

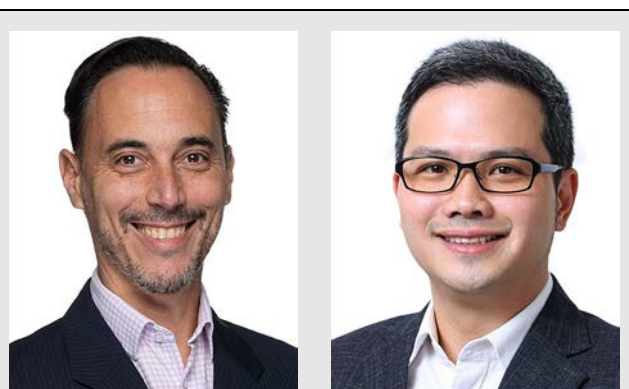
Managing Transfer Pricing Adjustments Across APAC

by Alejandro Ces and Alex Yam

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In this article, Ces and Yam draw on insights from transfer pricing practitioners across the Asia-Pacific region to examine how transfer pricing adjustments are treated in practice. Their analysis includes customs, indirect tax, withholding tax, and double taxation implications.

This article has been prepared based on country-specific input from the lead and contributing authors. It is intended as general commentary on emerging environmental, social, and governance and transfer pricing considerations and not as a comprehensive summary of applicable laws, regulations, or reporting requirements.

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Introduction

As transfer pricing enforcement continues to evolve across the Asia-Pacific (APAC) region, tax authorities are increasingly scrutinizing whether multinational groups' actual intercompany

pricing and profitability are consistent with the arm's-length principle rather than relying solely on the positions set out in their transfer pricing documentation. This development has brought year-end and retrospective transfer pricing adjustments into sharper focus.

Transfer pricing adjustments are a common feature of multinational tax compliance, particularly when actual results diverge from target margins, pricing policies, or advance pricing agreement (APA) outcomes. In principle, an adjustment helps align the taxpayer's results with the arm's-length principle. In practice, however, the domestic treatment of such adjustments can vary significantly between jurisdictions.

Some jurisdictions recognize year-end adjustments when they are timely, properly documented, and reflected in the accounts. Others take a more restrictive approach, particularly when the adjustment reduces taxable income, is made retrospectively, affects customs values or indirect tax, or is insufficiently supported by contemporaneous evidence. In many cases, the question is no longer whether the adjusted result is arm's length. Rather, it is whether the adjustment is locally recognized, procedurally valid, and consistently implemented across the relevant tax and regulatory frameworks.

Against this backdrop, this article explores three practical questions that help determine how that broader issue unfolds across the APAC region:

1. How are transfer pricing adjustments recognized and treated locally, including the distinctions between voluntary year-end adjustments, tax authority-initiated adjustments, and upward versus downward adjustments?

2. What timing, accounting, and procedural requirements must be satisfied for an adjustment to be accepted and to minimize the risk of challenge?
3. What broader tax, regulatory, and practical risks should taxpayers consider (for example, those concerning customs, VAT/goods and services tax, double taxation, withholding tax, documentation, and related penalties)?

Based on country-specific input from transfer pricing practitioners in Australia, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Taiwan, Thailand, and Singapore, this article considers the treatment of transfer pricing adjustments across selected APAC jurisdictions and highlights the key risks and practical considerations for multinational enterprises operating in the region.

Regional Lens: Transfer Pricing Is Not Just a Year-End Priority

Across the APAC jurisdictions discussed below, transfer pricing adjustments have become an increasingly important focus of practical enforcement. While domestic rules vary, a common theme is emerging: Tax authorities are looking beyond whether an adjustment yields an arm's-length economic result. Instead, they increasingly examine whether the adjustment is timely, properly implemented, legally supportable, and consistent with the taxpayer's actual conduct.

This means that transfer pricing adjustments should no longer be viewed as simple year-end tax entries. In practice, they may affect accounting records, intercompany invoices, customs values, VAT/GST, withholding tax, secondary adjustment exposure, deemed financing consequences, penalties, interest, and access to double tax relief. An adjustment that is acceptable from a corporate income tax perspective may nevertheless create issues under other parts of the tax or regulatory framework.

As illustrated by jurisdictions such as India and Indonesia, transfer pricing adjustments may trigger consequences beyond the primary corporate income tax adjustment, including secondary adjustment exposure, cash repatriation or settlement requirements, VAT/GST

adjustments, customs valuation consequences, and withholding tax implications. Customs is a particularly important example. When a transfer pricing adjustment changes the price of imported goods, the importer may need to reassess whether the previously declared customs value remains correct and whether disclosure, amendment, additional duty or GST/VAT, or a refund claim is required under local customs rules. Australia and New Zealand illustrate this point through established mechanisms that can accommodate transfer pricing-related customs value adjustments when the relevant conditions are satisfied. The broader practical point is that transfer pricing adjustments involving imported goods should be assessed for customs implications before they are booked rather than being treated as purely internal tax or accounting entries.

The type and direction of the adjustment also matter. Voluntary year-end adjustments, compensating adjustments under an advance pricing arrangement, tax authority-initiated adjustments, retrospective adjustments, and corresponding adjustments may each be treated differently. Across the APAC region, upward adjustments that increase taxable income are generally easier to sustain than downward adjustments that reduce taxable income. Downward adjustments are more likely to require specific legal authority, tax authority acceptance, mutual agreement procedure relief, or compliance with detailed procedural conditions.

