

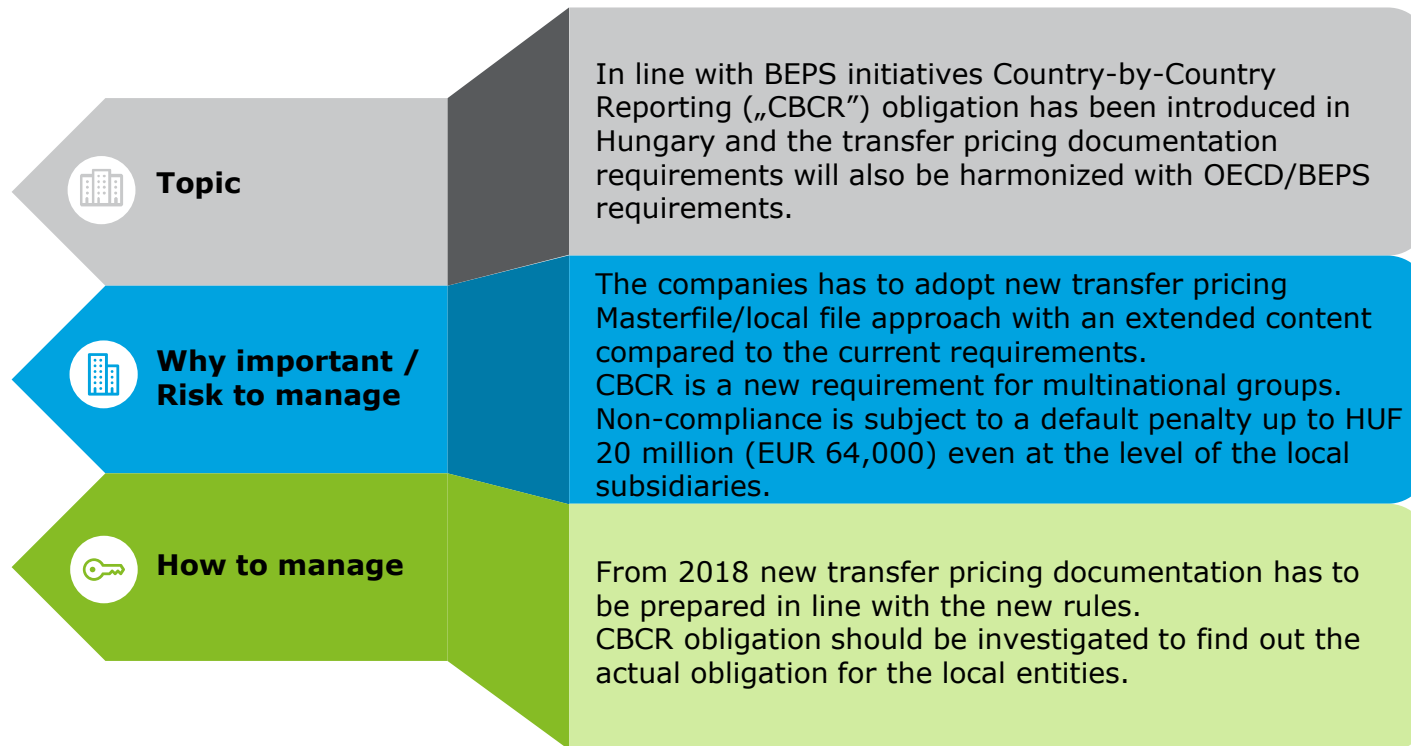


**Summary on CbC reporting and  
transfer pricing documentation**

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24 October, 2017

# New transfer pricing compliance requirements in Hungary: Country-by-Country Reporting and new transfer pricing documentation requirements



# International guidelines

## BEPS – Action 13 – OECD Guidelines Chapter V.

### Level 1



#### CbC Report

##### Main financial information:

- All group companies
- Consolidated by countries
- The activity in the given country

### Level 2



#### Master file

##### MNE group:

- Description of MNE's business and structure
- Intangibles
- Intercompany financing
- Financial and tax position

