



Update: Transfer Pricing Controls

Introduction

Transfer pricing (“TP”) is high on the agenda of China tax authorities in relation to their 2011 anti-tax avoidance controls. They will pay more attention to the related party transactions reporting forms (submitted together with annual Corporate Income Tax returns), TP contemporaneous documentation, etc.

During a recent conference held in Chengdu on April 22, 2011, Mr. Wang Li (deputy bureau chief of State Administration of Taxation) indicated that tax authorities will scrutinize the following anti-tax avoidance areas more strictly:-

- Domestic enterprises
- Third industry sectors
- Share and intangible asset transfers between related parties
- Mid and western regions of China
- Cost allocation

Special Remarks of Texel

In the past, China tax authorities have comparatively loosen TP controls on China domestic enterprises. However, given the above update and our recent discussions with certain tax authorities, we would like to remind domestic enterprises (especially the following types) to note their potential TP risks:-

- Domestic enterprises that have made or plan to make outbound investment
- Domestic enterprises that have IPO plans
- Domestic enterprises that have entities in different regions
- Domestic enterprises that have related party transactions that one of the parties enjoys tax preferences

The contents in this Texel Alert are for your reference purpose. Readers are suggested to consult professional advisors for detailed analysis before implementation. For more information or further advice on the above subject or analysis of other tax/business issues, please feel free to contact our Partners (contact information on the next page).

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