Transfer Pricing Q2 Briefing

Start

July 2025

Welcome

PwC's quarterly transfer pricing briefing helps multinational organizations keep up with the continuous flow of relevant tax and transfer pricing developments. Included in this quarterly briefing is a summary of Tax Insights and News Alerts published by individual members of the PwC network* covering April 1 through June 30, 2025.

TP Talks

In this TP Talks Special Edition podcast, David Ledure (Global Financial Transactions Transfer Pricing Leader, PwC Belgium) sits down with Kristina Novak (Transfer Pricing Principal, PwC US), Michael Douglas (Transfer Pricing Director, PwC Ireland), and Jake Roche (Transfer Pricing Director, PwC Australia) to discuss tax controversy with respect to intercompany financing, focusing on recent case law.

- Financial Transactions Transfer Pricing: Controversy landscape

In this issue

Americas

United States

Tax Court issues decision in Facebook transfer pricing case

The Tax Court on May 22 issued its decision in *Facebook, Inc. & Subsidiaries v. Commissioner*, 164 T.C. No. 9 (2025). This case relates to Facebook Inc.'s (Facebook US) tax liability arising from a platform contribution transaction (PCT) that was entered into in connection with a cost sharing arrangement (CSA) between Facebook US and its Irish subsidiary (Facebook Ireland). This case evaluated the validity of the IRS's application of the income method to value the PCT payment under the 2009 cost sharing regulations.

The 2009 cost sharing regulations (Reg. 1.482-7A) replaced the 1995 cost sharing regulations. *Facebook, Inc.* is the first case where the court evaluated the 2009 cost sharing regulations, including the application of the income method. The 1995 cost sharing regulations were at issue in key prior cases. The 2009 cost sharing regulations replaced the "buy-in payment" addressed in those cases with "PCT payment." This decision upheld the validity of the 2009 cost sharing regulations relating to the issues evaluated in this case. The current cost sharing regulations were finalized in 2011, which are substantially similar to the 2009 cost sharing regulations.

For more details see our Tax Insight.

As far as next steps, the court ordered the parties to calculate the PCT payment value and the CST payment in Rule 155 computations using the correct inputs identified by the court. The parties could request an en banc review at the Tax Court and, thereafter appeal to the 9th Circuit Court of Appeals.

Americas

United States

US–China trade developments brings short-term tariff relief

President Trump announced a trade agreement with China on May 12, marking a major step in de-escalating the ongoing trade tensions between the two nations. As part of this agreement, the United States will remove the additional tariffs it imposed on China on April 8 and April 9, but will retain all tariffs imposed on China prior to April 2. As a result, the United States will reduce tariffs on many Chinese goods from a peak rate of 145% to a baseline of 10%, plus the 20% “fentanyl” layered tariff, effectively bringing the additional tariffs to 30% during a 90-day pause period. If an agreement on future steps is not reached before the 90-day pause, the baseline 10% rate will increase to 34% to become an effective rate increase of 54% for certain products.

In turn, China will lower its tariffs on American goods to 10% and agreed to eliminate recent retaliatory tariffs and non-tariff measures. The United States and China implemented these actions on May 14. Both countries agreed to establish a formal mechanism for ongoing trade discussions. Additionally, the agreement includes joint efforts to curb the flow of fentanyl and its chemical precursors from China to North America (See the White House fact sheet and US-China joint statement).

For more details, see our Tax Insight.

The meeting in Geneva, Switzerland between senior level representatives of both governments appears to have achieved the primary stated goal of de-escalation of trade tensions, leaving both time and space for future collaborative and productive trade negotiations. This progress may offer more certainty for business executives as they consider near- and long-term strategies. However, should no agreement be reached, the updated tariffs are set to take effect on August 11.

Americas

United States

PwC's US Tariff Industry Analysis: An update on the current impact to companies

Since the introduction of reciprocal tariffs on April 2 (see PwC's Tax Insight dated April 22 for more details), the trade policy landscape has continued to shift rapidly, driven by ongoing negotiations and public statements — including those made via social media and press conferences.

