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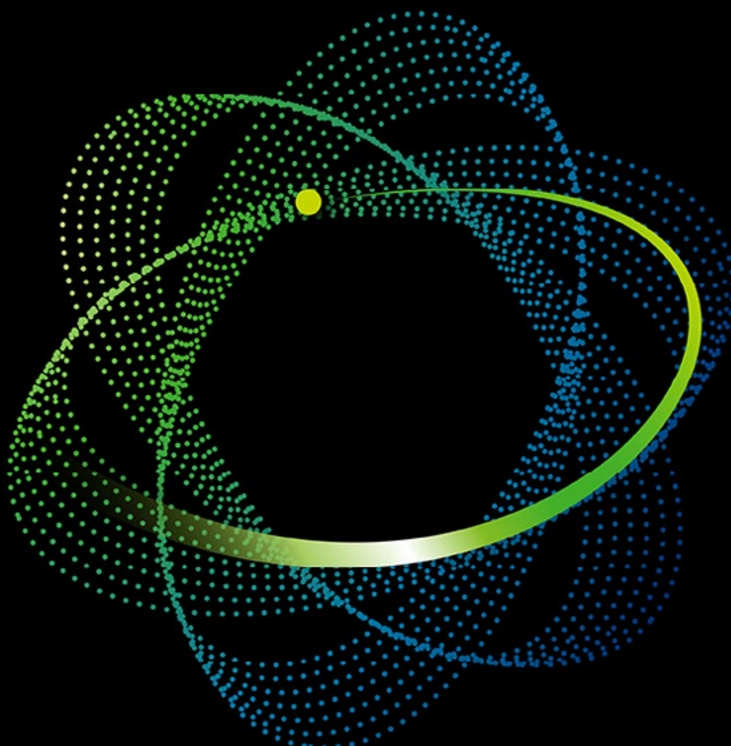

Treatment of reimbursement of expenses between related companies

As part of the usual transactions performed between related companies, reimbursement transactions may arise that in many cases are unusual and do not add any value for the companies that are the beneficiaries of these reimbursements.

Within international Transfer Pricing regulations, there are parameters for the treatment of the reimbursement of expenses between related companies and some basic conditions must be met to conclude that there is compliance with the arm’s length principle.

Mainly, an analysis should be performed to determine whether in the reimbursement of the expenses any company incurred in significant functions, assets or risks that would require compensation for them.
In the event that the company has incurred in such functions, assets and risks, it is likely that this is not a reimbursement of expenses.

The Tax Administration has stated at recent conferences that many taxpayers have performed reimbursement transactions in which the company incurs in expenses on behalf of its related company and does not immediately charge the related company for them. Instead, very long payment terms are granted, which could be interpreted as financing due to the high amounts and long terms. This has drawn the attention of the Tax Administration and it has classified these reimbursements of expenses as services, financing and other high-value transactions.

Reimbursements of expenses are normal transactions between related companies, but they should be occasional and not add significant value to the counterpart; otherwise, a remuneration should be paid for them.

A very common example in the reimbursement of expenses is the regional contracting of services with independent third parties, in which a company of the group (in many cases the Parent Company) makes a favorable negotiation for the entire group due to the volumes involved, and subsequently makes the corresponding charge to each related company. As previously mentioned, for this transaction to be classified as a reimbursement of expenses, the company that carried out the contracting should not incur in significant functions, assets and risks, nor should any significant value be added in this regional contracting. Furthermore, financing terms should not be granted to its related companies for such transaction.

We recommend properly reviewing and documenting the reimbursement of expenses transactions to be prepared for an eventual audit of the Tax Administration.

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