

TRANSFER PRICING SUMMARIES



*A collection of transfer pricing summaries
of countries in the Asia Pacific Region*

2011



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Australia

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1. TP legislation/guidelines

Australia Tax Office ("ATO") has issued numerous TP rulings to compliment existing TP legislations.

2. TP documentation required to be filed with tax return

Taxpayers should maintain contemporaneous documentation. However, it is not required to be filed with the tax return.

3. TP audits done by tax authority

ATO is currently extending its focus for TP audits to include audits on small and medium enterprises.

4. Advance Pricing Arrangement

Advance Pricing Arrangements are available.

5. Mutual Agreement Procedures

Australia is part of the Pacific Association of Tax Administrators and Mutual Agreement Procedures are available.

6. Basis to recover intra-group service charges

Where certain conditions are met, the ATO accepts a cost plus mark up of 5% to 7.5% for non-core or routine services. Where costs of all intra-group services (core and non-core) supplied or acquired are not more than AUD\$500,000, the ATO also accepts the above mark up rate.

7. Cross border management fee charges

Taxpayers are allowed deduction for such charges from overseas holding company or head office provided they are charged on arm's length basis that is commensurate with the services provided. If a cost plus methodology is used TP documentation should substantiate the mark up applied. Withholding tax does not apply to such management charges.

8. Inter-company loans

Lender must determine and review the arm's length credit worthiness and financial independence of borrower. Interest expense is deductible provided arm's length and thin capitalization rules are satisfied. TP rules would apply regardless that thin capitalization rules have already been satisfied.

There is a 10% withholding tax on interest payments made to non-residents, subject to treaty provisions.

9. Transfer pricing penalties

General tax penalties will apply. The penalty is 50% of tax avoided if the sole and dominant purpose is to pay no or less tax. This can be reduced to 25% if the taxpayer has a reasonably arguable position. If there is no sole or dominant purpose to pay no or less tax, the penalty will be 25% of the tax avoided. This may be reduced to 10% if voluntary disclosure is made by the taxpayer before an ATO audit.

Transfer pricing adjustments can occur at any time and is not subject to any limitation period.

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Information provided by:



Firm: **HALL CHADWICK Chartered Accountants & Business Advisors**
Website: www.hallchadwick.com.au/

Contact person: **Mr David Kenney**
E-mail: DKenney@hallchadwick.com.au

This publication has been prepared for the purpose of quick information dissemination to our counterparts in other Countries. Its contents should not be used as a basis for advice or formulating decisions under any circumstances.

Hong Kong

2011

1. TP legislation/guidelines

In December 2009, the Inland Revenue Department ("IRD") issued the Departmental Interpretation and Practice Notes ("DIPN") No. 46 "Transfer Pricing Guidelines – Methodologies and Related Issues". In the DIPN No. 46.46, the Commissioner of the IRD confirms that he would in general seek to apply the principles in OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

2. TP documentation required to be filed with tax return

There is no specific TP documentation requirement, and only limited TP disclosure in profits tax return concerning whether or not there is transaction with a closely connected non-resident person is required. In addition, related party transactions have to be disclosed in audited accounts in accordance with accounting standards.

3. TP audits done by tax authority

No major TP audits have been done by the IRD so far.

4. Advance Pricing Arrangement

No advance pricing arrangement under Hong Kong tax laws. Taxpayer may obtain IRD's interpretation of a specified provision applicable to transfer pricing arrangement under the current advance ruling process.

5. Mutual Agreement Procedures

Provisions for mutual agreement are found in double tax agreements between Hong Kong and other tax jurisdictions.

6. Basis to recover intra-group service charges

There is no specific requirement. Intra-group service charges are subject to the general deduction rules under Hong Kong tax laws. There is no withholding tax imposed on such payment to non-resident.

7. Cross border management fee charges

There is no specific requirement. Management fee charges are subject to the general deduction rules under Hong Kong tax laws. There is no withholding tax imposed on such payment to non-resident.