Timing presents another recurring issue. Adjustments made before financial statements and tax returns are finalized are generally more defensible than retrospective adjustments. In jurisdictions where post-year-end adjustments are not clearly regulated or where formal procedural steps must be satisfied, late adjustments may be more vulnerable to challenge.

The form of implementation can also be as important as the technical transfer pricing analysis. An adjustment reflected in the accounts may align the statutory, tax, and commercial positions of the relevant entity. By contrast, a tax-return-only adjustment may affect taxable income without changing the counterparty's commercial

or accounting position, potentially creating double taxation or requiring access to MAP relief.

In some jurisdictions, the treatment of transfer pricing adjustments is not governed by detailed procedural rules. Instead, the acceptability of an adjustment is primarily tested through tax audits, with the taxpayer bearing the burden of demonstrating that the adjustment is consistent with the arm's-length principle, supported by contemporaneous documentation and contractual terms, and aligned with the parties' actual conduct.

Finally, transfer pricing adjustments should be based on their legal and commercial character. An adjustment may be treated differently depending on whether it concerns the price of goods, a taxable supply of services, royalties, interest, or another form of payment. This characterization may affect customs values, VAT/GST, withholding tax, potential surcharges, penalties, and the availability of double taxation relief.

The regional message is clear; for multinational groups, achieving an arm's-length outcome is only part of the equation. Tax authorities increasingly expect transfer pricing adjustments to be backed by a coherent framework that is embedded within the group's transfer pricing arrangements and consistently applied. Many practical challenges can be mitigated if these adjustments are anticipated in intercompany arrangements, monitored throughout the tax year, reflected in the accounts, thoroughly documented, and implemented consistently across all relevant jurisdictions.

Key Regional Takeaways for Multinational Groups

The country-specific insights point to several practical takeaways for multinational groups operating across the APAC region.

First, transfer pricing adjustments should be anticipated rather than improvised. Year-end true-up mechanisms should, when possible, be integrated into intercompany agreements and pricing policies ahead of transactions. When the legal and commercial framework contemplates a possible adjustment, the taxpayer is in a stronger position to demonstrate that the adjustment reflects the agreed pricing mechanism rather than an after-the-fact reconstruction.

Second, groups should monitor results throughout the year rather than perpetuating a trend of waiting until the annual close. Quarterly or mid-year monitoring can help identify potential deviations from policy targets early and reduce the risk of significant year-end adjustments. This is particularly important in jurisdictions where post-year-end adjustments are not clearly regulated or may be subject to challenge.

Third, the direction of the adjustment matters. Upward adjustments that increase taxable income are generally easier to sustain, while downward adjustments that reduce taxable income are more likely to trigger scrutiny from relevant tax authorities and may require tax authority approval, treaty relief, strict procedural compliance, corresponding adjustment mechanisms, or evidence of error or mistake.

Fourth, the tax treatment of the counterparty should be considered before an adjustment is implemented. A unilateral adjustment may create double taxation if the other jurisdiction does not recognize the corresponding treatment. This is particularly important for downward adjustments and cross-border true-downs.

Fifth, taxpayers should consider whether any advance certainty or relief mechanisms are available. APAs, MAP, and safe harbor regimes may affect whether an adjustment is required, how it should be implemented, and whether relief from double taxation may be available. These mechanisms should be evaluated early, particularly when material cross-border adjustments, downward adjustments, or recurring year-end true-ups are involved.

Sixth, indirect tax and customs consequences should be assessed upfront. Price of goods adjustments may affect customs values and require disclosures, amended import declarations, additional duty or GST/VAT, or refund claims under local customs rules. This is particularly relevant when provisional pricing or period-end true-up mechanisms are used. Adjustments involving taxable supplies may also have VAT or GST implications. Furthermore, adjustments that are recharacterized as service fees, royalties, interest, or other forms of income may produce withholding tax exposure.

Seventh, the character, transaction basis, and accounting description of the adjustment should be clearly established. When possible, transfer pricing analyses and adjustments should link to the relevant transaction, product line, division, or intercompany arrangement. Adjustments recorded under generic or inconsistent descriptions — such as management fees, royalties, or cost adjustments that do not align with the underlying transaction — may create additional audit, withholding tax, customs, or indirect tax risks, particularly when the underlying rationale is not clearly documented.

Eighth, taxpayers should ensure that transfer pricing documentation, accounting entries, invoices, intercompany agreements, benchmarking analyses, and tax returns tell the same story. Inconsistencies between these records can undermine the credibility of the adjustment and increase audit risk. When local tax authorities prefer local comparable companies or local-market evidence, taxpayers should also consider whether group-level benchmarking remains supportable from a local jurisdiction perspective.

The country-specific analysis below considers how these themes arise in Australia, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Taiwan, Thailand, and Singapore, focusing on three questions:

1. How are transfer pricing adjustments treated locally?
2. What timing, accounting, and procedural requirements must be satisfied for an adjustment to be accepted and to minimize the risk of challenge?
3. What broader tax, regulatory, and practical risks should taxpayers consider (for example, those concerning customs, VAT/GST, double taxation, withholding tax, documentation, and related penalties)?

Australia

Recognition and Treatment of Adjustments

In Australia, voluntary year-end transfer pricing adjustments are generally recognized from an accounting perspective when they are used to align results with the arm's-length principle, particularly when outcomes deviate from those

contemplated under the taxpayer's transfer pricing policy. However, such adjustments must be properly recorded in the financial statements and supported by robust analyses.

Accounting treatment is important. When a material transfer pricing position is uncertain or insufficiently supported, entities may need to disclose that uncertainty in their financial statements. This reinforces the need for transfer pricing adjustments to be defensible for both tax and accounting purposes.