### Level 3



#### Local file

##### Group companies:

- Local entity
- Controlled transactions
- Tax rulings, APAs
- Financial information

# Transfer pricing documentation Masterfile

# Masterfile concept

- The draft of the respective regulation is already available
- It is expected to be adopted soon by the Hungarian legislation
- It will be in line with the Transfer Pricing OECD Guidelines
- Masterfile will be the obligatory part of the transfer pricing documentation
- Additional administration is expected due to the increased amount of information needed
- It contains:
  - Overview of the group, MNE's organizational structure,
  - Description of MNE's business, the MNE's intangibles
  - MNE's intercompany financing activities, MNE's financial and tax positions
  - Identification of any members of the group that provide central financing function
  - Place of effective management
  - Description of business restructuring transactions, acquisitions

# Masterfile – Main document

More structured, more detailed information should be presented compared to the current system

## Current legislation

- Information regarding the ownership of intangibles and presentation of the royalty paid and received

## Example



## Masterfile

## New legislation

- General description of the **overall strategy** for the development, ownership and exploitation of intangibles
- **Location** of principal R&D facilities and location of R&D management
- **List of intangibles** or groups of intangibles and which entities legally own them
- **List of agreements** related to intangibles
- Description of the group's **transfer pricing policies** related to R&D and intangibles
- Description of **any important transfers of interests** in intangibles, including the entities, countries, and compensation involved

# Content of the Masterfile

## **Intercompany financial activities**

- Description of **how the group is financed**, important financing arrangements
- Identification of any members of the group that **provide central financing function**, and the **place of effective management**
- Description of the general transfer pricing policies related to financing arrangements

## **Financial and tax positions**

- Consolidated financial if otherwise prepared for financial reporting, regulatory, internal management, tax or other purposes
- List and brief description of the existing unilateral APAs and other tax rulings

## **Description of the business:**

- Important drivers of business profit;
- Description of supply chain for the largest products and/or service offerings
- List of important service arrangements between group members
- Description of main geographic markets for the group
- Functional analysis
- Description of business restructuring transactions, acquisitions