The outcomes of the administration's reciprocal tariffs present significant implications for companies operating in or trading with the United States and challenges continue to arise for many multinational businesses, such as sourcing disruption and cost increases. These challenges are compounded with the uncertain tariff landscape going forward, as the administration crafts additional executive orders and continues to negotiate with its global trading partners. It is critical for executives to stay current on evolving tariff actions and potential changes that may materially impact their operations and planning.

For more details, see our Tax Insight. Also, see PwC's July 18 Tax Insight addressing the latest tariff developments.

According to PwC's May 2025 Pulse Survey (Pulse Survey), 73% of all respondents say tariff policies pose a moderate or serious risk to their company. Note: The Pulse Survey was conducted during the first week of May, before the United States and China agreed to suspend tariffs for 90 days.

AsiaPac

Australia

Australia's new thin capitalization regime: ATO draft guidance on debt quantum

The Australian Taxation Office released Draft Practical Compliance Guideline PCG 2025/D2 (Factors to consider when determining the amount of your inbound, cross-border related party financial arrangement – ATO compliance approach) (the draft PCG) for consultation on May 29, 2025. The draft PCG sets out the ATO's compliance approach to the application the transfer pricing rules to the amount of a taxpayer's inbound cross-border related party debt, provides a framework for taxpayers to self-assess the risk of their arrangements, and sets out factors that are relevant in determining and testing the amount of inbound cross-border related party debt. It also outlines the ATO's expectations regarding documentation and evidence in relation to the amount of inbound cross-border related party debt.

This guidance specifically addresses the arm's-length assessment of related party debt amounts under the current transfer pricing framework. The ATO has provided a well-considered and informed summary of the key factors that treasury and finance functions, as well as independent lenders, consider when evaluating debt capacity. The guidance acknowledges the commercial and economic advantages of engaging in debt financing and recognizes that determining an appropriate debt level involves various considerations that depend on specific circumstances.

For more details, read our Tax Alert.

The draft PCG offers a first look into how the ATO may apply transfer pricing rules to assess an arm's-length level of debt. In forming their guidance, the ATO appears to have consulted extensively with debt experts, providing helpful detail that addresses issues previously encountered in audits and disputes concerning pricing.

EMEA

Denmark

Recent amendments to Danish transfer pricing legislation

The Danish Parliament on June 3 passed legislation that represents a significant shift in the approach to transfer pricing compliance. The legislative amendments will apply for the income year 2025.

Aim of the new legislation

The primary objective of these amendments is to streamline the transfer pricing framework, making it more accessible and less administratively demanding for businesses. By refining the scope of documentation requirements and clarifying the obligations of different categories of taxpayers, the new rules seek to foster a more efficient compliance environment.

Targeted documentation exemptions and automatic extension of deadline

The revised law introduces several exemptions from the obligation to prepare written transfer pricing documentation. Taxpayers, either alone or together with affiliated companies, who have fewer than 250 employees and either a total annual balance sheet below DKK 195 million or annual turnover below DKK 391 million, are exempted for preparing transfer pricing documentation. Moreover, taxpayers are no longer required to document controlled transactions if their total value is less than DKK 5 million in the income year, and if total controlled receivables and debts at year-end are below DKK 50 million. However, this exemption does not apply for transactions involving intangible assets.

Note: This exemption does not apply if the transactions take place with a counterparty that is located in a foreign state outside of the European Union and European Economic Area and that does not exchange tax information with Denmark. Further exemptions apply for some situations of limited ownership and to specific types of transactions, such as dividends and subsidies paid in cash. Additionally, transactions deemed insignificant also are excluded from documentation requirements.

The new amendment also introduces modifications in the law in order to provide for an automatic extension of the 60-day deadline for submitting transfer pricing documentation, if an extension is granted for the corporate tax return. Consequently, it is no longer necessary to request separate extensions for the corporate tax return and the transfer pricing documentation deadlines.

For more details read our Tax Blog.