There is a clear distinction between voluntary adjustments and tax authority-initiated adjustments. Adjustments initiated by the Australian Taxation Office may give rise to penalties and interest. The availability of contemporaneous transfer pricing documentation can reduce penalties, although the extent of any relief depends on the circumstances, including whether the taxpayer is considered to have entered into the relevant arrangements for the sole or dominant purpose of obtaining a transfer pricing benefit.

The direction of the adjustment is also important. Upward adjustments that increase taxable income are generally more straightforward and may be accepted under Australia's self-assessment framework. Downward transfer pricing adjustments are more restricted. They are generally not available through self-assessment and would need to be granted by the tax authority or addressed through a bilateral mechanism, such as competent authority processes, to avoid double taxation.

Timing and Procedural Requirements

Timing and implementation are critical. From an Australian perspective, adjustments should ideally be identified and reflected before the year-end accounts are finalized or, at the latest, during the financial close process. Adjustments recorded in the accounting books carry greater evidentiary weight because they demonstrate that the taxpayer aligned its results with its transfer pricing policy in real time.

Although upward adjustments may also be processed as tax-only adjustments in the income tax return, doing so can create a mismatch between the accounting treatment and the counterparty's position. When the adjustment

involves a true-up payment through debit notes, credit notes, or intercompany invoices, it should be implemented within a commercially reasonable period after year-end, typically during the financial close process.

Key Risks and Practical Considerations

Australian transfer pricing adjustments may have broader consequences beyond corporate income tax. When a retrospective transfer pricing adjustment changes the price of imported dutiable goods, it may require a corresponding adjustment to the customs value previously declared to the Australian Border Force. This may result in either additional duty payable or a refund of overpaid duty, depending on the direction of the adjustment.

The characterization of the adjustment also matters. If an adjustment is characterized as a royalty or another form of payment subject to withholding tax, it may give rise to additional Australian tax obligations. Therefore, taxpayers should ensure that the characterization of the adjustment is consistent with the parties' actual commercial and financial arrangements.

Australian case law also reinforces the importance of analyzing transfer pricing outcomes on an income-year basis. The Full Federal Court's decision in *Singapore Telecom Australia Investments Pty. Ltd.*¹ highlighted that transfer pricing outcomes should be assessed by reference to each relevant income year rather than by aggregating outcomes across multiple years. This is a useful reminder that retrospective or cumulative true-ups should be carefully aligned with the relevant income year and the underlying transactions to which they relate.

The practical message for Australia is that transfer pricing adjustments should be implemented through the accounts, aligned with the relevant income year, and assessed for broader customs and withholding tax implications. Downward adjustments require particular care and should not be assumed to be available through ordinary self-assessment.

¹ *Singapore Telecom Australia Investments Pty. Ltd. v. Commissioner of Taxation*, [2024] FCAFC 29.

India

Recognition and Treatment of Adjustments

In India, voluntary year-end transfer pricing adjustments initiated by taxpayers are generally recognized in principle when they are intended to align actual results with the arm's-length standard. However, their acceptability in practice depends on the nature, direction, and implementation of the adjustment and its consistency with the taxpayer's transfer pricing policy and supporting documentation.

Indian courts and tribunals have generally upheld transfer pricing adjustments that are consistent with the arm's-length principle and supported by robust contemporaneous documentation. However, a clear distinction should be drawn between tax authority-initiated adjustments and voluntary adjustments made by taxpayers.

Adjustments initiated by the Indian tax authorities are governed by statutory provisions and may result in penalty exposure and secondary adjustment consequences. Voluntary adjustments, including year-end true-ups, are not specifically codified in Indian legislation but are evaluated based on whether they are supported by contemporaneous documentation, appropriately recorded, and consistent with the underlying intercompany agreements.

The direction and method by which an adjustment is implemented are particularly important. An upward adjustment made by the taxpayer to align its taxable result with the arm's-length standard may be reflected in the books or made *suo motu* in the return of income. Subject to the applicable statutory conditions, such an adjustment may also trigger India's secondary adjustment provisions.

Downward adjustments are treated much more restrictively. Indian transfer pricing law does not permit the application of the arm's-length computation when it would reduce income chargeable to tax or increase the computed loss based on financial records. In other words, a taxpayer cannot ordinarily make a downward adjustment in its tax computation to arrive at an arm's length outcome where this would reduce the Indian taxable base reflected in its financial records.

When an adjustment by a foreign tax authority produces economic double taxation, corresponding relief in India may necessitate the MAP under the applicable tax treaty, subject to the facts and the agreed outcome.

The legal and commercial frameworks are also relevant. Adjustments are more defensible when they are anticipated upfront and embedded within intercompany agreements and pricing policies, including clear provisions for true-up mechanisms, pricing revisions, and settlement terms. Adjustments should be clearly linked to specific underlying international transactions rather than representing ad hoc or broad-based allocations. The characterization of the adjustment should also be carefully assessed because its tax treatment may differ depending on whether it relates to goods, services, financing, or intangibles.

Timing and Procedural Requirements

In India, the timing and manner of implementation are important considerations. Adjustments are generally more defensible when they are identified before the financial statements and tax returns are finalized and supported by a clear audit trail demonstrating that the adjustment relates to the relevant financial year and is directly linked to the underlying international transactions.

In practice, adjustments implemented through intercompany debit notes, credit notes, or revised invoices are generally more robust. The adjustment should also be reflected consistently in the financial statements, transfer pricing documentation, and tax filings, including the accountant's report on international transactions (currently Form 3CEB) and, from tax year 2026-2027, Form 48 under the Income Tax Act, 2025.

