



HMRC opens public consultation to update the U.K. transfer pricing documentation requirements

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In March this year, HM Revenue & Customs (HMRC) opened a consultation on the UK's transfer pricing documentation requirements. The consultation seeks input for updating the UK's transfer pricing documentation requirements and requests possible options and design ideas that could benefit UK businesses and HMRC.

The consultation period is relatively short, running for ten weeks with a deadline of 1 June 2021, and it is considered that the proposed changes will be drafted and enacted at a relatively quick pace.

We have compiled a short summary of what you need to know, why it is important, and how it may impact you.

WHAT YOU NEED TO KNOW

Through the proposed changes to transfer pricing documentation requirements, HMRC hopes to provide greater certainty for UK businesses and gather better quality data to target compliance interventions more efficiently. They hope to achieve this objective without creating significant additional compliance costs for taxpayers.

The two major changes considered are:

1. Introducing a requirement for affected UK businesses - groups within the CbC reporting regime to keep and produce promptly upon request, specific transfer pricing documentation in line with the OECD standardised approach. The proposed standardised approach includes a Master file and a Local file in a prescribed standardised format and potentially the inclusion of an evidence log within the Local file appendices.
2. Introducing a requirement for certain in-scope businesses to include summary details about material cross-border transactions with associated enterprises with their annual tax return - e.g., an international dealings schedule like those required in Australia, Belgium and Denmark.

Currently, UK legislation requires businesses to keep and retain sufficient records to demonstrate that their tax returns are complete and accurate, including in respect of any figures effected by the transfer pricing rules. The proposed changes would therefore add an additional layer to the current requirements by prescribing a more precise set of information that businesses must prepare and a specified standardised format of those records.

Enacting these changes would more closely align HMRC's approach to transfer pricing documentation requirements with that of other tax authorities. It is anticipated that these changes will be enacted relatively quickly after the consultation period has closed.

WHY THIS IS IMPORTANT

The vision is that these changes would allow HMRC to more quickly identify and target transactions to audit by enabling HMRC to use more data-driven autonomous risk assessment and profiling tools. It is therefore important that taxpayers are aware of the forthcoming changes and take the opportunity now to examine their existing transfer pricing documentation. This may also provide an opportunity to review current TP models and entity remuneration.

This is particularly relevant given the current economic environment where we are expecting a marked increase in TP-driven tax audits lead by various tax authorities as each jurisdiction looks to remedy deficits caused by respective COVID-19 relief packages.

Therefore, the proposed changes may significantly impact affected UK businesses that are not already preparing regular and detailed transfer pricing documentation. As such, we would strongly recommend to taxpayers that fall into this category to revisit their transfer pricing documentation later this year when a clear steer as to the new UK documentation requirements becomes available to minimize any potential impact.

For businesses that are already keeping detailed transfer pricing records, HMRC's expectation is they will not be additionally burdened by the changes. It is also expected that for businesses which are required to prepare more detailed TP documentation in other countries, the proposed changes should not impose a significant additional burden. In light of this, it is important for taxpayers who are already regularly preparing transfer pricing documentation to understand the proposed changes and to take this time to evaluate their current policies to ensure they are well prepared if/when the updated documentation requirements come into force later this year. If you would like to further discuss any of the above, please contact the A&M Transfer Pricing Team.

If you would like to further discuss any of the above, please contact the A&M transfer pricing team; [Richard Syratt](#), [Charles Waite](#), or [Deyan Mollov](#).

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