Observation: The recent amendments to the Danish Tax Control Act's transfer pricing provisions mark a significant step towards a more streamlined and business-friendly compliance environment. By introducing targeted exemptions and an automatic extension of deadline and removing the obligation to submit auditor statements, the legislation reduces unnecessary administrative burdens while maintaining the integrity of the transfer pricing framework. These changes reflect an ongoing evolution in compliance norms, emphasizing efficiency, proportionality, and the continued importance of fair and transparent tax practices.

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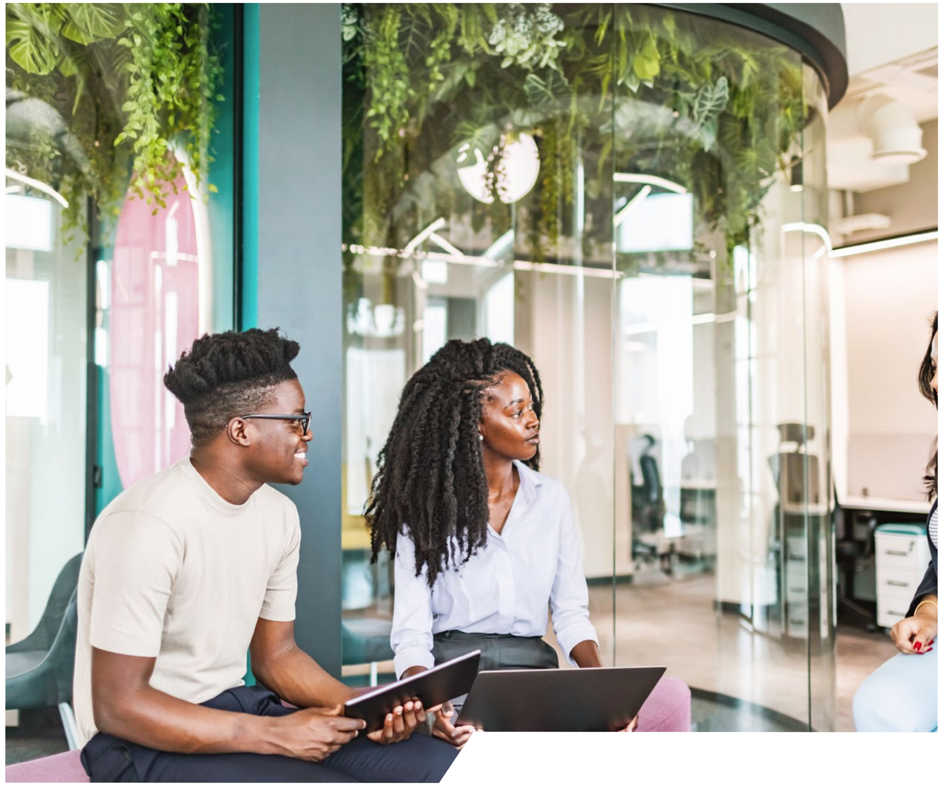
Germany

New BMF circular defines transaction matrix obligations under Germany's TP rules

The German Ministry of Finance (BMF) on April 2, 2025, released a circular further specifying the extended requirements for transfer pricing documentation introduced through the so-called "Vierte Bürokratieentlastungsgesetz," effective January 1, 2025. As a result, the "transaction matrix" has become an additional component of the record-keeping obligations pursuant to Section 90 (3) AO. The BMF defined the transaction matrix as a structured, tabular overview that contains relevant information on the taxpayer's cross-border business relationships with related parties and permanent establishments.

The components of the transaction matrix must include:

1. **Subject matter and type of business transactions** (e.g., delivery of goods, continuous business transactions).
2. **Parties involved** in the business transactions, identifying the recipient of the service and the service provider.
3. **Volume and charge** (in euros) for the business transactions (e.g., loan volume and interest, or payments for delivery of goods/services).
4. **Contractual basis** (designated contractual document).
5. **Transfer pricing method** applied (e.g., cost-plus method or comparable uncontrolled price method).
6. **Tax jurisdictions** involved.
7. **Status of standard taxation**—whether the transaction is not subject to standard taxation in the relevant jurisdiction.



