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Subject : Related Party Transactions (Domestic and/or Foreign)

The following is a discussion on ***Related Party Transactions*** or “**RPT**” (Domestic and/or Foreign) and in relation to the submission of **BIR Form No. 1709** (hereinafter, the “**RPT Form**”) and its supporting documents. This is based the **Revenue Regulation** as amended (hereinafter, the “**Regulation**”) of the Bureau of Internal Revenue (hereinafter, the “**BIR**”) of the Republic of the Philippines and related issuances.

Before delving into the discussion part, this seeks to let the reader have a quick and easy understanding of the legal requirements and procedure on Related Party Transactions and for the submission of the BIR Form No 1709. To this end, the manner and style of writing of this legal memorandum is presented with the goal of easy understanding. For certain particular terms used in this legal memorandum, kindly refer to **Appendix A** on *Definition of Terms*.

We also indicted a handy “*Frequently Asked Questions*” on **Appendix B**.

A. Legal Basis and Framework

Throughout the years, transactions around the world have become more complex and have been subject to abuse by taxpayers with intent to evade taxes by concluding transactions between them at unreasonable prices, thus eroding the tax base. Undeniably, this usually happens between related parties. While majority of related party transactions or RPTs are not detrimental, there is a pressing worldwide concern that they can be easily abused in the absence of a relevant framework and effective enforcement. Significant risks arise when RPTs are not conducted at **arm’s length** and are used as a conduit to channel funds out company into another related party, such as the risk of material misstatement in the financial statements as a result of inappropriate accounting, and non-identification or non-disclosure.

The **arm’s length principle** requires the transaction with a related party to be made under *comparable conditions and circumstances as a transaction with an independent party*. It is founded on the premise that where market forces drive the terms and conditions agreed in an independent party transaction (meaning they are not associated enterprises), the pricing of the transaction would reflect the true economic value of the contributions made by each entity in that transaction. *Essentially, this means that if two associated enterprises derive profits at levels above or below the comparable market level solely by reason of the special relationship between them, the profits will be deemed as non-arm’s length.*



Therefore, in order to ensure that the proper disclosures of related party transactions are made and that these transactions have been conducted at arm's length so as to protect the tax base, there should be an effective implementation of Philippine Accounting Standards (PAS) 24, Related Party Disclosures, for tax purposes. Under this PAS, an entity's financial statements shall contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

Tax examiners will examine the related party transactions and see to it that revenues are not understated and expenses are not overstated in the financial statements as a result of these transactions.

B. Objective

The RPT Form, or **Information Return on Related Party Transactions** (domestic and/or Foreign), is prescribed by the BIR pursuant to Sections 24 and 6(H) of the National Internal Revenue Code of 1997 ("NIRC"), as amended, in relation to Section 50¹ thereof, which was implemented by Revenue Regulation (see **Appendix "C"**).

The RPT Form replaces BIR Form 1702H – Information Return on Transactions with Related Foreign Persons.

C. Related Parties and Related Party Transactions

Related Parties

The Regulation provides for the following rules to be considered in determining whether a person or entity is a **related party**:

- (a) A person or close member of that person's family is related to a reporting entity if that person:
- i. Has **control** or joint control of the reporting entity;
 - ii. Has significant **influence** over the reporting entity; or
 - iii. Is a member of the **key management personnel** of the reporting entity or of a parent reporting entity.

The list of family members provided in the definition of terms is not exclusive and does not preclude other family members from being considered as close members of the family of a person. For example, parents or grandparents could

¹ Sec. 50. Allocation of Income and Deductions – In the case of two or more organizations, trades or business (whether or not incorporated and whether or not organized in the Philippines) owned or controlled directly or indirectly by the same interests, the Commissioner is authorized to distribute, apportion or allocate gross Income or deductions between or among such organization, trade or business, if he determines that such distribution, apportionment or allocation is necessary in order to prevent evasion or clearly to reflect the income of any such organization, trade or business.



qualify as close members of the family depending on the assessment of specific facts and circumstances.

- (b) An **entity** is related to a reporting entity if any of the following conditions applies:
- i. The entity and the reporting entity are members of the **same group** (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an **associate or joint venture** of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are **joint ventures of the same third party**.
 - iv. One entity is a **joint venture if a third entity** and the other entity is an **associate of the third entity**.
 - v. The entity is a **post-employment benefit plan** for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity
 - vi. The entity is controlled or jointly controlled by a **person identified in (a)**.
 - vii. A person identified in (a)(i) has significant **influence** over the entity or is a members of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity, or any member of a group of which it is a part **provides key management personnel services** to the reporting entity or to the parent of the reporting entity.

