



TRANSFER PRICING FLASH

29th MAY 2020

Your Intercompany Transactions & Transfer Pricing Risks

If you have intercompany transactions (also known as related party transactions) in your organisation, you have potential transfer pricing ["TP"] risks.

Do you have a TP documentation to defend the pricing of your intercompany transactions?

In our previous Transfer Pricing Flash publications, we emphasised the importance of a TP documentation as a useful tool to defend the pricing of the related party transactions in your organisation. Apart from preparing the TP documentation, companies are also required to update their TP documentations on a yearly basis. Not having a TP documentation when your organisation is required to prepare one would pose a risk of being penalised by the Inland Revenue Board ["IRB"] during a TP audit with a penalty rate as high as 50% on the additional tax liability from the TP adjustment. Failure to update the TP documentation, despite timely submission of the documentation, will also be subject to a penalty at 30%.

Are your intercompany transactions insulated from TP risks?

Data reported in the income tax return may be tagged as "red flag" by IRB and hence, resulting in your organisation being caught under the audit radar. Huge amounts or one-time large amounts of related party transactions will certainly attract attention. Volatility or sudden dip of results, from high to low profits or losses, will trigger attention for audit by tax authorities. Certain transactions are subject to greater scrutiny by the IRB than others due to their nature and complexity, especially so when they are cross border. The more indicators posing as "red flag" in your tax return, the higher the level of TP risk exposure in your organisation, therefore the greater the likelihood of being subject for a TP audit.

Entrust Us with Assisting Your Organisation

Whatever concerns you may have, please talk to our TP consultants at Moore Advent Malaysia. We will assist you to evaluate the potential TP risks present in your organisation by performing a high-level TP risk assessment exercise. We adopt a 4-step approach as follows: *meet and discuss with your team (when necessary)*, *obtain relevant information*, *present our findings* and *propose a plan to address the potential TP risks*. The risk assessment exercise will take 2-4 weeks, depending on the number of entities and transactions involved. For our existing clients, we are pleased to offer a free consultation if your intercompany transactions are less complex. **TALK TO US.**

It is critical for organisations to comply with the TP regulations in order to mitigate their TP risks. Knowledge and effort spent on complying with the TP rules and regulations is key to defend your TP position and will certainly enhance your cash position in the long-run.

Strive to protect your organisation's TP position by being tax compliant. Please feel free to contact us at tax@moore.com.my.

Stay Safe, Stay Compliant

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