Periodic monitoring is an important practical consideration. Taxpayers are generally better positioned when they monitor outcomes throughout the year and make periodic true-up adjustments rather than relying on significant year-end adjustments. This can reduce volatility, align reported results with actual conduct, and support the position that the pricing policy has been applied consistently.

In practice, a true-up or true-down adjustment is typically made at year-end but before the books of account are closed, so that the

adjustment is recorded in the financial statements for the relevant year and aligns the reported results with the arm's-length standard. This is generally the more common and defensible approach because the accounting, tax, and transfer pricing positions remain consistent.

When the adjustment is determined after the books have been closed, for example, during the tax return or Form 3CEB/Form 48 finalization process, it may not be possible to record the adjustment in the books for that year. In such cases, an upward adjustment may nevertheless be included in taxable income for the relevant year on the basis that it relates to that year's international transactions and aligns the results with the arm's-length standard. Taxpayers should maintain a clear audit trail linking the adjustment to the relevant year's international transactions, the arm's-length analysis, and the tax return disclosures.

Separately, an APA may require a compensating adjustment when results must be aligned with the agreed outcome. Such an adjustment is governed by the terms of the APA and should be distinguished from an ordinary year-end true-up. Depending on the applicable statutory provisions, the APA terms, and whether the returned income is modified, implementation may require filing a modified return for the relevant covered years, including rollback years.

Key Risks and Practical Considerations

Transfer pricing adjustments in India may carry implications beyond corporate income tax and should therefore be assessed holistically.

A key risk concerns downward adjustments. Downward adjustments that reduce Indian taxable income are not permissible under the Indian transfer pricing provisions in which the arm's-length computation would reduce income chargeable to tax or increase a loss computed on the basis of entries in the relevant financial records. Any double taxation arising from an adjustment made in another jurisdiction should be considered separately under the applicable treaty relief mechanism, including MAP where available.

Upward adjustments are different. They are undertaken to align the Indian taxpayer's results with the arm's-length standard and are, in principle, a normal feature of transfer pricing

compliance. Section 170 of the Income Tax Act (formerly section 92CE of the Income Tax Act) distinguishes between a primary adjustment and a consequential secondary adjustment.

A primary adjustment determines the transfer price in accordance with the arm's-length principle and typically results in either an increase in total income or a reduction in loss. It may arise from a *suo moto* adjustment made by the taxpayer in its return of income, an adjustment made by the tax authority and accepted by the taxpayer, or an outcome under an APA, the safe harbor rules, or MAP.

When the statutory conditions are satisfied, a consequential secondary adjustment aligns the taxpayer's accounts and the actual flow of funds between the taxpayer and its associated enterprise with the profits recognized following the primary adjustment. When the amount of the primary adjustment made in a tax year exceeds INR 1 crore and the other statutory conditions are satisfied, the excess money attributable to the adjustment must be repatriated to India within the prescribed period.

If the amount is not repatriated within that period, the excess money is deemed to be an advance made by the Indian taxpayer to the foreign associated enterprise, on which prescribed interest is imputed until repatriation. Alternatively, the taxpayer may opt to pay additional income tax at 18 percent, together with applicable surcharge and Health and Education cess on the unrepatriated amount. These requirements and resulting tax consequences should be evaluated upfront so that any resulting secondary adjustment requirements may be addressed on a timely basis.

Indirect tax implications should also be considered. Under the GST regime, the treatment of transfer pricing adjustments, particularly year-end true-ups, remains an area of interpretational uncertainty. A key issue is whether such adjustments constitute a separate supply or merely represent a pricing adjustment to existing transactions. While taxpayers generally contend that such adjustments do not constitute separate supplies, an upward adjustment may potentially be treated as additional consideration subject to GST. Appropriate documentation and

consistency are therefore critical to mitigating potential disputes.

Customs considerations are particularly relevant for transactions involving imported goods. Upward price adjustments may require a corresponding increase in customs value and payment of additional duties. By contrast, downward adjustments do not readily result in refund claims, as these may be subject to strict timelines, extensive documentation requirements, and practical challenges. Refunds can be difficult to obtain even when the adjustment is made within the same year before the financial statements are signed. Given these constraints, downward adjustments relating to transactions involving goods are often avoided in practice.

The characterization of the adjustment should follow the nature of the underlying international transaction. Withholding tax issues may arise when an adjustment is booked or described inconsistently with the underlying transaction, for example, as a royalty or fee for technical services. The adjustment should therefore remain aligned with the contractual terms and economic substance of the original transaction.

India also has an established APA program, including unilateral, bilateral, and multilateral APAs. The maturity of the program is reflected in the number of APAs exceeding the 1,000-APA milestone in fiscal year 2025-2026. APAs may provide prospective certainty and, when the conditions are satisfied, rollback coverage for prior years. In bilateral cases, an APA may also provide greater certainty on the treatment of covered transactions in both jurisdictions. When an audit adjustment gives rise to actual or potential double taxation, relief may generally be pursued through MAP under the applicable tax treaty.

Taxpayers that have validly opted for the safe harbor regime should also consider its impact on year-end adjustments. For eligible taxpayers and covered transactions that satisfy the prescribed conditions, reporting the transaction at or above the applicable safe harbor margin provides certainty about the accepted transfer price and may reduce the need for a year-end true-up for that transaction.

Consistency across transfer pricing documentation, intercompany agreements, financial statements, the accountant's report, invoices, and tax return disclosures is critical. Mismatches across these records are a common trigger for tax controversy in India. Adjustments that are not clearly linked to specific transactions or are recorded under generic descriptions may be more vulnerable to challenge across multiple tax laws beyond transfer pricing.

