



Submission and Documentation for Transfer Pricing Report in China

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Avoiding the risks of delivering an improper Transfer Pricing Report

Transfer pricing refers to the price set by affiliated enterprises when they sell goods, provide services and transfer intangible assets. In transnational economic activities, tax planning through transfer pricing among affiliated enterprises has become a common tax avoidance method or sometimes evasion. Because transfer pricing is not an exact science because of all of the considerations taken into account, it is also something that tax bureaus will review, and it has drawn more attention recently from the Chinese tax bureau.

The method involves enterprises in high-tax countries setting low prices when selling goods, providing services, and transferring intangible assets to affiliated enterprises in low-tax countries. Enterprises in low-tax countries set high prices when selling goods, provide services and transfer intangible assets to affiliated enterprises in high-tax countries. In this way, profits are transferred from high-tax countries to low-tax countries, minimizing their tax burden.

The Submission of Transfer Pricing Report

According to Article 43 of the Announcement of the Corporate Income Tax Law of the People's Republic of China, the enterprise will attach the annual related party business dealings report for all business dealings between the enterprise and its associated parties when filing the annual corporate income tax returns. Where the tax authorities conduct investigations into the party business dealings, the enterprise, the related parties and other enterprises related to the related party business dealing under investigation will provide the relevant information according to the provisions.

Documentation for Submission of the Transfer Pricing Report

According to Article 10 of the Announcement of the State Administration of Taxation on Matters Relating to Improved Administration of Related Party Declarations and Contemporaneous Documentation, an enterprise shall, according to the provisions of Article 114 of the Implementation Regulations for the Enterprise Income Tax Law, prepare the contemporaneous documentation for its related party transactions for the tax year and following the requirements of the tax authorities. Other documentation includes entity files, local files and special matter files.

	Entity files	Local files
Qualified Enterprises	<ul style="list-style-type: none"> • Cross-border party transactions occurred in the year, and the enterprise confirmed that the ultimate holding enterprise belongs to and has consolidated the enterprise's financial statements and prepared the entity files; • The total amount of party transactions in the year exceeds RMB1 billion. 	<ul style="list-style-type: none"> • The amount of the transfer of ownership of tangible assets (for processing of supplied materials, calculated following Customs declaration prices in the year) exceeds RMB200 million; • The amount of the transfer of financial assets exceeds RMB100 million; • The amount of the transfer of ownership of intangible assets exceeds RMB100 million; • The total amount of other related party transactions exceeds RMB40 million.
Documents	<p>The entity files shall mainly disclose the general information of the global business of the enterprise group to which the ultimate holding enterprise belongs, and shall include the following contents:</p> <ul style="list-style-type: none"> • Organization structure; • Business of an enterprise group; • Intangible assets; • Financing activities; • Financial and tax situation 	<p>The local files shall disclose detailed information of the enterprise's related to the party transactions, and shall include the following contents:</p> <ul style="list-style-type: none"> • Enterprise profile; • Related party relationship; • Related party transactions; • Comparability analysis; • Selection and use of the transfer pricing method.

Proactively Complying to Regulations

With the upgrading of China's anti-tax avoidance laws and regulations, enterprises engaged in business or investment activities in China must actively manage transfer pricing risks and compliance requirements while paying more attention to the commercial purpose and substance of their operational framework. For multinational enterprises, it is necessary to consider appropriate tax and transfer pricing strategies to meet the requirements of tax laws and regulations, and prepare corresponding data as required. It is not only a requirement of compliance but also a useful tool for tax planning and risk management. It helps to prove that the related party transactions of the enterprises conform to the principle of independent transactions and the rationality of their business structure and arrangements.

Also, multinational enterprises must have a thorough understanding of the operations of the enterprises along with their functions, risks, assets and related costs, costs and profits to analyze the situation of related party transactions. From the prospect of transfer pricing, problems and dangers related to the party transactions must be identified and checked. Enterprises can formulate transfer pricing policies beforehand. It is also implemented in affiliated transactions to deal with possible investigations and audits by tax authorities.

