



Deloitte Africa Tax & Legal

Transfer Pricing Alert

Transfer pricing – Are you dispute-ready?

During the Minister of Finance's Supplementary Budget speech, delivered on 24 June, the Minister's presentation highlighted the devastating impact that the COVID-19 pandemic is having on government's revenue collection targets, while gross national debt is rising sharply. Therefore, it is vital for the South African Revenue Service (SARS) to strengthen its revenue collection efforts in very challenging circumstances and with limited resources.

SARS has identified four strategic areas to focus on in improving tax collection. These include **transfer pricing** and, specifically, the use thereof for aggressive tax planning. (The other three areas are combatting fraud relating to valued-added tax refunds and customs valuations, improving the use of third-party information to identify taxpayers that are non-compliant, as well as enhancing debt collection efforts.)

Across Africa, revenue authorities are finding themselves in the same position as SARS and are also focusing on transfer pricing as an area for much needed corporate tax collection. The Organisation for Economic Co-operation and Development (OECD) recently released its annual [Corporate Tax Statistics](#) publication, an important output based on the country-by-country reporting requirements for multinational enterprises (MNEs). The new OECD analysis indicates that corporate income tax is an even more important source of tax revenue in developing countries, comprising on average 18.6% of all tax revenues in Africa, compared to 9.3% in the OECD. The OECD notes that the new statistics are indicative of base erosion and profit shifting (BEPS) behaviour and highlight the need to continue dealing with the remaining BEPS issues.

Taxpayers need to be prepared

It is therefore important for taxpayers to ensure that they are compliant from a transfer pricing perspective in various African jurisdictions. In addition, taxpayers must be prepared for queries from SARS, and other tax authorities, regarding the characterisation and pricing of their cross-border transactions with related parties.

In order to be **dispute-ready**, the first line of defensive is robust and properly documented transfer pricing policies, master files and local files that demonstrate adherence to the arm's length standard. Further, it is critical that proper recordkeeping regarding transfer pricing is maintained and readily accessible. It is very important for the transfer pricing documentation to be in place within the mandatory periods stipulated per country.

Taxpayers should, in advance, also have a carefully considered strategy in place to prepare for any potential transfer pricing disputes, which may affect several tax years.

Key contacts

Should you require more information regarding this communication, kindly contact us using the below details:

Sudasha Naidoo

Director: Transfer Pricing
Telephone: +27 (0)11 806 5397
Email: sunaidoo@deloitte.co.za

Musa Manyathi

Director: Transfer Pricing
Telephone: +27 (0)11 209 8323
Email: mmanyathi@deloitte.co.za

Billy Joubert

Senior Associate Director: Transfer Pricing
Telephone: +27 (0)11 806 5352
Email: bjoubert@deloitte.co.za

Cabrini McCarrick

Associate Director: Transfer Pricing
Telephone: +27 (0)11 304 5158
Email: cabmccarrick@deloitte.co.za

Steven Breslin

Associate Director: Transfer Pricing
Telephone: +27 (0)11 806 5772
Email: stbreslin@deloitte.co.za

Bradley Pearson

Associate Director: Transfer Pricing
Telephone: +27 (0)31 560 7426
Email: brpearson@deloitte.co.za

Philip Fouche

Associate Director: Transfer Pricing
Telephone: +27 (0)21 427 5488
Email: pfouche@deloitte.co.za

Resources and events that would be of interest to you

Webinar: Transfer pricing in a downturn – Navigating volatility

At this interactive webinar, our speakers discuss the impact of employee related subsidies/governmental measures on calculating transfer prices; and how changed locations, roles and responsibilities have had an impact on transfer pricing. For more on this webinar, [click here](#).

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