UHY

TRANSFER PRICING

The cornerstone of taxation for multinational groups

What Is Meant by Transfer Pricing?

Under market conditions, when two independent companies engage in a transaction, the price agreed represents the **market value**. However, when operations take place between related entities or companies within the same group, those prices may be influenced by the relationship between the parties, affecting the appropriate allocation of profits or losses across jurisdictions.

For this reason, international regulations require that related-party transactions comply with the **arm's length principle**, that is, they must be priced as if they had been carried out between independent entities under normal market conditions.

Ultimately, transfer pricing is essential to determine the taxable base of each entity within an international group. The Spanish Tax Authorities pay increasing attention to the review of these transactions, ensuring they reflect market value and applying the corresponding adjustments whenever discrepancies are identified.

TAXPAYER OBLIGATIONS

Transfer pricing rules apply to all companies, regardless of their size or industry. Taxpayers must be able to demonstrate to the authorities that the prices used genuinely reflect market value and adhere to the arm's length principle.

In addition, both Spanish and international tax frameworks impose **formal documentation requirements** intended to enhance transparency and facilitate tax audits.

In Spain, the required documentation follows **OECD Guidelines** and includes:

- **Masterfile:** providing an overview of the group's structure and transfer pricing policy.
- **Locafile:** containing detailed information on the taxpayer's related-party transactions and their valuation.
- **Country by Country Report (CbCR):** applicable to large multinational groups.

Taxpayers must also report related-party transactions and dealings with low-tax jurisdictions through **Form 232**.

PENALTIES

The Spanish penalty regime is based on two elements:

1. The availability and quality of the required documentation;
2. The existence of any valuation adjustments imposed by the Tax Authorities.

Failure to provide documentation, or submitting incomplete or incorrect information, may result in significant financial penalties:

- **EUR 1,000** per missing or inaccurate item of data, or EUR 10,000 per set of data.
- Furthermore, if the authorities apply a valuation adjustment due to non-compliance with the arm's length principle, an additional penalty of **15% of the adjusted taxable amount may be imposed.**

UHY Fay & Co

UHY

UHY Fay & Co

Comprehensive, accurate and up-to-date documentation is therefore essential not only to avoid penalties, but also to effectively defend the taxpayer's position in the event of an audit.

How can we help?

At UHY Fay & Co, we advise companies on **defining, documenting and defending** their transfer pricing policies in line with national and international regulations, OECD Guidelines, recommendations from the EU Joint Transfer Pricing Forum and current trends in tax administration practice.

Our services

- **Preparation of Documentation:** Preparation of mandatory transfer pricing documentation in accordance with OECD Guidelines and Spanish Corporate Income Tax Regulations.
- **Design and Review of Transfer Pricing Policies:** Assessment and design of transfer pricing policies aligned with value creation and the company's business model.
- **Audit Support and Dispute Resolution:** Tax authorities are increasingly focused on verifying that related-party remuneration meets arm's length standards. We support companies in defending their transfer pricing policies during administrative reviews, litigation processes and mutual agreement procedures.
- **Advance Pricing Agreements (APAs)** Design, submission and negotiation of APA requests to obtain certainty regarding the transfer pricing policies applied among related entities.

> *"We help you define, support and defend your transfer pricing policies in accordance with applicable national and international regulations."*

- **Value Chain Analysis and Transformation:** Analysis of the activities within a group's value chain to ensure that taxation aligns with value creation.
- **Risk Analysis:** Review of transfer pricing policies, operational support, required documentation and information returns. Identification of potential tax exposures and preparation of recommendations.

UHY FAY & CO

Our competitive advantage lies in our multidisciplinary approach and deep expertise in legal, tax, labour, audit, accounting and consulting services, enabling us to support all types of intragroup operations.

With more than 40 years of experience and over 300 offices in more than 100 countries through the UHY global network, we assist clients in managing their cross-border activities with confidence.

TRANSFER PRICING

The cornerstone of taxation for multinational groups

OFFICES

- Madrid +34 91 426 07 23
- Barcelona +34 93 595 50 50
- Málaga +34 95 206 04 69
- Marbella +34 95 276 40 65

Ángela Rodríguez de Tembleque
Partner - Transfer Pricing Director
art@uhy-fay.com

CONTACT US

www.uhy-fay.com