In summary, transfer pricing adjustments in India should be anticipated in the intercompany agreements and pricing policy, monitored during the year, implemented through appropriate accounting and invoicing records, and evaluated for related income tax, secondary adjustment, GST, customs, and withholding tax implications. Particular care is necessary when an adjustment would reduce the Indian tax base because the arm's-length computation cannot ordinarily be used to reduce income or increase a loss computed based on financial records.

Indonesia

Recognition and Treatment of Adjustments

Indonesia's transfer pricing framework has become more structured following the introduction of Minister of Finance Regulation No. 172 of 2023, commonly referred to as PMK-172. The regulation consolidates Indonesia's rules on the arm's-length principle, transfer pricing documentation, corresponding adjustments, MAPs, and APAs into a single framework.

A key feature of the Indonesian regime is the broad authority granted to the Directorate General of Taxes (DGT) to revisit the tax treatment of related-party transactions in which it considers that the arm's-length principle was not properly applied. The DGT may redetermine income or deductions when it concludes that the taxpayer has failed to properly apply the arm's-length principle, has applied it incorrectly, is unable to substantiate the relevant transaction, or has determined a transfer price that does not reflect arm's-length conditions.

PMK-172 provides a framework for primary, secondary, and corresponding adjustments.

Primary adjustments are the most direct form of transfer pricing adjustment. When the DGT

considers that the transfer price does not reflect arm's-length conditions, it may adjust income or deductible expenses and recalculate taxable profit based on arm's-length indicators. In practice, these adjustments typically increase taxable income or reduce deductions and remain the most common form of transfer pricing adjustment in Indonesia.

PMK-172 also specifically addresses secondary adjustments. When a primary adjustment is made, the difference between the taxpayer's reported position and the arm's-length result may be treated as an indirect distribution of profits to an affiliated party and taxed as a dividend. This secondary adjustment may give rise to withholding tax exposure and an additional tax cost beyond the primary corporate income tax adjustment.

Importantly, PMK-172 provides a mechanism to mitigate this outcome. Secondary adjustment treatment may be avoided when the taxpayer agrees with the DGT's transfer pricing adjustment and the relevant cash or cash-equivalent difference is increased, refunded, or otherwise settled before the tax assessment letter is issued. This relief requires proactive action and should not be considered automatic.

Indonesia also recognizes corresponding adjustments to mitigate double taxation arising from transfer pricing corrections. When the DGT makes a transfer pricing adjustment and that triggers double taxation for the Indonesian counterparty, the counterparty may be able to make a corresponding adjustment. However, any relief is subject to conditions. In particular, the taxpayer subject to the primary adjustment must accept the DGT's adjustment and must not pursue objection, appeal, or other legal remedies concerning the relevant transfer pricing matter. Depending on the circumstances, implementation may require an amended tax return, the issuance of a tax assessment letter, or the correction of an existing assessment.

For cross-border cases involving an adjustment by a treaty partner tax authority, corresponding relief is generally pursued through the MAP under the relevant tax treaty.

Timing and Procedural Requirements

Timing, as applied through the *ex ante* principle, is a defining feature of Indonesia's framework. The arm's-length analysis must be prepared based on data and information available when the related-party transaction is conducted. In practical terms, Indonesia expects taxpayers to establish and support arm's-length pricing when transactions take place rather than relying primarily on hindsight or retrospective year-end adjustments.

This does not mean that retrospective adjustments are prohibited. However, they are more defensible when anticipated in intercompany agreements, embedded in a taxpayer's pricing policy, and applied consistently. They must also be supported by contemporaneous evidence showing that the pricing was intended to be at arm's length at the time of the transaction. Conversely, a purely *ex post* adjustment using hindsight to correct an unfavorable result will likely be more vulnerable.

The procedural requirements are also important. Master file and local file documentation must be prepared using contemporaneous information and made available within the prescribed timeline. Generally, the master and local files are due no later than four months after the fiscal year ends, while the country-by-country report is due within 12 months. Additionally, taxpayers must file the relevant summary or report during their annual corporate income tax return.

The DGT may request the master file and local file for compliance monitoring or tax audit purposes, and taxpayers must submit the documentation within one month following the request. Failure to meet documentation and submission requirements may result in sanctions and weaken the taxpayer's evidentiary position during audit. If a taxpayer does not meet the relevant documentation requirements, the DGT may assess the taxpayer's actual conditions rather than relying on the taxpayer's documentation at face value.

Indonesia does not have a separate statute of limitations for transfer pricing matters. Transfer pricing assessments follow the general tax assessment period. In principle, the DGT may issue an underpaid tax assessment letter within five years from the relevant tax period or fiscal

year; additional consequences may apply in cases involving tax crimes or fraudulent conduct.

Key Risks and Practical Considerations

Indonesia framework demonstrates why transfer pricing adjustments should not be analyzed solely from a corporate income tax perspective. A primary adjustment by the DGT may trigger a secondary adjustment, treating the adjusted amount as an indirect profit distribution or deemed dividend. This may create an additional layer of tax exposure beyond the initial adjustment to taxable income, potentially leading to withholding tax implications in cross-border transactions.

While PMK-172 provides a mechanism to mitigate secondary adjustment treatment, it requires proactive action. The taxpayer should assess whether it is prepared to accept the DGT's adjustment and whether the relevant cash or cash-equivalent settlement can be made before the tax assessment letter is issued. This should be managed carefully, particularly when the adjustment is material or involves a foreign related party.

