



# Transfer Pricing in Mexico

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## What is Transfer pricing?

Transfer prices refer to the prices that affiliated companies use to value transactions with each other. By setting a transfer price international companies can shift the profit of a company from one country to another and are therefore a focus point for the fiscal authorities.

Mexico established its transfer price guidelines following the OECD's Base erosion and profit shifting (BEPS) – Action plan to avoid profit shifting. This is also the reason why the transfer pricing topic is more and more a point of interest for the financial authorities in Mexico. For 2020 the Mexican government plans to raise its tax income without levying new taxes, we therefore also expect a greater focus on transfer pricing.

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## What rules exist in Mexico?

Companies that realize transactions with related parties abroad are obliged to do an annual Transfer Pricing Study. The result of the study must be presented to the financial authorities at latest on the 31<sup>st</sup> of March of the following year as part of the annual tax declaration (Annex 9). For companies that are on the stock market or if revenues exceed a certain limit other transfer pricing obligation do apply (Country-by-country declarations, Local and Master File DIM).

The study determines based on a benchmarking system if the prices used for intercompany transactions are comparable with the prices similar companies apply. They make sure, that the prices do not cause a benefit for tax purposes in Mexico.

Transfer pricing studies are carried out by an independent service provider and should be part of a company's external audit. In many times the group transfer price study can be used as a template for the Mexican entity, however they are not accepted by the financial authorities and therefore do not substitute a local study.

## Arm's length principle

The "arm's-length principle" states that the amount charged by one related party to another for any given product or service must be the same as if the parties were not related. Different risk factors can obviously be considered.

## How to determine intercompany prices?

If you want to make sure, that the prices you plan to charge for intercompany services are within range or what interest rate to use for an intercompany loan, it is recommendable to review these topics with a transfer pricing expert.

## What is considered a transaction between related parties?

- Loans its interests
- Purchasing or Sales of Goods and Services
- Invoicing of Management Fees, Royalties, IT Service Fees, Licenses, Travel expenses or other intercompany cost transfers

## Why is it important to do a Transfer pricing study?

If the transfer price study concludes that the prices charged between related parties cause a fiscal benefit for the Mexican entity, all related expenses could be considered non-deductible.

If there is no transfer pricing information available, the Annex 9 of the annual tax declaration will not be presented, which can result in penalties.

Please contact your Account Manager for further information.

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