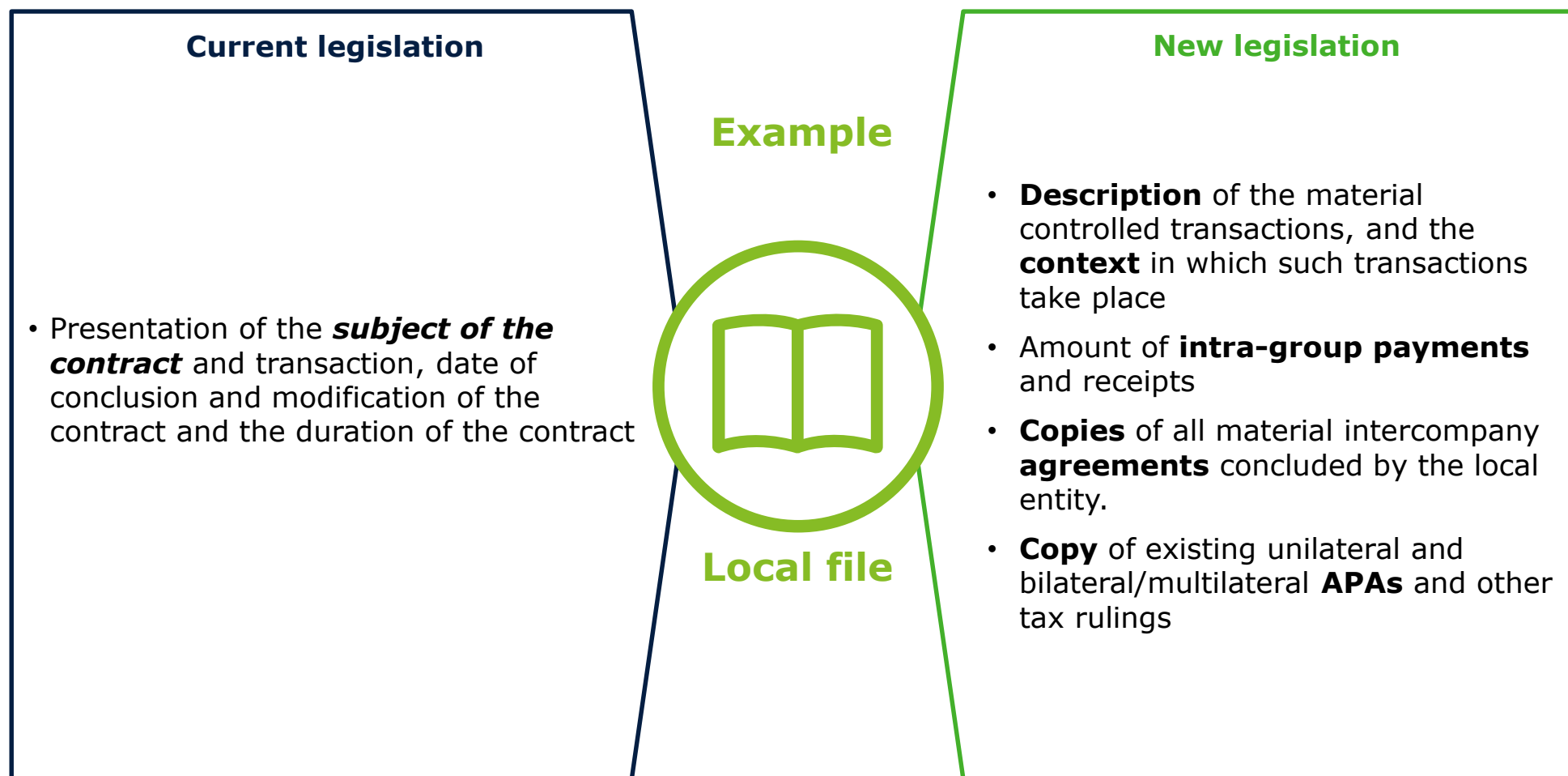
# Transfer pricing documentation

Local file



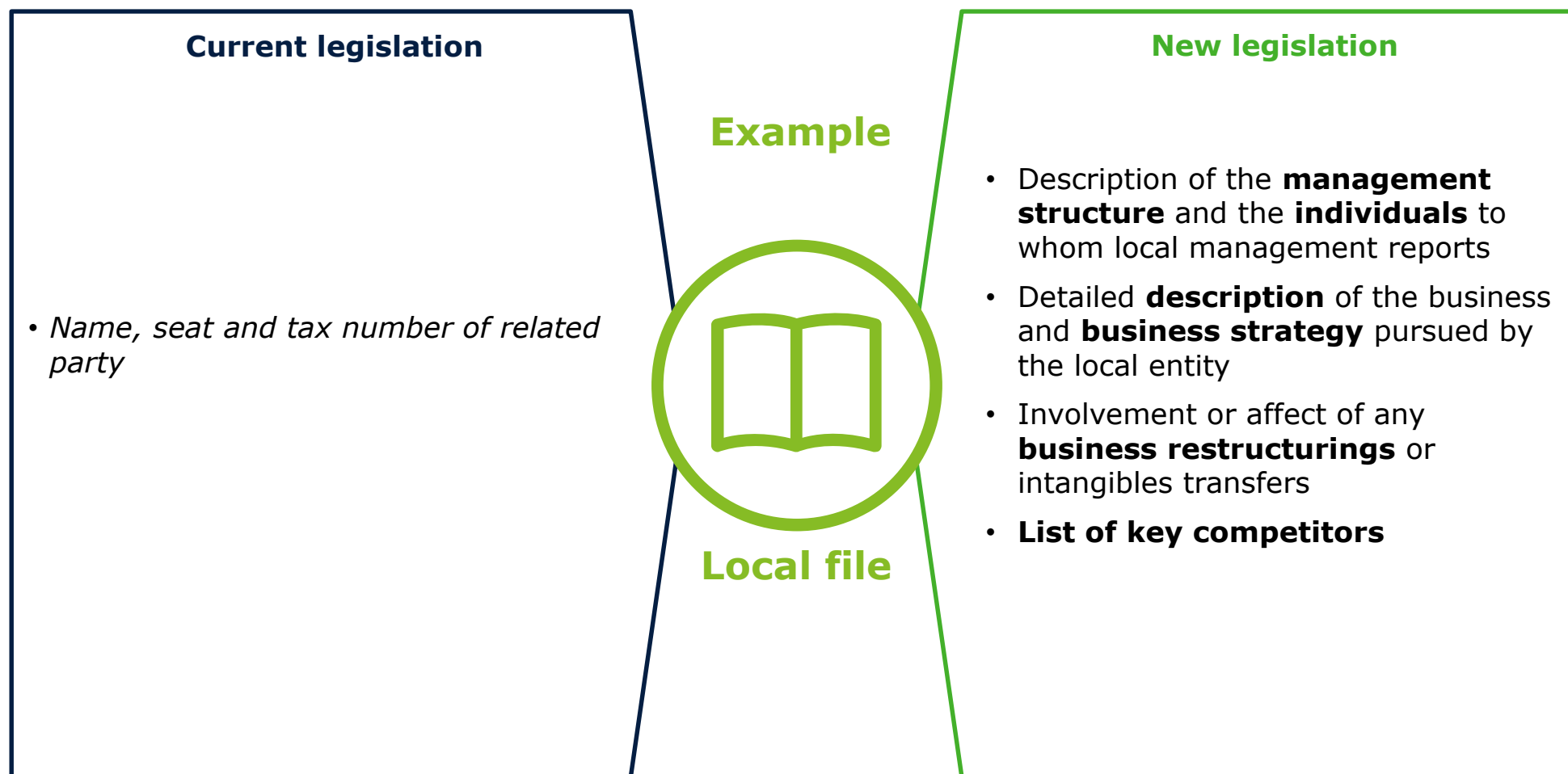
# Local file

More structured, more detailed information should be presented compared to the current system



# Local file

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More structured, more detailed information should be presented compared to the current system

## Current legislation

- **Price, margin, profit, other value or range** (arm's length price) calculated on the basis of comparable products and services