A transfer pricing adjustment may also affect VAT. When a related-party transaction is not conducted at arm's length and the selling price or compensation is lower than fair market value, the DGT may adjust the VAT base. This may increase the seller's output VAT. However, the adjustment does not automatically produce additional creditable input VAT for the buyer, which can create an irrecoverable VAT mismatch.

Certain transaction categories attract additional expectations under PMK-172. These include intragroup services, intangibles, financial transactions, asset transfers, business restructurings, and cost contribution arrangements. For these transactions, taxpayers are expected to conduct a preliminary analysis to demonstrate, among other things, the economic rationale, substance, necessity, and expected benefit of the transaction. For intragroup services, taxpayers should demonstrate that the services were rendered, required by the recipient, provided economic benefits, and were not merely shareholder activities.

There is also an important interaction between transfer pricing adjustments and double taxation relief mechanisms. Domestic corresponding adjustments may be available, but they are subject to conditions and procedural requirements. In cross-border cases, relief typically depends on the MAP, which can be time-consuming and does not guarantee relief from double taxation.

The message from Indonesia is clear: Taxpayers must manage transfer pricing adjustments proactively. They are better positioned when they establish arm's-length pricing from the outset, back it with contemporaneous documentation, secure it through intercompany agreements, and implement it consistently across all accounting and tax filings.

Japan

Recognition and Treatment of Adjustments

Japan's tax authorities generally recognize transfer pricing adjustments, although Japan does not prescribe a set of conditions that must be satisfied for all adjustments. In practice, the treatment of transfer pricing adjustments depends on the direction of the adjustment, the method of implementation, and whether the adjustment is supported by appropriate transfer pricing analyses and documentation.

Downward adjustments may face higher scrutiny by Japan's National Tax Agency, particularly when they reduce taxable income in Japan. Conversely, upward adjustments that increase domestic taxable income are generally more straightforward. However, they can still trigger double taxation or foreign tax complications if the counterparty jurisdiction fails to make a corresponding adjustment.

A distinction should also be drawn between tax authority-initiated adjustments and voluntary taxpayer adjustments. A tax authority-initiated adjustment is made through a reassessment procedure known as *kosei shobun* provided under article 66-4, paragraph 1 of the Act on Special Measures Concerning Taxation. Taxpayers may contest such an adjustment if they disagree with the position taken by the Japanese tax authorities.

Voluntary upward adjustments are generally made through the *shusei shinkoku* procedure by

filing an amended tax return. However, a voluntary downward adjustment through an amended tax return is typically unavailable unless agreed upon through a bilateral advance pricing arrangement or through a MAP resolution following an overseas tax audit.

Japan also differs from some jurisdictions on secondary adjustments. In certain jurisdictions, an upward transfer pricing adjustment requires the corresponding cash amount to be repatriated to the adjusting jurisdiction; failing to do so may trigger a secondary adjustment. However, Japan does not have such a secondary adjustment system. Accordingly, the National Tax Agency would not necessarily expect or require cash repatriation solely because an upward transfer pricing adjustment occurred.

To illustrate, a typical situation in which transfer pricing adjustments arise involves an inbound Japanese distributor that purchases finished goods from a foreign related party. The pricing may allow the Japanese distributor to earn an arm's-length return. Tax authorities often test this return using the transactional net margin method with the operating margin as the profit-level indicator. If the Japanese distributor's actual results fall outside the arm's-length range, the foreign related party may adjust the sale price to bring the distributor's operating margin back within the range.

Adjustments may also arise in other types of foreign related-party transactions. These include cost contribution arrangements in which the benefits received by the Japanese entity are lower than the value of its contribution, and hard-to-value intangible arrangements in which actual outcomes differ materially from forecasts. For example, an adjustment may be relevant when actual income from a hard-to-value intangible sold by a Japanese party is more than 20 percent higher than forecast or when actual income from a hard-to-value intangible purchased by a Japanese party is more than 20 percent lower than anticipated.

Timing and Procedural Requirements

Both upward and downward transfer pricing adjustments are possible in Japan, but the procedural routes differ significantly.

Upward adjustments that increase profit in Japan may be made through the accounts before filing the tax return, through an adjustment in the tax return itself, or subsequently by filing an amended tax return. When the adjustment is made through the tax return, it may be reflected as an adjustment to taxable income.

Downward adjustments are more restricted. Generally, they can only be made through the accounts before the tax return is filed. As noted above, a taxpayer generally cannot file an amended tax return to reduce taxable income unless the reduction has been agreed with the counterparty jurisdiction through a MAP or APA.

This distinction carries practical significance. An adjustment made through the accounts affects both the statutory results and the Japanese entity's tax results. It also provides a clearer basis for reflecting the appropriate profit for each related party and reducing the risk of double taxation.

By contrast, a tax-return-only adjustment affects the Japanese tax result but does not necessarily change the statutory accounts or the counterparty's taxable income. This may create double taxation when the adjustment increases taxable income in Japan, but no corresponding adjustment is made in the counterparty's jurisdiction. In such cases, access to MAP relief may be required.

Key Risks and Practical Considerations

Downward adjustments made through accounting entries are likely to face scrutiny from Japanese tax authorities during an audit. Taxpayers should therefore ensure that appropriate documentation is in place. This would typically include intercompany agreements setting out the circumstances in which an adjustment may be made, provisions allowing retroactive price adjustments, and contemporaneous transfer pricing documentation supporting the arm's-length basis of the adjustment.

