

accace

News Flash

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**Stand-alone Transfer Pricing
Documentation in Hungary**

Hungarian requirements of the stand-alone transfer pricing documentation

Our previous newsletters included the rules of preparing transfer pricing documentation in general. This week we will focus on the stand-alone transfer pricing documentation.

Compulsory elements of the stand-alone transfer pricing documentation

The stand-alone transfer pricing documentation, only including the transactions of the companies concerned, is the most frequently used documentation type prepared by the Hungarian taxpayers. The compulsory elements of the stand-alone documentation are detailed by the Hungarian Decree no. 22/2009 (X.16.) on transfer pricing documentation requirements.

In the interest of clarity, in our summary we group the compulsory elements of the stand-alone transfer pricing documentation into 6 groups, which are as follows: company analysis, description of the contract, functional analysis, industry analysis, economic analysis and financial analysis.

Content of each part of the documentation

1. Company analysis

The purpose of the company analysis is the presentation of the associated companies (name, registered seat, tax number), and the presentation of the value-added transactions performed between the related parties.

2. Description of the contract

Description of the contract should include the temporal elements of the contract (date of contract, term of the contract in time), related amendments. Furthermore, the characteristics of the product or service as subject matter of the contract, terms and conditions of the performance, the elements and characteristics of the activities carried out based on the contract should be presented in this part.

3. Functional analysis

In the framework of the functional analysis the role of associated companies concerned with the performance of controlled transactions as well as the business risks they bear and the resources they use for the performance are to be presented. Here should also be outlined the resources used and the business risks taken by independent third parties during comparable uncontrolled transactions.

4. Industry analysis

The industry analysis serves the presentation of the (potential) market of the products or services concerned. In this part, the significant factors affecting the pricing and the market risk should be explored.

In the industry analysis the market share and size, the degree of market liberalization, the competitive situation and the possible replacement goods may be presented. Additionally, the industry analysis may show the ongoing trends which may have impact on the pricing of the transactions.

5. Economic analysis

The economic analysis includes the examination of the transfer pricing methods. After a brief presentation of all methods, the reason for selection the applied method to determine the market price is to be justified. As mentioned in our previous newsletter, should not one of the denominated methods be applied, the listed ones should be eliminated.

Here are also to be outlined the data used for the comparison, their selection and utilization process, the justification of their application, the comparison tools selected and influencing factors, conditions.

6. Financial analysis

The last part includes the result of the economic analysis carried out according to the chosen method: the price, price margin, profit calculated on the basis of the comparable products or services and the arm's length range (interquartile range where applicable) thereof.

The fair market price range obtained during the economic analysis is to be compared with the price applied by the associated company. If the prices between related parties do not meet the independent price range, the correction necessary due to the differences compared to the fair market price are to be documented.

Our summary included the proposed content structure of the stand-alone transfer pricing documentation. The exhaustively list of

mandatory elements of the documentation is stipulated in the Decree no. 22/2009 (X.16.) on transfer pricing documentation requirements.

We hope that our summary serves useful for your purposes.

If you are interested in this topic and you would like to learn more about the content of each part of the stand-alone transfer pricing documentation, our experts are at your disposal.

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Contact

Antretter Erzsébet

Tax Manager

E-Mail: erzsebet.antretter@accace.com

Phone: +36 141 235 47



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Accace offices are located in Czech Republic, Hungary, Romania, Slovakia, Poland, Ukraine and Germany. Locations in other European countries and globally are covered via Accace's trusted partners network.

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