## Example



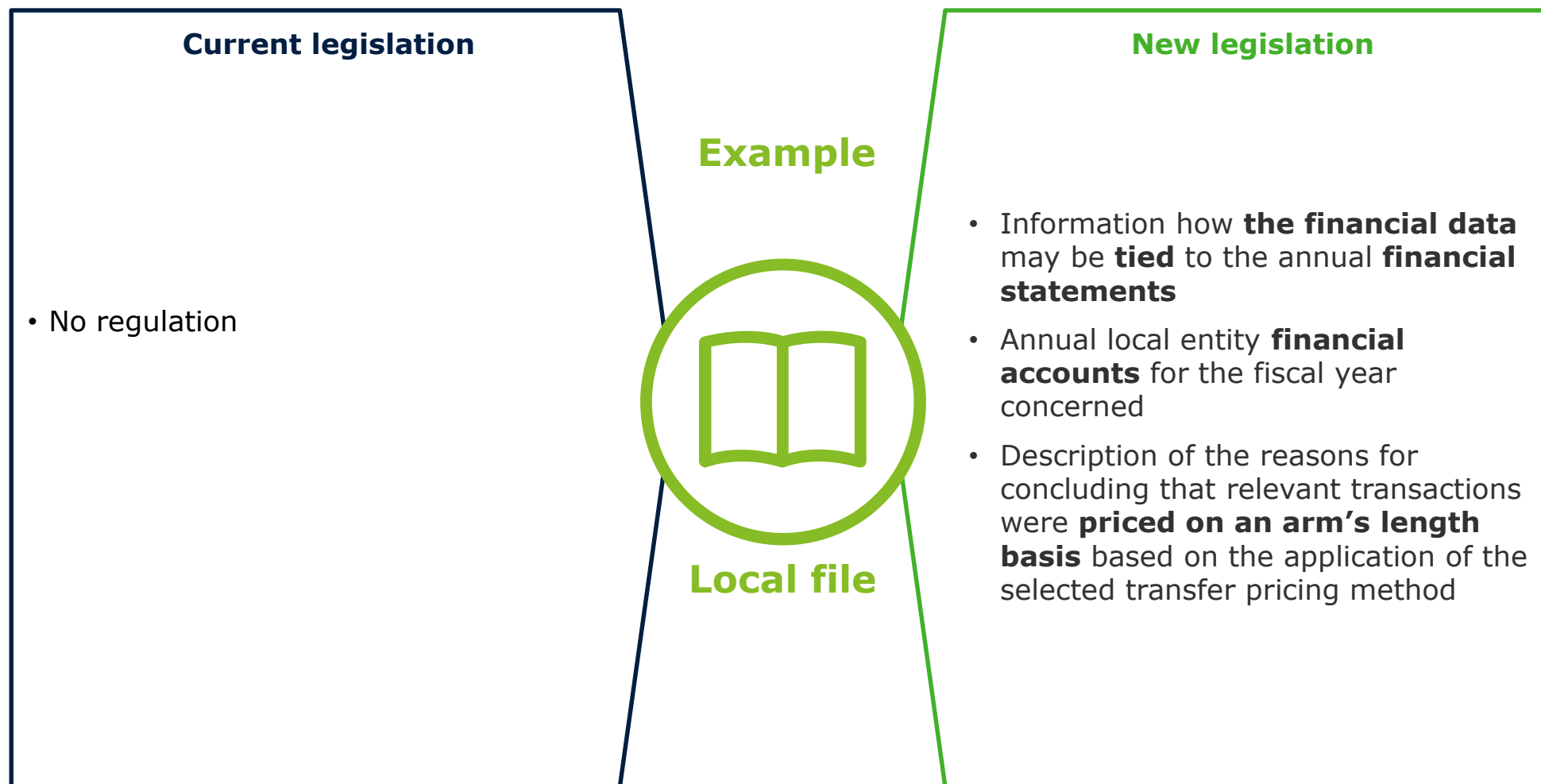
## Local file

## New legislation

- Indication of which associated enterprise is selected as **the tested party**, explanation of the reasons for this selection
- Summary of the **important assumptions** made in applying the transfer pricing methodology
- **Explanation** of the reasons for performing a **multi-year analysis**
- List and description of **selected comparable transactions**, and information on relevant financial indicators
- **Summary of financial information used** in applying the transfer pricing methodology

# Local file

More structured, more detailed information should be presented compared to the current system



# CbC reporting

# CbC reporting - Hungarian legislation

Who should file the report?

Companies exceeding a consolidated group revenue of **EUR 750 million**

Reporting obligation:



**Ultimate parent company**

Vs.



**Other group company**

**Notification and CBC reporting obligation** - Electronically, based on a form issued by the Hungarian Tax Authority

If no automatic exchange of information relationship with the country of the ultimate parent and Hungary, the reporting obligation may be passed to the Hungarian entity

**No active exchange relationship between Japan and Hungary**



CBC reporting obligation for the Hungarian entity?

# Content of CbC Report

**Table 1. Overview of allocation of income, taxes and business activities by tax jurisdiction**

Name of the MNE Group: Fiscal Year Concerned:										
Tax Jurisdiction	Revenues			Profit (Loss) Before Income Tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued-Current Year	Stated Capital	Accumulated Earnings	Number of Employees	Tangible Assets other than Cash and Cash Equivalents
	Unrelated Party	Related Party	Total							