In all cases, the substance of relationships between entities shall be taken into account and not merely the legal form.

Related Party Transactions

Related Party Transactions refer to the transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. The Regulation provides for a non-exclusive list of related party transactions:

- (a) purchases or sales of goods (finished or unfinished);
- (b) purchases or sales of property and other assets;
- (c) rendering or receiving of services;
- (d) leases;
- (e) transfers of research and development;
- (f) transfers under license agreements;
- (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- (h) provision of guarantees or collateral;
- (i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts, i.e., contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent (recognized and unrecognized); and



(j) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party.

D. Who Are Required to File of BIR Form No. 1709 (RPT Form)

The following are required to file and submit the RPT Form (“Covered Taxpayers”), together with the Annual Income Tax Return (AITR):

- (a) Large Taxpayers;
- (b) Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)-registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential income tax rate;
- (c) Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
- (d) A related party, as defined under Section 3 of Revenue Regulations which has transactions with (a), (b) or (c). For this purpose, key management personnel (KMP), as defined under RR, shall no longer be required to file and submit the RPT Form, nor shall there be any requirement to report any transaction between KMP and the reporting entity/parent company of the latter in the RPT Form.

When short period AITRs are required by law or existing issuances to be filed, the RPT Form shall still be accomplished regardless of the reason for filing the said short period return. However, compliance herewith shall only be mandatory for short period returns filed in 2021 and subsequent years.

Taxpayers who are **not** covered under the above enumeration are required to disclose in the Notes to the Financial Statements that they are not covered by the requirements and procedures for related party transactions provided under Revenue Regulation. For other details that needs to be included in the Financial Statement, kindly refer to **Appendix D**.

E. Submission of Transfer Pricing Documentations (“TPDs”) and Other Supporting Documents

The preparation and submission of the TPDs under “Transfer Pricing Guidelines” and all other relevant issuances, shall be mandatory for taxpayers enumerated in Part D of this who meet the following materiality thresholds:

- a. Annual gross sales/revenue for the subject taxable period exceeding One Hundred Fifty Million Pesos (₱150,000,000) and the total amount of related party transactions with foreign and domestic related parties exceeds Ninety Million Pesos (₱90,000,000).

In computing the above threshold, the following items shall be included:

- i. Amounts received and/or receivable from related parties or paid and/or payable to related parties during the taxable year but excluding compensation paid to key management personnel, dividends and branch profit remittances; and
- ii. Outstanding balances of loans and non-trade amounts due from/to all related parties.



Related party transactions covered by an Advance Pricing Agreement (APA) need not be disclosed in the RPT Form but shall nonetheless be included in the computation of the amount of related party transactions following the prescribed formula; or

b. Related party transactions meeting the following materiality threshold:

- i. If involving sale of tangible goods in the aggregate amount exceeding Sixty Million Pesos (₱60,000,000) within the taxable year;
 - ii. If involving service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding Fifteen Million Pesos (₱15,000,000.00) within the taxable year; or
- c. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

F. Related Party Disclosures

The following requirements must be observed by the taxpayer, who may either be a reporting entity or a related party:

G. Procedures and Guidelines

The following are to be observed in *filling out the BIR Form No. 1709*:

H. IMPORTANT MATTERS TO PREPARE

Based on **Revenue Audit Memorandum Order** which is the bible for BIR examiners conducting audit on related party transactions, the following are what the BIR would look at in an RPT audit:



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BIR RAMO is an exhaustive and information-packed resource that should be reviewed by any taxpayer with potential related party transactions, as it will give insight into how a potential audit will be conducted by the BIR examiner. The brief description we provided here merely provides the reader with an immediate indication of what types of transactions are front and center in a related party transaction audit. It is highly advised to review the whole RAMO to see which areas are relevant to the company.