It is also strongly recommended, although not specifically required under Japanese transfer pricing legislation, to prepare a memorandum of understanding or similar document that records the basis for the adjustment, the calculation methodology, and the agreement of both parties. This can be useful in demonstrating that the

adjustment was commercially agreed upon and not constructed after the fact.

For upward adjustments, voluntary action before an audit may help mitigate the risk of tax shortfall penalties and payment delinquency interest. This may be relevant, for example, in industries where profit fluctuations are common and taxpayers can identify the need for an adjustment before the relevant period becomes subject to audit.

Japanese transfer pricing legislation generally focuses on a transaction-by-transaction approach. Accordingly, transfer pricing adjustments should, when possible, be applied by reference to the relevant transaction. When a Japanese entity has transactions with related parties located in different jurisdictions, transfer pricing analysis and any resulting adjustment should generally be applied separately to each transaction with the relevant overseas affiliate.

This may require segmenting the Japanese entity's profits by transaction, product line, or affiliate relationship. The purpose is to allow the Japanese tax authorities to assess whether profits have been shifted out of Japan to a particular jurisdiction rather than being obscured by averaging the profitability of multiple transactions.

In practice, adjustments are sometimes made on a divisional or product-line basis, particularly when more granular segmentation cannot be accurately performed. If the Japanese taxpayer's entire business consists of reselling broadly similar products purchased from a single related party, it may be possible to make a lump-sum adjustment based on the taxpayer's entity-level profit and loss account.

Care should be taken when booking adjustments under labels such as "management fee" or "royalty." This approach is uncommon in Japan. Tax authorities may scrutinize these payments to evaluate their rationale. They might reclassify a given payment as a donation or another nondeductible payment. The characterization may lead to other tax consequences. For example, royalties may face a withholding tax, whereas a management fee may not.

Customs implications are particularly important when transfer pricing adjustments affect imported goods. Before the adjustment is

made, the buy-sell agreement should ideally include a price adjustment clause signed at or before the start of the year, subject to adjustment. If the agreement is signed only after the year has started, contemporaneous evidence such as a memorandum of understanding or meeting minutes prepared before the start of the year may help demonstrate that the adjustment mechanism had been agreed in advance.

Taxpayers should also ensure that the final price after adjustment will be available within five years from the date of the import permit.

When the adjustment results in additional payments by the Japanese buyer, the importer will generally need to amend the affected import declarations to reflect the final true-up price. If the adjustment is made through a lump-sum invoice or payment, the amount will need to be allocated across the relevant imports during the period. In some cases, it may be possible to discuss simplified procedures with customs, although the importer may still need to submit records of all relevant import declarations.

When the adjustment results in receipts by the Japanese buyer, the importer may file a request for refund. Robust documentation will be required. In practice, the likelihood of obtaining a refund may be higher when the original invoices are amended rather than when the adjustment is made through a lump-sum invoice.

Taxpayers seeking certainty regarding the customs treatment of a transfer pricing adjustment may consider using the advance ruling procedure. It is customary to consult the customs valuation division orally before submitting a formal ruling application. In practice, many importers may proceed with a voluntary amendment instead of a ruling if the initial indication from customs is that the transfer pricing adjustment should be reflected in the customs value.

A tax-return-only adjustment that does not involve settlement or payment between the parties would not generally be regarded as an additional payment for imported goods and would not immediately affect the customs value. However, it may still create customs risk. If a transfer pricing adjustment was required for tax purposes, customs may question whether the original invoice price was affected by the

relationship between the parties. The taxpayer should therefore consider whether the original invoice price can be defended from a customs valuation perspective.

The nature of the transfer pricing adjustment should be clearly documented. If customs concludes that the nature of the adjustment was not agreed upon before importation or that it is unclear, customs may deny the use of the transaction value method and require that the customs value be recalculated using alternative valuation methods.

Therefore, Japan illustrates the importance of implementation form. A transfer pricing adjustment may be recognized in principle, but its tax, accounting, and customs consequences will depend heavily on whether the adjustment is made through the accounts or tax return, whether it is connected to specific transactions, and whether the relevant legal and customs documentation supports the adjustment.

Malaysia

Recognition and Treatment of Adjustments

Malaysia's transfer pricing regime is administered by the Inland Revenue Board of Malaysia (IRBM), which examines controlled transactions to assess whether the arm's-length principle has been followed and whether the taxpayer properly declared their income according to the applicable transfer pricing rules, guidelines, and audit framework. In recent years, IRBM has intensified its review of transfer pricing practices, particularly for transfer pricing year-end adjustments.

In general, a transfer pricing year-end adjustment is made to align an entity's actual profitability or the pricing of its related-party transactions with the arm's-length range determined through benchmarking analyses. These adjustments are typically intended to address forecasting errors or operational variances that arise during the year, thereby maintaining the taxpayer's underlying transfer pricing policy or pricing mechanism.

However, transfer pricing year-end adjustments remain a sensitive area in Malaysia. In practice, those adjustments may be challenged by the IRBM, particularly when the adjustment is

a true-down that reduces the profit of the Malaysian entity. This risk may be heightened where the multinational group relies on a regional or global benchmarking analysis, while the IRBM prefers an arm's-length range derived from Malaysian local comparable companies. The resulting difference in benchmarked outcomes may therefore affect whether the year-end adjustment is accepted.

To support a transfer pricing year-end adjustment, the Malaysian entity should be prepared to provide detailed documentation at both the local entity and group levels. This may include the group transfer pricing policy, intercompany agreements permitting true-ups or true-downs, costing sheets, profit margin computations, and benchmarking analyses supporting the relevant arm's-length range.

