermuda;
- High guarantee fees as compared to the market;
- Absence of evidence of the arrangements between the lender and borrower e.g. loan agreements and transfer pricing documentation.

Where your company has cross border transactions with related parties, it is highly recommended that you begin the process of compiling transfer pricing documentation in preparation for audits by the ZRA.

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