- APPENDICES FOLLOWS ON NEXT PAGE-

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Appendix A – Definition of Terms

The following definition of terms as used in this Regulations were adopted from the relevant PAS:

1. **“Associate”** is any entity over which the investor has significant influence;
2. **“Close Members of the family of a person”** those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:
 - i. That person’s children and spouse or domestic partner;
 - ii. Children of that person’s spouse or domestic partner;
 - iii. Dependents of that person or that person’s spouse or domestic partner.
3. **“Compensation”** includes all employee benefits, i.e., all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:
 - a. Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;
 - b. Post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
 - c. Other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long service benefits, long term disability benefits and if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
 - d. Termination benefits; and
 - e. Share-based payment
4. **“Control”** refers to the power to govern the financial operating policies of an entity so as to obtain benefits from its activities.
5. **“Joint Control”** is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
6. **“Joint Venture”** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangements.
7. **“Key arrangement personnel”** are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
8. **“Post-employment Benefit Plan”** are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees such as the following:
 - a. Retirement benefits (e.g. pensions and lump sum payments on retirement); and
 - b. Other post-employment benefits, such post-employment life insurance and post-employment medical care.
9. **“Related Party”** is a person or entity that is related to the reporting entity, i.e., the entity that is preparing its financial statements.
10. **“Related Party Transaction”** refers to the transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.



11. **“Significant Influence”** is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. It may be gained by share ownership, statute or agreement.
12. **“Subsidiary”** is an entity that is controlled by another entity.
13. **“Venturer”** is a party to a joint venture and has joint control over that joint venture,

Appendix B – Frequently Asked Questions

Q1. What is the rationale for the issuance of Revenue Regulations?

R.R No. was issued to ensure that proper disclosures of related party transaction are made 'and that these transactions have been conducted at arm's length so as to protect the tax base. Ultimately, it is aimed at improving and strengthening the BIR's transfer pricing risk assessment and audit. With the information gathered in the RPT Form and its attachments, the BIR will be able to perform transfer pricing risk assessment and make an informed decision, at the early stage, whether or not to conduct a thorough review/audit of a particular entity or transaction. In this way, and given its limited resources, the BIR will be able to focus its audit and commit its resources only on the most important transfer pricing issues.

Q2. How is the BIR going to use the information contained in this new form? How will BIR operationalize RR and check the compliance of taxpayers? Will there be another RAMO for the guidance of revenue officers/tax examiners conducting transfer pricing audit?

As aforesaid, the objective of this new form is to improve and strengthen BIR's transfer pricing risk assessment and audit. It shall be used to monitor compliance with the transfer pricing documentation (TPD).

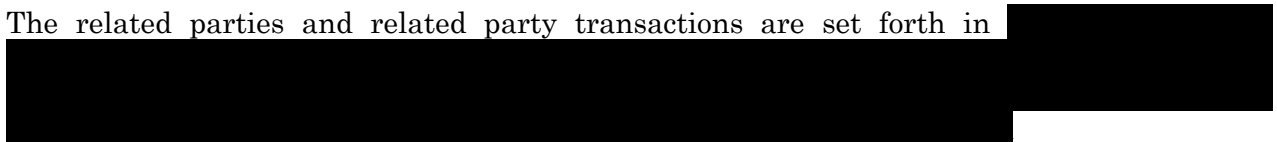
In practice, the new form will give the BIR an initial assessment of the following:



Q3. Who will need to complete the new form?

The RPT Form is to be completed by Philippine Covered Taxpayers with related party transactions (RPTs) regardless of the amount and volume of transactions. Individuals who are considered related parties of a reporting company are also required to submit the RPT Form in their individual capacities.

The related parties and related party transactions are set forth in





Q4. If manually prepared, the spaces provided for on the RPT Form may be inadequate considering there are a number of related parties in a multinational company, how can this be accomplished?

As stated in the RPT Form, the taxpayer may use additional sheet/s if necessary. Alternatively,

[REDACTED]

Q5. Are all taxpayers with RPTs really required to submit a TPD?

[REDACTED]

Q6. What is the required TPD?

[REDACTED]

Q7. Is it required that the TPD be updated yearly? Does BIR expect to have an annual/updated TP study?

Whether or not the TPD has to be updated yearly, the following must be considered:

[REDACTED]

Q8. If the parent company has a TP documentation already covering the transactions with subsidiaries, can the subsidiaries use that for their purpose? Can we attach a TPD of the other transacting related party or even the master file of the group?