8. Inter-company loans

No interest rate is specified on inter-company loans. Interest expenses are subject to the general deduction rules under Hong Kong tax laws. There is no thin capitalization rule.

9. Transfer pricing penalties

There is no specific penalty rule for TP arrangements. However, the general penalty rule may apply and penalty of up to three times of tax underpaid may imposed.

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Information provided by:



Firm: Chu and Chu CPAs
Website: www.chuchu.com.hk

Contact person: M Pink Jan
E-mail: www.chuchu.com.hk

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Korea

2011

1. TP legislation/guidelines

The National Tax Services ("NTS") has a robust TP legislature, rules and guidelines. The LCITA (Law for the Coordination of International Tax Affairs) authorizes the tax authorities to adjust the transfer price based on an arm's length price (ALP) and to determine or recalculate a resident's taxable income when the transfer price of a Korean company and its foreign counterpart is either below or above an arm's length price.

2. TP documentation required to be filed with tax return

The taxpayer is required to prepare and maintain transfer pricing contemporaneous documentation. The taxpayer must apply the chosen method to determine its taxable income on its income tax return, and all relevant documents must be maintained on a contemporaneous basis.

3. TP audits done by tax authority

The NTS has detailed internal guidelines on how to select taxpayers and how to assess whether the selected taxpayers meet the arm's length principle. The system is now in full swing.

The monitoring process occurs in sequential order. First, after the annual tax return is filed each year, the national office of the NTS conducts a preliminary assessment of taxpayers' tax return information regarding transactions with overseas related parties. Based on the initial assessment, the NTS selects taxpayers for more detailed information requests. This second phase takes place in December of every calendar year. The regional tax offices across the country then issue information requests to the selected taxpayers.

4. Advance Pricing Arrangement

If a taxpayer wishes to obtain an APA for transactions with its foreign related parties, then he or she should submit an application for an APA to the National Tax Service (NTS) by the end of the first fiscal year concerned (Unilateral APA). Once the NTS approves the application of a certain method for determining an ALP, both the NTS and the taxpayer are bound by the method agreed upon in the APA. The roll-back of a unilateral APA to the prior 3 years is permitted (Unilateral APAs had previously applied on a progressive basis only).

An applicant for an APA may withdraw his application for an APA or change the particulars of such an application. Any data submitted with the application for an APA will be used to only determine whether or not to grant an APA. If an application for an APA is refused or withdrawn, such data will be returned to the applicant in order to safeguard the confidentiality right of the taxpayer.

In case where an APA is obtained, a taxpayer is required to file an annual report which shows the inter-company price which was determined by the method agreed upon under the APA within six months of the annual tax return submission due date.

A taxpayer who applies for an APA may request that the NTS invoke a Mutual Agreement Procedure (MAP) with the competent authorities of the country in which its related foreign party is a resident under the relevant tax treaty (Bilateral APA). However, the NTS may grant an APA without undergoing a MAP for the taxpayer's convenience. Having obtained an APA, a taxpayer may file an amended tax return that reflects the change from its prior inter-company price with a related party and the price determined under the APA.

5. Mutual Agreement Procedures

When taxpayers apply for bi-APAs, the NTS progresses the MAP with the relevant foreign competent authorities at the request of taxpayers.

Resolution under the MAP procedure has been increasing in recent years.

6. Basis to recover intra-group service charges

Arm's length pricing is required for intra-group services in particular evidences of actual services being rendered under contract, anticipated benefits existing and documentation requirements being satisfied.

7. Cross border management fee charges

The management services fees should be qualified as deductible expenses resulting from provided actual services, charges being on arm's length basis and documentation being available. A 20% withholding tax would be imposed on such payment to foreign parent company.

8. Inter-company loans

If a Korean company borrows from its controlling shareholders overseas (CSO), an amount greater than three times its equity (six times in the case of financial institutions) interest payable on the excess portion of the borrowing are re-

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characterized as dividends to which the article on dividends in tax treaty applies and therefore are treated as non-deductible in computing taxable income.

