

CCS Insights: Transfer Pricing FAQ: 1 - What is Contemporaneous Transfer Pricing Documentation?

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What the Master File, Local File, Country-by-Country Reports (CbCR), and special matter documents all about?

1. My students often ask me, 'Teacher, can you conduct a TP class?'
2. I'm wondering, haven't I taught TP in several Facebook Live already?
3. Students said, 'But sir, what you taught is just basic.'
4. In fact, the most difficult task is to understand the basic and get it right.
5. What is Contemporaneous Transfer Pricing Documentation? And what the Master File, Local File, Country-by-Country Reports (CbCR), and special matter documents all about?
6. The concept of preparing Contemporaneous Documentation originated from the United States in the early 1990s.
7. Contemporaneous documentation is documentation that supports your current transfer pricing policies. It is "contemporaneous" because it must be prepared by a certain date—usually simultaneously with annual tax returns.
8. Documentation requirements are broadly consistent with requirements under Action 13 of the Base Erosion and Profit Shifting ("BEPS") Plan released by the Organisation for Economic Co-operation and Development (OECD):
 - A three-tiered standardized approach to transfer pricing documentation represented comprising Master File, Local File and Country-by-Country Reporting (CbCR) for the contemporaneous period.

9. The Master File should provide an overview of an MNE's global operations, a master file with high level information regarding a multinational enterprise's (MNE group) global business operations and transfer pricing policies, main contents should include the MNE's:
- Organizational structure
 - Description of its' business or businesses
 - Intangibles
 - Intercompany financial activities
 - Financial and tax positions
10. Local File mainly discloses the detailed transactional transfer pricing documentation specific to each jurisdiction, and the main contents include:
- Enterprise overview
 - Related parties
 - Related transactions
 - Comparability analysis
 - Selection and application of transfer pricing methods
11. Local File often also requires to disclosure:
- Value chain analysis
 - Foreign investments
 - Related equity transfers, and Intra Group Services
12. Then, what about the purpose of Country-by-Country Reports ("CbCR")?
13. A Country-by-Country Report that provides annually and for each tax jurisdiction in which an MNE group does business the amount of revenue, profit before income tax and income tax paid and accrued.

CbCR are useful for initial assessment of transfer pricing risks, to assist in assessing their exposure to BEPS and, where appropriate, for economic and statistical analysis.

14. However, it is important to note that the information in the Country-by-Country Report cannot be used as a replacement for transfer pricing analysis function.
15. For specific transaction and transfer pricing analysis, it still should be based on a complete Functional Analysis and Comparability Analysis.
16. Referring to the Malaysian Transfer Pricing Guide 2012, you may notice that Contemporaneous Document seems to include some other documents, which I called 'special matters documents', mainly includes:
 - Cost Contribution Arrangement
 - Intra Group Services
 - Intangible Properties
 - Intragroup Financing
17. Another file which is not in the guide, but I think it will be one of the documents is 'Earnings Stripping Rules (Thin Capitalization Rules)'
18. Ensuring compliance with the requirements for transfer pricing documentation is challenging—but not impossible.
19. You need a detailed work plan to help you meet important deadlines and manage the compliance process successfully.



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