Whilst only companies that meet the related party revenue criteria are required to file an annual transfer pricing report, all foreign companies operating in China are required to have completed an annual audit report undertaken by a Chinese CPA firm, and the notes section of the audit reports provide disclosures, and also the annual Corporate Income Tax filing also has a section for each related party transaction entity and nature. As such, it is important for all companies, large and small, to consider their transfer pricing policy, the risks, function reward for the entity in China, and the transfer pricing methodology used. It is also advisable for a comparable analysis to be prepared to justify the pricing methodology as within the middle quartiles of a standard mediation curve.

As transfer pricing is not an exact science, justification is arguability of the pricing and the methodology used is the key to defending and tax department investigation.

How can LehmanBrown Help?

LehmanBrown has English speaking professionals who have assisted companies in evaluating their transfer pricing reports, review their documentation and identify any tax risks or any other potential issues. To discuss your business' transfer pricing reports or any other concerns you are welcome to send your enquiry at enquiries@lehmanbrown.com.







About Us

LehmanBrown is a licensed China-focused accounting, taxation and business advisory firm, operating dedicated offices in Beijing, Tianjin, Shanghai, Shenzhen, Guangzhou, Hong Kong and Macau, and with an extensive affiliate network throughout China and in over 100 countries worldwide.

LehmanBrown combines years of international expertise with practical China experience and knowledge, offering expert advice and support to both local and international clients. We are committed to providing individually tailored financial and business solutions for each of our clients, recognizing that each client is different. Through offering “whole of life” services, LehmanBrown offers clients assistance throughout every step of their business life cycle, from pre-conception to afterlife. LehmanBrown is registered with the PCAOB in the US and is able to conduct SEC work, as well as being accredited by accounting bodies in the UK and Australia.

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综合多年的国际经验以及对中国市场的深刻理解和洞察，我们致力于为本地区及国际客户提供高质量的专业服务和支撑。我们了解每位客户都是独一无二的，承诺为每一位客户量身打造适合自身的财务和商业解决方案。从前期策划到市场退出，雷博通过提供“全生命周期”服务，为客户在不同商业生命周期的每一个阶段提供协助。雷博在美国公众公司会计监督委员会（PCAOB）已注册，有资质开展美国证监会（SEC）相关工作，同时在英国和澳大利亚也得到会计方面的专业认证。

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IFRS Audit

Hong Kong Statutory Audit

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Cash Flow Management

Chop Custodian Services

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Company Ownership Transferring/Corporate

Restructuring Background/Credit Checking

Company Deregistration & Bankruptcy

HR Support Services

China Visa Services for Expatriates

Social Welfare Structures

Outsourcing Services

Accounting & Bookkeeping

Budgeting & Forecasting Financial Statement

Preparation Head Office Reporting

Financial Management

Interim Financial Management Finance

Manager Function

CFO Function

Treasury Management

Set-up of Bank Account

Payroll Services

Payroll Processing Setup

Expatriate Employees

Local Employees

Secondment & Temping Service

Taxation Services

Individual Tax Planning (IIT)

Tax Immigration & Investment Review

US & Overseas Personal Income Tax Planning

& Filing IIT Tax Payment Facilitation

Application for Individual Income Tax Refund

Expatriate Staff Individual Income Tax Staff

Filing Local Staff Individual Income Tax

Company Taxation (CIT)

[Tax Consulting](#)

Corporate Tax Planning

Business Restructuring

Value Chain Review

Onshore / Offshore Investment

Transfer Pricing

[Tax Compliance](#)

Tax Due Diligence

Tax Deregistration

Negotiation of Tax Penalties

Tax Refund Application

Tax Representatives for Tax Audit

VAT & Customs Duty Clearance

PRC Tax Receipt Verification

VAT Application

VAT & Sales Tax Filing

Corporate Income Tax Reporting

Specialist Accounting & Risk Management

Internal Controls

Systems

Risk Management

Sarbanes - Oxley (SOX 404)

GAAP, SEC & IFRS Compliance

[US GAAP](#)

US GAAP Financial Statement Preparation

US GAAP Conversion

[Other GAAP](#)

GAAP Conversion

Public Company Compliance

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For further information about how we can add value and support your individual or business needs, please contact us.
如需为个人或企业获取更多的增值服务及业务协助信息，请与我们联系。

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