Yes, provided the Covered Taxpayer relied upon such TP documentation in determining the transfer prices. The local file is preferred, however, since it provides a more detailed information relating to specific intercompany transactions.

Q9. Can the Covered Taxpayer rely on Philippine Accounting Standards (PAS) 24 disclosures in the Audited Financial Statements (AFS) when preparing the RPT Form? PAS 24 as implemented in the notes to AFS typically does not mention names of each related party, so would it suffice to just transpose the notes to AFS to the RPT Form without mentioning the names of each related party?



[REDACTED]

Verification of the completeness and truthfulness of these disclosures shall be made upon the conduct of tax investigation.

Q10. The enumeration of RPTs in RR is not exclusive. Are secondment arrangements with cost recovery/recharging/cost-sharing arrangements considered as related party transactions? Should dividends and redemption of shares be included in the RPT Form?

The enumeration of RPTs in RR is not exclusive but from the definition of RPT alone, it can be deduced that the intention is to include within the term all transactions between related parties that result in the transfer of resources, services or obligations, irrespective of their arrangement (with cost-recovery/cost-sharing/recharging) and regardless of whether a price is charged. Dividends and redemption of shares between and among related parties (either paid or payable, received or receivable), though not usually covered by a TPD, should likewise be disclosed in the RPT Form.

Q11. What supporting documents do we need to maintain for the dividend payments?

The following documents have to be maintained as proof of dividend payment:

[REDACTED]

Q12. If cost-sharing arrangements are considered as related party transactions, are these required to be in a formal written agreement or will email exchanges suffice?

[REDACTED]

Q13. Are all contracts required to be attached? What if voluminous and multiple contracts are involved?

All contracts are required to be attached, regardless of volume. In lieu of submission of hard copies of the required documents, the following procedures shall be strictly observed:



[REDACTED]

Q14. Would the taxpayer be required to attach all related party contracts entered into during the year or only those contracts that remain in force upon filing of the ITR? Can representative contracts be attached if voluminous and repetitive?

It must be emphasized that the contracts are the primary proofs of transaction, and principal and supplementary receipts only serve as supporting/corroborating evidence.

The contracts to be attached to the RPT Form are those executed by the parties to substantiate the RPTs in the taxable year concerned. Thus, if the related parties executed a contract in the taxable year concerned but are intended for transactions to be entered into in a subsequent year, said contract is not required to be attached. On the other hand, contracts executed in the previous year, but are still enforceable and applicable to the RPTs in the taxable year concerned, have to be attached.

Q15. In a normal business sale of goods transaction made by a non-resident Head Office (HO) to a PH subsidiary, are there other required documentation, aside from the Sales Invoice and Delivery Receipts?

Since these are related party transactions, the same must be covered by a TPD and a contract of sale of goods or any equivalent genuine document must be submitted in support thereof, in addition to the sales invoice, delivery receipts, and proof of payment of the consideration.

Q16. What are the consequences for non-filing of the RPT Form and its required attachments? What if there is no actual TPD, would it be okay to submit the RPT Form without TP attachment?

A penalty of [REDACTED]

Q17. Please confirm our understanding that the proof of payment of foreign taxes required as an attachment to the RPT Form pertains to foreign taxes paid by a Philippine taxpayer for its income earned abroad arising from a related party transaction.

Any taxes paid to a foreign country by a Philippine taxpayer must be declared in, and the proof of payment thereof must be attached to, the RPT Form so the BIR would be able to compute the correct amount of foreign taxes to be credited against the tax due for the taxable year concerned, provided said foreign taxes were not claimed as deductions during the year.



Q18. What if the deadline of such foreign taxes is after the deadline of the submission of the RPT Form, what should we attach as supporting documents?



Q19. Normally, it will be the related party abroad that will have a copy of the "proof of payment of foreign taxes or ruling duly issued by the foreign tax authority". Assuming the related party does not want to share these documents with the Philippine entity arguing that the BIR does not have power over it, will the BIR insist on getting a copy of these documents?

The Philippine taxpayer is typically the one who bears the income tax on any income derived abroad, therefore, it has the right to know how much taxes did it have to pay in the foreign country and the right to obtain any document related to the payment of foreign taxes such as a copy of the return tiled for said income and/or a copy of the ruling issued by the foreign tax authority. The BIR, in turn, has the right to obtain the relevant information and documents from the Philippine taxpayer and, in so doing, may enforce all its rights to obtain the same within the bounds of the law.