Failure to submit the transaction matrix will result in a **EUR 5,000 surcharge**. For more details, read our Newsflash.

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Nigeria

Nigeria: Federal High Court upholds Tax Appeal Tribunal decision on validity of the CbCR regulations

It its decision issued on May 5, 2025, in a case between Check Point Software Technologies B.V. Nigeria Limited (Check Point) and the Federal Inland Revenue Service (FIRS), Federal High Court (FHC) has upheld the August 17, 2023 decision by the Tax Appeal Tribunal (TAT), which ruled that the Income Tax (Country-by-Country Reporting) Regulations 2018 (CbCR Regulations) were unconstitutional and not validly issued and are therefore null and void.

For more details, see our Tax Alert.

The FHC's ruling provides immediate relief to taxpayers with outstanding penalties for failure to submit their CbC related returns. Based on the judgement, taxpayers are no longer legally required to comply with the CbCR Regulations, unless and until valid regulations are reissued. However, taxpayers may be required to continue to comply if the FIRS is able to obtain an injunction suspending the judgement.

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Sweden

ESG effects on transfer pricing

Transfer pricing is the practice of pricing dealings between related parties with reference to comparable dealings between unrelated parties on the open market. To the extent unrelated parties begin to be affected by Environmental, Social and Governance (ESG) considerations in their business activities, such considerations should be taken into account in the setting of transfer prices.

Expenses incurred by multinational enterprises for ESG purposes can be approached as a pure compliance cost. However, the emphasis placed on the implementation of ESG initiatives reflects the belief that ESG improvements are of sufficient value to warrant the compliance and other costs incurred in relation to their preparation. With this perspective, it is fair to say that ESG can drive value creation.

While this may seem far-fetched to some, we can look to the history and treatment of other reporting norms — such as financial reporting — as instructive for our treatment of ESG initiatives today.

For more details, see our Tax Blog.

By understanding the historical evolution of financial reporting, parallels can be drawn to the emerging field of ESG reporting. Just as mandatory financial disclosures have become integral to corporate transparency and investor confidence, ESG reporting is likely to follow a similar trajectory, and thus be treated as creating value.

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United Kingdom

UK opens consultations on transfer pricing, permanent establishment, and Diverted Profits Tax legislative reform

Following its initial consultation in summer 2023 and an update in autumn 2024, the UK government published a consultation on draft legislation aimed at reforming the rules governing transfer pricing (TP), permanent establishment (PE), and Diverted Profits Tax (DPT). This is part of the Government's Corporate Tax Roadmap, which seeks to modernize and simplify the tax rules in alignment with international standards and stakeholder feedback.

In addition, a consultation has been initiated on two further transfer pricing related proposals, which were trailed as part of the Spring Statement last month. The first would amend the existing exemption from the TP rules for small and medium enterprises (SMEs), broadly bringing medium-sized enterprises into TP rules. The second is a new tax compliance requirement requiring all multinationals within the TP rules (not just those within Country-by-Country Reporting (CbCR)) to report information on cross-border related-party transactions to HMRC via a filing referred to as the International Controlled Transactions Schedule (ICTS) in the consultation.

Three areas of international tax law are covered by the two consultations:

- Transfer pricing
- Permanent establishment
- DPT

For more details, see our Tax Insight.

The reforms are intended to improve fairness, produce simpler and more easily understandable legislation, create greater alignment with international treaty partners, and promote inward investment into the UK by increasing certainty and access to treaty benefits.

Contact us

For your global contact and more information on PwC's transfer pricing services, please contact:

Horacio Peña
Global Transfer Pricing Leader
Tel: +1 (917) 478-5817
horacio.pena@pwc.com

Erika Kirslis
Transfer Pricing
+1 (781) 820-6224
erika.l.kirslis@pwc.com

Dana Hart
Transfer Pricing
+1 (949) 568-0552
dana.hart@pwc.com

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