# Content of CbC Report

**Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction**

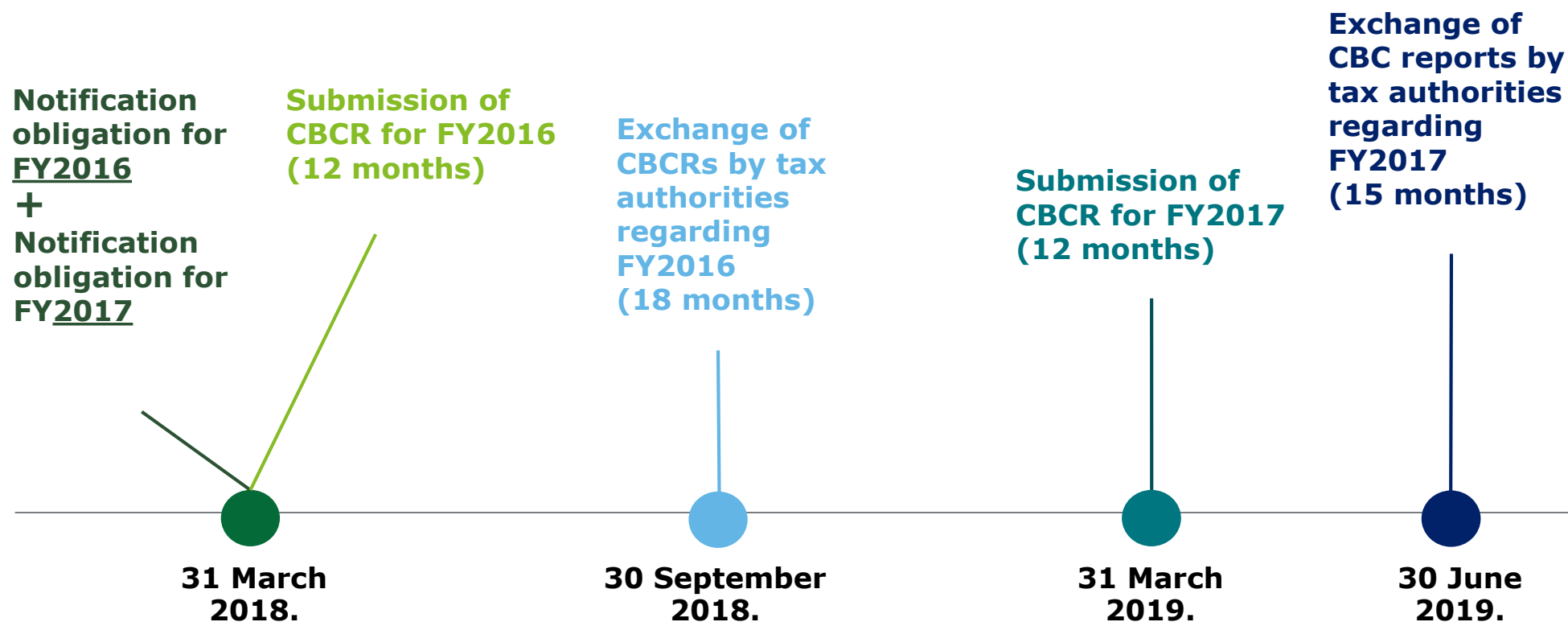
Name of the MNE Group: Fiscal Year Concerned:														
Tax Jurisdiction	Constituent Entities Resident in the Tax Jurisdiction	Tax Jurisdiction of organization or incorporation if different from Tax Jurisdiction of Residence	Main Business Activity(ies)											
			Research and Development	Holding or Managing Intellectual Property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing, or Distribution	Administrative, Management or Support Services	Provision of Services to Unrelated Parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding shares/other equity instruments	Dormant
	1.													
	2.													
	3.													
	1.													
	2.													
	3.													



# Hungarian legislation

## Main deadlines

### CBCR for if the FY started on 1 April, 2016 (FY2016)



**Default penalty up to HUF 20 million (approx. EUR 64,500)**

# Deloitte technology solutions

## CBCR and Transfer Pricing documentation

### CbC Digital Exchange - CDX



Upload and illustrate the Group's relevant financial data in accordance with the requirements of the CbC Report

### Digital DoX



Standardized and harmonized Transfer Pricing Documentation within the Group