Although the ratio of debt owed to a CSO to equity exceeds 3:1, as long as the conditions and the amount of debt owed to a CSO are reasonable compared to the debt from an independent third party, such debt from the CSO will be excluded from the scope of the debt subject to thin capitalization rules. As a result, interest on such debt will be deductible.

9. Transfer pricing penalties

The tax authorities are empowered to request from a taxpayer the data required for an adjustment of the inter-company price. If a taxpayer fails to submit the requested data within 60 days without any justification, the tax authorities may grant an extension of 60 days when the taxpayer appeals with some justification.

Failure to comply with TP compliance requirements may lead to penalty amounting to KRW 100 million .

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Information provided by:

서일회계법인
SEOIL & COMPANY
A MEMBER OF AGN INTERNATIONAL

*Firm: **SEOIL & COMPANY LLP***

Website: www.seoilacc.co.kr

*Contact person: **Mr Jin-Hyuk Joo***

E-mail: korea@seoilacc.co.kr

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Malaysia

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1. TP legislation/guidelines

Inland Revenue Board ("IRB") issued TP guidelines on 8 July 2003. A revised version of TP guidelines will be issued soon. Legislation has been introduced effective from 1 Jan 2009.

2. TP documentation required to be filed with tax return

Taxpayer who enters into a controlled transaction is required to prepare and maintain contemporaneous TP documentation. It is mandatory to prepare but not required to be filed together with the tax return.

3. TP audits done by tax authority

IRB issued the Tax Audit Framework (TAF) effective from 1/1/2009. This new TAF replaces the old TAF issued in Jan 2007. Tax audits are carried out under the self-assessment regime. Every company is expected to be subject to a desk or field audit at least once every five years. Every MNC that was audited was queried on their transfer pricing policy.

Such audits are typically triggered by indicators of potential non arm's length pricing such as consistent losses or low profits.

The focus for the IRB in recent audit has been the manufacturing and servicing sectors. Head office charges and management fees, in particular, have been under intense scrutiny.

4. Advance Pricing Arrangement

Taxpayers are allowed to apply for APAs with effect from 1 January 2009.

5. Mutual Agreement Procedures

Malaysia has a wide network of tax treaties under which MAP should be available to affected taxpayers.

6. Basis to recover intra-group service charges

IRB generally accepts a cost plus 5% mark up for routine support services.

7. Cross border management fee charges

Taxpayers are allowed deduction for such charges from overseas holding company or head office provided they are charged on arm's length basis that is commensurate with the services provided. 10% withholding tax would apply if such services are rendered in Malaysia subject to tax treaty provisions.

8. Inter-company loans

IRB has introduced thin capital rules. Lender must determine and charge at arm's length interest rate. Interest expense is deductible provided arm's length and thin capitalization rules are satisfied.

15% withholding tax applicable on interest payments made to non-residents, subject to lower rates applicable under tax treaty provisions.

Nevertheless, the Government has deferred the implementation of thin capital rules until further notice.

9. Transfer pricing penalties

No specific penalty regime. Existing legislation and penalty structure is applicable and can be in the region of 100% - 300% of the tax undercharged. The new TAF effective 1/1/2009, sets out the penalty rates to be imposed. The penalty rate is in the range of 15% to 35% of additional tax payable; the lower range indicative of voluntary disclosure before the case is selected for an audit. Repeated offence(s) will give rise to an additional penalty of 10% on the tax undercharged but limited to a sum not exceeding 100% of the amount of tax undercharged.

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Information provided by:

Firm: **GEP Associates**
Website: www.gep.com

Contact person: **Mr Foong Kok Keong**
E-mail: foongkk@gep.com.my

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Singapore

2011

1. TP legislation / guidelines

Inland Authority of Singapore ("IRAS") issued TP guidelines on 23 February 2006, followed by supplementary TP guidelines on related party loans and related party services issued on 23 February 2009. Subsequently, section 34D of the Singapore Income Tax Act has been introduced to ensure that related party transactions are conducted on arm's length basis.

2. TP documentation required to be filed with tax return

Taxpayer should maintain TP documentation. However, it is not required to be filed with the tax return.