This is without prejudice, however, to the BIR enforcing its right to obtain said information pursuant to existing and effective tax treaty.

Q20. How is a document showing payment of foreign taxes or copy of foreign ruling be acceptable as proof?

To be acceptable as proof, the document showing payment of foreign taxes or copy of foreign ruling duly issued by the relevant foreign tax authority must be duly authenticated or apostillized.

Q21. Does Part IV(G) pertain only to Tax Treaty Relief Application (TTRA) involving related parties?

The TTRAs to be indicated in the RPT Form must be those filed with the International Tax Affairs Division (ITAD) relative to the income payments made by the Philippine taxpayer to its related parties.



Q22. Does the RR apply to non-stock and non-profit corporations/organizations?





Q23. Has BIR considered data privacy rules? The Tax Code does not specifically ask for the data in the RPT Form.

Though not explicitly provided in RR, there is an inherent responsibility for the revenue officers to use the right to obtain information in a rational manner. Section 270 of the Tax Code punishes unlawful divulgence to any person or making known in any other manner than may be provided by law information regarding the business, income or estate of any taxpayer, the secrets, operation, style or work, or apparatus of any manufacturer or producer, or confidential information regarding the business of any taxpayer, knowledge of which was acquired by him in the discharge of his official duties

The revenue officers are, therefore, obligated to ensure the confidentiality of information acquired in the exercise of their powers and shall not make them available for public use. After the submission to the BIR, the relevant information and documentation are generally subject to confidential treatment by the BIR.

On the data privacy rules, it must be emphasized that the power of the Commissioner of Internal Revenue to obtain the necessary information to ascertain the correctness of any return, or in determining the liability of any person for any internal revenue tax, or in evaluating tax compliance under Section 5(b) of the Tax Code serves as an exception to the Data Privacy Act (DPA) of 2012. Section 4(e) of the DPA expressly provides that the Act does not apply to "information necessary in order to carry out the functions of public authority which includes the processing of personal data for the performance by law enforcement and regulatory agencies of their constitutionally and statutorily mandated functions."

Though the Tax Code does not specifically ask for the data in the RPT Form, the Secretary of Finance is not prohibited from issuing rules and regulations to mandate the disclosure and submission thereof. Sections 244 and 255 of the Tax Code states that the Secretary of Finance, upon recommendation of the Commissioner, shall promulgate all needful rules and regulations for the effective enforcement of the provisions of the Tax Code, which shall contain provisions specifying, prescribing or defining the manner in which tax returns, information and reports shall be prepared and reported and the tax collected and paid, as well as the conditions under which evidence of payment shall be furnished the taxpayer, and the preparation and publication of tax statistics, among others.

Q24. Banks are governed by Bank Secrecy Law. Will this be an acceptable legal basis not to submit the required documents?

The following are the prohibited acts under the Republic Act (RA) No. 1405 or the Law on Secrecy of Bank Deposits:



1. Examination/inquiry/looking into all deposits of whatever nature with banks or banking institutions in the Philippines (including investment in bonds issued by the government) by any person, government official or office (Sec. 2, RA. No. 1405); and
2. Disclosure by any official or employee of any banking institution to any authorized person of any information concerning said deposit (Sec. 3, RA No. 1405).

In requiring the submission of BIR Form No. 1709 and its required attachments, the BIR is not examining, inquiring or looking into the deposits of whatever nature with banks or banking institutions in the Philippines of any person or of the bank itself. RR only requires the banks to fully disclose their related party transactions and to prove that the same were conducted at arm's length. Nothing in the said RR requires the submission of bank statements. Nonetheless, there are ways to maintain secrecy or confidentiality of said deposit, or any information concerning said deposit, in case it is inevitably part of, included in, the required documents, like redaction and masking. Therefore, the Bank Secrecy Law cannot be used to justify the non-submission of the required documents.

