UHY M.L. Aguirre & Co. CPAs

ADVISORY

UHYMAC-2019-0023

Subject : **Revenue Audit Memorandum Order (RAMO) No. 01-2019**

Headnote : **Transfer Pricing (TP) Audit Guidelines**

Date : **November 12, 2019**

The Bureau of Internal Revenue (BIR) has issued Transfer Pricing (TP) Audit Guidelines under Revenue Audit Memorandum Order (RAMO) No. 1-2019 on August 20, 2019 to provide standardized audit procedures and techniques in the conduct of audit of taxpayers with related party and/or intra-firm transactions in order to ensure a quality audit. The RAMO is primarily a manual for BIR officers, however, it can be used by taxpayers as a guide on how to prepare for the audit and avoid transfer pricing adjustments.

The guidelines apply to controlled transactions between related parties where at least one party is taxable in the Philippines which covers the sale, purchase, transfer and utilization of tangible and intangible assets, provision of intra-group services, interest payments, and capitalization. It is also applicable by analogy in relation to transactions between a permanent establishment (PE) and its Head Office or other related branches. The PE will be treated by the BIR as a separate and distinct enterprise from its Head Office and other related branches/subsidiaries.

The guidelines provided three (3) phases of the transfer pricing audit procedures: preparation, implementation and reporting.

1. Preparation
   The audit preparation stage involves determining the scope of the audit, gathering of information on the related party transactions, conduct of meetings with taxpayer to discuss the initial findings, and risk analysis of an arm's length price (ALP). The BIR will likewise require the taxpayer to submit within five (5) working days from receipt of notice, various information/proofs, in prescribed formats, on the following:
    - Related party transactions;
    - Segmented Financial Statement;
    - Supply Chain Management Analysis;
    - Function, Assets and Risks Analysis ("FAR Analysis");
    - Characteristics of Business; and
    - Comparability Analysis.

2. Implementation involves the following procedures:
    - Determination of the characteristics of the taxpayer's business;
    - Selection of the transfer pricing method; and
    - Application of the arm's length principle.

3. Reporting
   At the reporting stage, the Revenue Officer's (RO) shall prepare a report, which shall include, among others, the factual background and functional analysis of the taxpayer and the transaction(s) at issue, a summary of the taxpayer's proposed economic analysis, evaluation of the taxpayer's methodology and analysis, as well as RO's determination of ALP based upon the economic analysis.

The RO’s will discuss their findings and confirm with the taxpayer their agreement with the facts and the issues identified.

The Guidelines also describes in greater detail the transfer pricing methods together with several examples on its application. It also provides guidance on when transactions should be tested individually or evaluated as combined transactions.

Further, the Guidelines have additional discussions on certain related-party transactions – business restructuring, intra-group services, intangible asset transactions, cost contribution agreements, and interest payment transactions.

For your reading pleasure, attached herewith is a copy of abovementioned Revenue Audit Memorandum Order.

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