3. TP audits done by tax authority

IRAS, under the TP consultation process, may target taxpayers with substantial cross border related party transactions as well as taxpayers making continuous losses. IRAS will assess the adequacy of the taxpayer's compliance with the arm's length principles for intra-group transactions and may make adjustments if profits are not at arm's length.

4. Advance Pricing Arrangement

IRAS issued the Supplementary Guidance on Advance Pricing Arrangement ("APA") on 20 Oct 2008. Taxpayers can avail themselves to APA's where appropriate.

5. Mutual Agreement Procedures

Singapore as a treaty partner to more than 60 double tax treaties subscribes to the mutual agreement procedures generally as prescribed under Article 25 of the OECD model tax convention.

6. Basis to recover intra-group service charges

IRAS accepts the cost plus 5% mark up as an arm's length service fee charge for routine support services rendered between intra-group and related companies.

IRAS expects non-routine support services to be charged and recovered on arm's length basis that is commensurate with the industry practice and/or substantiated by proper bench marking studies or analysis.

7. Cross border management fee charges

Taxpayers are allowed deduction for such charges from overseas holding company or head office provided they are charged on arm's length basis that is commensurate with the services provided. There is a 17% withholding tax if such services are rendered in Singapore subject to tax treaty provisions.

8. Inter-company loans

Lenders can extend inter-company loans within Singapore interest free subject to interest restriction on their non-income producing and/or non-trade balances.

However, with effect from 1 January 2011, cross border inter-company loans will be required to be charged an arm's length interest rate. There is a 15% withholding tax on interest payment to non-residents, subject to tax treaty provisions.

There is no thin capital rule.

9. Transfer pricing penalties

The general penalty rules in the Income Tax Legislation will apply.

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Firm: BSL Tax Services Pte Ltd

Website: www.bslls.com.sg

Contact person: *Ms N Vimala Devi*

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Indonesia

2011

1. TP legislation/guidelines

Japanese Tax Bureau has issued TP rulings. They have been in practice since 1986.

2. TP documentation required to be filed with tax return

Not required, but tax payer is obliged to maintain such documents.

3. TP audits done by tax authority

There is no fixed rule how they decide a tax payer to carry tax audit, but once chosen it may last minimum a year, and put a considerable burden to the company.

4. Advance Pricing Arrangement

Available but there is a long queue waiting for the turn.

5. Mutual Agreement Procedures

Mutual Agreement Procedures are available only with the countries concluded tax treaty.

6. Basis to recover intra-group service charges

As a practice, 5% to 7% mark up rates are accepted to intra-group services, especially when Japanese company is a receiving side. When a Japanese company is a paying side, there is no such standard and have to be verified to satisfy the Bureau.

7. Cross border management fee charges

Only on the basis of arm's transaction, the charges are deductible. As Management fee charge arrangement will be investigated in full, not only the documentation, but economic and logical good reason for that need to be substantiated.

8. Inter-company loans

Terms and conditions of the loan has to be commercial. The transaction may be caught by Thin capitalization rule, regardless of the TP rule.

9. Transfer pricing penalties

General tax penalty rule applies, and no extra penalty tax rule exists.

Penalty tax rate applicable is either 20% or 40%, of the amended tax liabilities.

However, as referred to in 3 above, in general as the investigation may takes years until the end, if there are additional TP tax liabilities, interest penalty at a rate of 13.6% per annum for delayed payment sometimes reaches to an enormous amount.

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Firm: *Darmawan, Hendang & Yogi*

Website: www.dhycpas.com

Contact person: *Mr Jim Darmawan*

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Japan

2011

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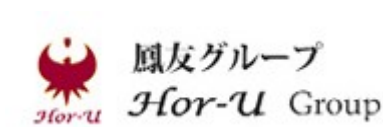
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There is no thin capital rule.

9. Transfer pricing penalties

The general penalty rules in the Income Tax Legislation will apply.

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Firm: Hor-U Group

Website: www.hor-u.jp

Contact person: Mr Fumiaki Masuko

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