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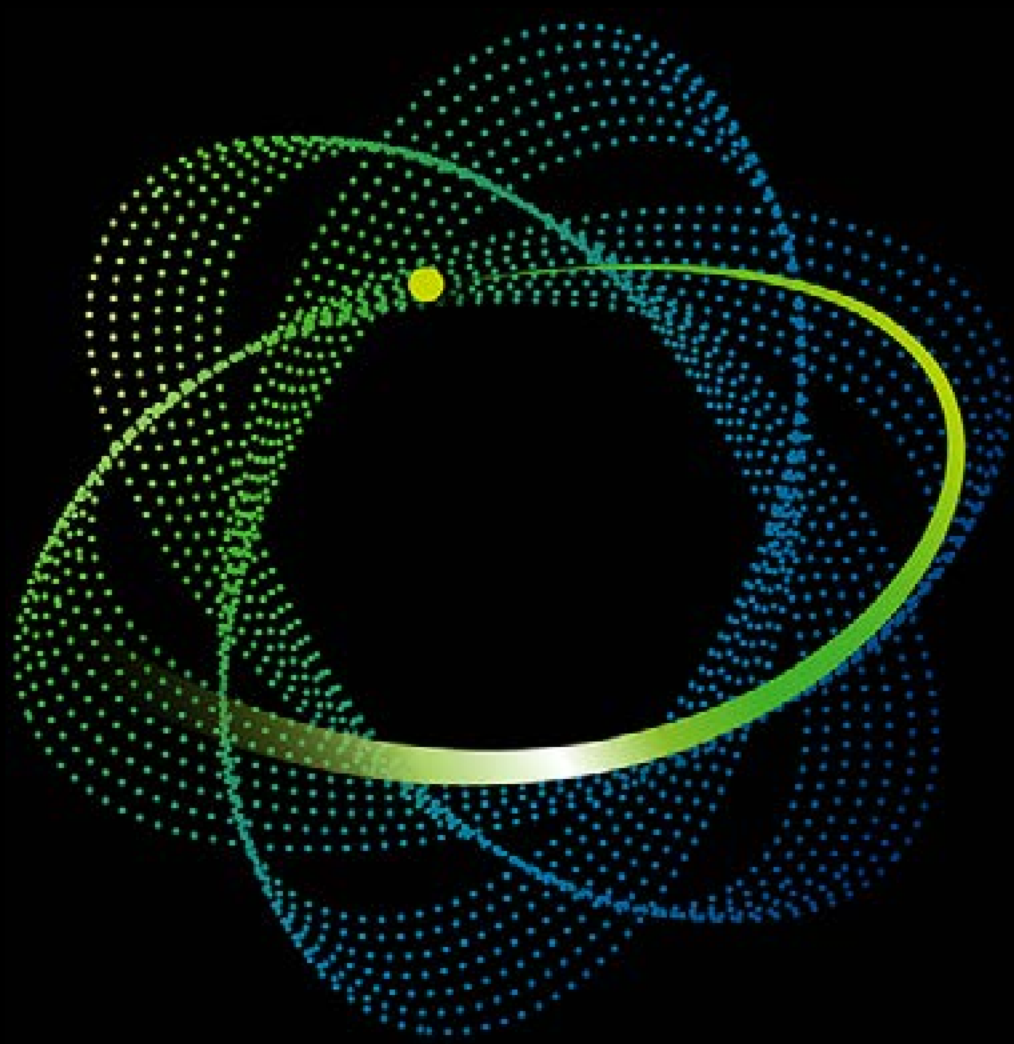


Transfer Pricing News

The Tax Administration has started sending additional information requests regarding segmented financial statements presented in the Transfer Pricing Study

Since 2016, the Superintendency of Tax Administration –SAT– has requested transfer pricing studies from taxpayers that have indicated in their Annual Income Tax Return that they have had transactions with foreign related parties.

Due to the above, it is important for taxpayer to note that in some cases SAT has started sending additional information requests regarding segmented financial statements presented in the Transfer Pricing Study. As part of this request, SAT is asking for a detail of the income, costs and expenses presented in the segmented financial statements.

Let's remember that since 2016, when SAT published the Guide for Transfer Pricing Studies, the use of segmented financial information has become more important in Transfer Pricing analysis, mainly for entities that perform manufacturing, distribution and services transactions with their foreign related parties. Prior to this, the segmentation of financial statements was an option available for taxpayers, without taxpayers knowing the SAT's opinion on them. However, the Tax Administration has now affirmed the use of segmented financial statements as a requirement to be included within Transfer Pricing Studies –TPS- (where applicable), since in more recent information requests, requests for segmentation have been observed.

In our experience as consultants, we have observed that in many cases the segmentation of financial statements is a very efficient tool for determining proper compliance with the Transfer Pricing regulations. Despite how complicated separating transactions with related parties from the total financial statements can be, this tool can help one make a more detailed and objective analysis of the transactions with related parties.

It is probable that many tax authorities perceive losses in the financial statements of companies that perform transactions with related companies as risk factors when it comes to Transfer Pricing. However, this situation must be analyzed within a broader context. Negative results in the financial statements are not always indicative of inconsistencies in prices agreed upon between related companies. Taxpayers should be rest assured that losses of the period will not trigger a situation of non-compliance with Transfer Pricing regulations (at least not in all cases).

Additionally, it is important to mention that the most conservative position in the segmentation of financial statements is to do so directly, that is, considering the income, costs, and expenses attributable to each segment without the need to apply distribution criteria (proportionality), with the purpose of reflecting the most objective result for the tested transaction.

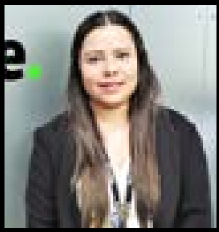
The increasing importance of Transfer Pricing in the SAT's oversight activities is evident, and thus we suggest that our clients take due care by justifying, and documenting the prices and profitability in their transactions with related companies, mainly to have the necessary support in the event of a future review by SAT.

Our experts:

Deloitte offers a range of integrated tax and legal services. Our teams combine technical knowledge, experience and innovation, which allow us to help our clients meet their objectives at the local and global levels.

Mario Coyoy

Centralamerica Transfer Pricing Leader Partner
mcoyoy@deloitte.com



Mónica Och

Manager
Transfer Pricing
mroch@deloitte.com

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