



Saudi Arabia starts requesting transfer pricing documentation

Global Transfer Pricing Alert 2019-028

The Kingdom of Saudi Arabia's (KSA's) General Authority of Zakat and Tax (GAZT) has started requesting taxpayers' transfer pricing documentation.

Background

Under the KSA transfer pricing bylaws, which were introduced in February 2019 and are applicable for tax returns filed on or after 1 January 2019, taxpayers are required to prepare transfer pricing documentation (local file and master file) at the time of filing their tax return. (For prior coverage, see the February 2019 issue of [The Arm's Length Standard](#)). After submission of the tax return and the required disclosure form summarizing transfer pricing information, the GAZT may request that the taxpayer furnish these within 30 days.

Requests for documentation

In July 2019, the GAZT started sending notices to taxpayers that they must submit their transfer pricing documentation to the tax authorities. These notices have come in the form of an email from the taxpayer's relationship manager at GAZT. The requests for documentation have not been made by GAZT on a standalone basis, but are part of a broader information-gathering process to kick-start a broader tax audit.

GAZT also has updated the *Taxpayers Services Catalogue* on their [website](#). The catalogue describes the process for submission of transfer pricing documentation, which includes

uploading the documentation on to the GAZT portal after logging in with the taxpayer's credentials.

Information requested

The catalogue indicates that in addition to the master file and the local file, the GAZT may request other relevant documents related to transfer pricing.

Based on our experience to date, the GAZT appears to be requesting the multinational entity (MNE) group's transfer pricing policy document, which must have been certified by a licensed auditor in KSA in an affidavit, and an explanation of its applicability to the KSA taxpayer.

Other items that GAZT has requested include intercompany agreements and comparability analyses demonstrating that the taxpayer's related-party transactions were conducted on an arm's length basis (in some cases to support a loss-making subsidiary in KSA).

Deadline to provide information

In accordance with the KSA transfer pricing bylaws, taxpayers are given a minimum of 30 days to provide the documentation requested.

The catalogue clarifies that GAZT will provide 30 business days to taxpayers to submit their transfer pricing documentation. In practice, we have seen GAZT extend the deadline to provide documentation to 30 *business days*, compared to the minimum of 30 days the TP bylaws provide. This should provide some relief for taxpayers, as they may get an additional week or two to submit their transfer pricing documentation, depending on the specific circumstances

It is unclear whether GAZT will grant taxpayers any additional extensions to furnish their documentation.

Red flags

The GAZT has now received the transfer pricing disclosure forms submitted by taxpayers as part of their tax return for tax year 2018, and it is likely to have conducted preliminary transfer pricing assessments of the data included in those disclosure forms.

The key "red flags" are likely to be as follows:

- Losses reported in the tax return with high related-party expense transactions;
- Related-party transactions with foreign entities located in zero-tax jurisdictions;
- Selecting "business restructurings" from the drop-down menu in the transfer pricing disclosure form;
- Selecting zero-consideration transactions from the drop-down menu in the disclosure form;
- Poorly prepared disclosure forms, with transactions that do not match those included in the financial statements; and
- Affidavits not submitted as part of the disclosure form.

Next steps

It is important that taxpayers in KSA check their emails and be on standby to respond to these requests for transfer pricing documentation.

Comprehensive transfer pricing documentation will go a long way in reducing the risk of a transfer pricing assessment.

Taxpayers that do not currently maintain a transfer pricing policy document and copies of the intercompany agreements that govern their controlled transactions should prepare such documents going forward, in addition to maintaining a master file and a local file.

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