Appendix C– Summary of the Discussions on Revenue Regulation

1. **Scope.** Revenue Regulations is applicable to:
 - a. Cross-border transactions between associated enterprises; and
 - b. Domestic transactions between associated enterprises
2. **Purpose.** The purpose of RR is to provide guidelines in applying the arm's length principle for cross-border and domestic transactions between associated enterprises.
3. **Concept of Arm's Length Principle.** The arm's length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party. It is founded on the premise that where market forces drive the terms and conditions agreed in an independent party transaction, the pricing of the transaction would reflect the true economic value of the contributions made by each entity in that transaction. Essentially, this means that if two associated enterprises derive profits at levels above or below the comparable market level solely by reason of the special relationship between them, the profits will be deemed as non-arm's length.
4. **Three-Step Approach of the Arm's Length Principle.**

STEP 1: Conduct a comparability analysis

The arm's length principle is based on a comparison of the prices or margins adopted or obtained by related parties with those adopted or obtained by independent parties engaged in similar transactions. For such price or margin comparisons to be meaningful, all economically relevant characteristics of the situations being compared should be sufficiently similar so that:



[REDACTED]

STEP 2: Identify the tested party and the appropriate transfer method pricing

Tested Party.

The tested party is the entity to which a transfer pricing method can be most reliably applied to and from which the most reliable comparables can be found.

Transfer Pricing Methodologies (TPM)

a. [REDACTED]

STEP 3: Determination of the Arm's Length Results

Once the appropriate transfer pricing method has been identified, such is applied on the data of independent party transactions to arrive at the arm's length result.

a. [REDACTED]

5. **Comparability Adjustments.** Comparability adjustments are intended to eliminate the effects of differences that may exist between situations being compared and that which could materially affect the condition being examined in the methodology (e.g. price or margin). These should not be performed to correct differences that have no material effect on the comparison, as these adjustments are neither routine nor mandatory in a comparability analysis.

6. **Transfer Pricing Methods.**

a. *Comparable Uncontrolled Price (CUP) Method* - [REDACTED]

b. *Resale Price Method (RPM)* - [REDACTED]

c. *Cost Plus Method (CPM)* - [REDACTED]



[REDACTED]

d. Profit Split Method (PSM) -

[REDACTED]

e. Transactional Net Margin Method (TNMM) -

[REDACTED]

7. **Advance Pricing Agreements and Mutual Agreement Procedure.**

An Advance Pricing Agreement (APA) is an agreement entered into between the taxpayer and the Bureau to determine in advance an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto) to ascertain the transfer prices of controlled transactions over a fixed period of time.

[REDACTED]

8. **Documentation.** Taxpayers must demonstrate that their transfer prices are consistent with the arm's length principle.

i.

[REDACTED]

Appendix D – Composition of Financial Statement

1. Under Revenue Regulation, The Financial Statement shall be composed of the following:

- a. Balance Sheet;
- b. Income Statement/Profit and Loss Statement;
- c. Statement of Retained Earnings;
- d. Statement of Changes in Financial Position; and
- e. Schedules attached to the afore-cited statements.

2. Revenue Regulation provides that the following shall be included in the Notes to Financial Statements:

- a. The amount of VAT output tax declared during the year and the account title and amount/s upon which the same was based. If there are zero-rated sales/receipts and/or exempt sale/receipts, a statement to that effect and the legal basis therefor;
- b. The amount of VAT input taxes claimed broken down into:



- i. Beginning of the year;
 - ii. Current year's domestic purchases/payments for:
 - Goods for resale/manufacture or further processing
 - Goods other than for resale or manufacture
 - Capital goods subject to amortization
 - Capital goods not subject to amortization
 - Services lodged under cost of goods sold
 - Services lodged under other accounts
 - iii. Claims for tax credit/refund and other adjustments; and
 - iv. Balance at the end of the year.
- c. The landed cost of imports and the amount of customs duties and tariff fees paid or accrued thereon;
- d. The amount of excise tax/es, classified per major product category i.e. tobacco products, alcohol products, automobiles, minerals, oil and petroleum etc. paid on –
- i. Locally produced excisable items, and
 - ii. Imported excisable items
- e. Documentary stamp tax (DST) on loan instruments, shares of stock and other transactions subject thereto;
- f. All other taxes, local and national, including real estate taxes, license and permit fees lodged under the Taxes and Licenses account both under the Cost of Sales and Operating Expense accounts;
- g. The amount of withholding taxes categorized into
- i. Tax on compensation and benefits
 - ii. Creditable withholding tax/es
 - iii. Final withholding tax/es
- h. Periods covered and amount/s of deficiency tax assessments, whether protested or not;

Tax cases, and amounts involved, under preliminary investigation, litigation, and/or prosecution in courts or bodies outside the BIR.

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