

Case Study:  
Transfer Pricing Documentation  
Requirements  
for Multinational Groups

GGI ITPG Global Tax  
Summit  
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Schladming



BALDI & PARTNERS  
AVVOCATI E COMMERCIALISTI

# *SUMMARY*

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- 1. Scope of the Analysis**
2. The Group
3. Steps of the Analysis
4. Conclusions

# ***1. SCOPE OF THE ANALYSIS***

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We were required to assess the compliance of the Group with reference to the TP documentation requirements, by:

- ✓ Understanding the *countries* where the Group's companies are located
- ✓ Checking the *type and amount* of cross-border intercompany transactions
- ✓ Assessing of the *TP documentation requirements* in each country
- ✓ When required, draft country specific documentation

# ***1. SCOPE OF THE ANALYSIS***

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The TP documentation compliance was quite different in each area because:

- ✓ Locally, there was not a *clear view* on the TP documentation requirements
- ✓ The mother company *was not monitoring* the TP documentation compliance
- ✓ In some countries, Subsidiaries *were not compliant* with local TP documentation requirements
- ✓ *Dynamic rate of growth* of some start up companies

# ***SUMMARY***

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## 2. THE GROUP

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- ✓ The Group is in the *Mechanical Industry*;
- ✓ The *mother company* is located in Italy and carries out manufacturing and engineering functions;
- ✓ *Subsidiaries* are located in Europe, USA, South America, China, North Africa and South Africa and carry out distribution and customization functions;
- ✓ 2016 *consolidated sales* transactions - € 120 million;
- ✓ 2016 *cross-border intercompany* sales transactions - € 40 million.



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# 3. STEPS OF THE ANALYSIS

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## Local TP Documentation Requirements

- ✓ Is there a *disclosure obligation* (i.e. in Tax Returns)?  
Is there an annual submission deadline?
- ✓ Is there a TP documentation submission requirement *upon request*?
- ✓ Is there a requirement to *update* the documentation?
- ✓ Are there any *language* requirements?
- ✓ Do *penalties* for non-compliance exist?
- ✓ Does TP documentation compliance grant *penalty protection*?
- ✓ Are there any *exclusions*?

# 3. STEPS OF THE ANALYSIS

## TP documentation table

### GERMANY

DISCLOSURE OBLIGATION	No
TP DOCUMENTATION OBLIGATION	Yes
ANNUAL REQUIREMENT	Yes
DEADLINE FOR PREPARATION	Within 6 months after year end or within 6 months after an extraordinary business transaction
EXCLUSIONS	A taxpayer is eligible for relief of detailed documentation if the remuneration received or paid for intra-group transactions (of tangible goods) amounts to less than 5 million Euro, and less than 500.000 Euro for all other categories of transactions
PENALTIES	Yes
LANGUAGE	German (English accepted)

# 3. STEPS OF THE ANALYSIS

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## Mapping the intercompany transactions

- ✓ Understanding the *type of transaction*, such as sales of goods, services and financial transactions
- ✓ Establishment of a *minimum threshold*

# 3. STEPS OF THE ANALYSIS

(€/000)

<i>Purchaser</i> <i>Seller</i>	MOTHER-CO IT	SUBS IT	SUBS UK	SUBS DE	SUBS MX	SUBS CH
MOTHER-CO IT	-	1.589	2.024	2.736	3.471	556
SUBS IT	0	-	0	98	0	0
SUBS UK	0	0	-	0	0	0
SUBS DE	39	0	9	-	40	0
SUBS MX	12	0	0	0	-	0
SUBS CH	19.756	987	0	0	0	-

# 3. STEPS OF THE ANALYSIS

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Match transactions with local TP documentation requirements

- ✓ Cost-benefit analysis
- ✓ Assessment of the risk of non-compliance
- ✓ Selection of local TP documentation to draft

# 3. STEPS OF THE ANALYSIS

(€/000)

Purchaser Seller	MOTHER-CO IT	SUBS IT	SUBS UK	SUBS DE	SUBS MX	SUBS CH
MOTHER-CO IT			Masterfile + Country Specific	Masterfile + Country Specific	Masterfile + Country Specific	Masterfile + Country Specific
SUBS IT				Country specific		
SUBS UK						
SUBS DE						
SUBS MX						
SUBS CH	Masterfile + Country specific	Country specific				

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# 4. CONCLUSIONS

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## Main issues to consider

- ✓ Perfection is too expensive ...?
- ✓ Risk Awareness: the importance of being informed
- ✓ Non-compliance, is it worth the risk?
- ✓ Google research is not enough ...
- ✓ Do you have a correspondent firm in ... who can help me?





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