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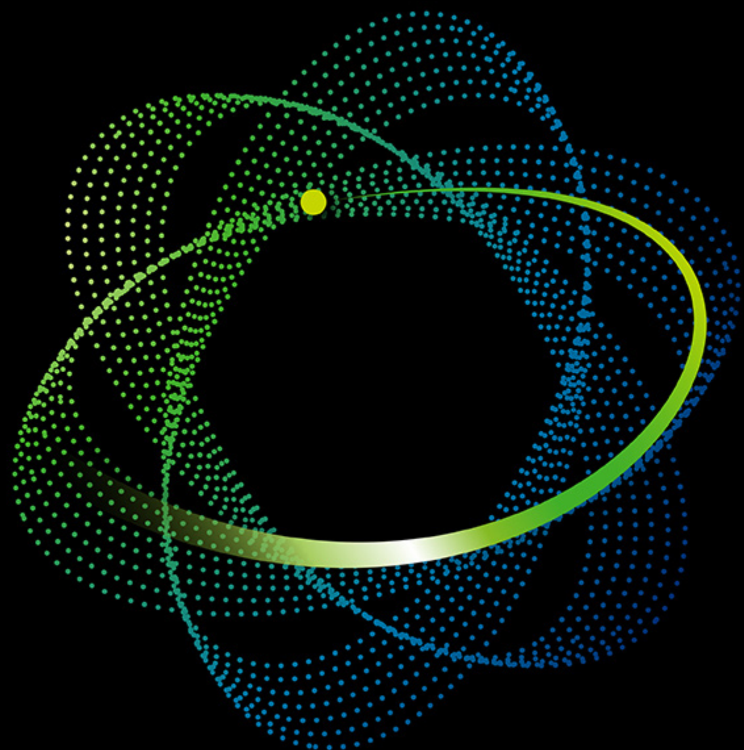

Transfer Pricing Considerations in the Fiscal Year-End

Transfer pricing regulations play a crucial role in determining prices charged in transactions between affiliated companies, particularly when these transactions cross international borders. The goal is to ensure that these transactions reflect fair market values and prevent the artificial shifting of profits to low or no-tax countries.

1. **Documentation Review:** At the end of the year, it is prudent to review your transfer pricing documentation. This involves assessing whether your existing documentation accurately reflects the economic realities of your transactions between related entities. Proper documentation is not only a regulatory requirement but also a tool to mitigate risks in audits.

2

Functional Analysis: Review the functional analysis of your entities involved in cross-border transactions. Ensure that it still accurately reflects the roles and risks assumed by each entity. Changes in business operations throughout the year may require adjustments to the functional analysis.

3

Adjustments and Compliance: Familiarize yourself with local Transfer Pricing regulations in the countries where your business group operates. Each jurisdiction has its own rules and documentation requirements, including transfer pricing studies, transfer pricing information returns, among others. Compliance is key to avoiding penalties and tax disputes.

In cases where a transaction is not in compliance with the arm's length principle, the following types of adjustments may apply:

Actual Adjustments:
Actual adjustments involve making changes to transfer prices applied in transactions between affiliated companies. These adjustments aim to align prices with the arm's length principle, ensuring they are comparable to prices charged in similar transactions between unrelated parties.

For example, if it is found that prices of goods or services between affiliated entities are inconsistent with the market, an actual adjustment may be necessary. This could involve modifying prices to better align with market conditions or applying credit or debit notes to adjust prices and comply with the arm's length principle in each jurisdiction.

Virtual Adjustments:
Virtual adjustments, on the other hand, do not modify the actual prices of transactions. They focus on adjusting the financial results of entities involved in intercompany transactions. These adjustments are often made for tax reporting purposes to ensure that profits allocated to each entity reflect arm's length principles.

For example, a virtual adjustment might involve recalculating profit margins of entities involved in intercompany transactions to align them with industry standards. This is especially relevant when tax authorities use profit-based methods to assess transfer pricing compliance.

4

trategic Planning for the Future: As part of your year-end considerations, adopt a strategic approach to your transfer pricing studies. Consider future business plans, potential changes in regulatory landscapes, and the evolving nature of your industry. Proactive planning can help your organization anticipate transfer pricing challenges and ensure long-term compliance. Prepare a transfer pricing policy documenting the types of transactions with related parties and their respective prices/profit margins with appropriate comparables for the future. Schedule periodic reviews throughout the year to verify that transactions comply with the arm's length principle.

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