From a practical perspective, true-down adjustments that reduce Malaysian taxable profits should be approached with caution. When possible, taxpayers should manage pricing outcomes during the year to reduce the need for material year-end true-downs.

Timing and Procedural Requirements

Malaysia's transfer pricing rules and guidelines do not prescribe detailed procedural requirements specifically governing transfer pricing year-end adjustments. Consequently, timing, documentation, and implementation become particularly important in practice.

When an adjustment is required, it is generally preferable for the taxpayer to identify and implement the adjustment during the year or at least before the financial statements and tax filings are finalized. Periodic monitoring, such as quarterly reviews, may help identify potential deviations from the target arm's-length outcome earlier and reduce the need for significant year-end adjustments.

The accounting treatment of the adjustment is also important. In practice, adjustments may be reflected in ledgers in different ways, including as payments for services or as adjustments to cost of sales. However, the way the adjustment is recorded should be consistent with the underlying transaction and supported by invoices, debit notes, credit notes, or other documentation. An adjustment merely netted off in the accounts

without clear supporting documentation may be more difficult to defend.

When the adjustment is recorded as a particular type of payment, such as a management fee, the taxpayer should ensure that the characterization is supportable. Otherwise, the adjustment may invite further scrutiny beyond transfer pricing, including questions about whether services were actually rendered, whether an economic benefit was received, whether the charge duplicates other payments, and whether withholding tax obligations arise.

Key Risks and Practical Considerations

The key risk associated with transfer pricing adjustments in Malaysia is that an adjustment, particularly a true-down, may be challenged when the taxpayer is unable to support the commercial rationale, calculation methodology, and arm's-length basis of the adjustment.

Taxpayers should maintain robust documentation demonstrating the basis for the adjustment. This should include the relevant intercompany agreements or group policies permitting the adjustment, the pricing mechanism, costing sheets, profit margin computations, and benchmarking analyses. When the group relies on regional or global benchmarking, taxpayers should consider whether the outcome remains supportable from a Malaysian perspective, particularly given the IRBM's preference for local comparable companies.

The ledger treatment of the adjustment is another important practical consideration. If the adjustment is recorded as a service fee, management fee, royalty, cost-of-sales adjustment, or other form of payment, the tax consequences should be assessed based on that characterization. A description that is inconsistent with the underlying transaction may create additional audit issues, including withholding tax exposure, deductibility challenges, service benefit questions, or broader inconsistency with the taxpayer's transfer pricing documentation.

Voluntary disclosure may also be relevant in appropriate cases. When transfer pricing adjustments have been made for prior or current years and there is a risk that the IRBM may reject the treatment adopted, taxpayers may consider

whether a voluntary disclosure could help manage exposure. This should be assessed based on the facts, the nature of the adjustment, available supporting documentation, and the potential tax consequences.

Malaysia therefore reinforces a broader theme across the APAC region. When detailed procedural guidance on transfer pricing year-end adjustments is limited, taxpayers should manage pricing outcomes proactively, support adjustments with contemporaneous documentation, and ensure that the accounting, legal, and tax treatment of the adjustment is consistent with its underlying commercial character.

New Zealand

Recognition and Treatment of Adjustments

New Zealand does not have prescriptive rules governing transfer pricing adjustments. Instead, the local regime operates under a self-assessment framework, under which taxpayers must ensure that cross-border related party transactions produce an arm's-length outcome consistent with OECD principles.

In this context, transfer pricing adjustments are accepted in principle when they are necessary to align actual results with the arm's-length standard. The New Zealand Inland Revenue's guidance emphasizes the accurate delineation of the underlying transaction by reference to the legal arrangements, economic substance, and actual conduct of the parties.

From a practical perspective, upward adjustments that increase taxable income are generally less contentious. Downward adjustments are more sensitive, particularly when they reduce taxable income, and require strong supporting evidence and a clear commercial rationale.

A key feature of the New Zealand position is the interaction between transfer pricing adjustments and customs valuation in which the relevant arrangement involves the purchase or sale of tangible goods. Inland Revenue guidance recognizes that period-end transfer pricing adjustments may affect customs valuation, and Inland Revenue and customs take a coordinated approach in this area.

Timing and Procedural Requirements

New Zealand does not prescribe a detailed set of statutory timing rules for transfer pricing adjustments. Instead, the self-assessment framework places significant emphasis on contemporaneous pricing, contemporaneous documentation, and alignment with the taxpayer's actual conduct.

In practice, timing is critical. Inland Revenue expects transfer pricing outcomes to be determined based on the conditions existing during the relevant income year rather than relying on ex post corrections. Consistent with this expectation, transfer pricing documentation should be prepared before the income tax return is filed and should support the arm's-length outcome adopted for that period.

Adjustments are therefore more defensible when they are identified during the year or during the year-end financial close process, when they are reflected in the accounting records of the taxpayer and, when relevant, the counterparty.

An adjustment implemented through the accounts during the year-end process provides stronger evidence that the taxpayer has monitored and applied its pricing policy in real time rather than reconstructing the position after the fact.

While New Zealand does not explicitly prohibit downward transfer pricing adjustments in domestic legislation, any adjustment that reduces local taxable income should be approached with care. When a downward adjustment is not identified and recorded through the accounts during the relevant income year, it may be more difficult to sustain through unilateral self-assessment. In cross-border cases, relief for downward adjustments may need to be pursued through corresponding adjustment mechanisms or the MAP, consistent with the OECD framework, to ensure symmetrical treatment and mitigate double taxation.

Customs valuation should also be considered when transfer pricing adjustments relate to tangible goods. Inland Revenue guidance recognizes that taxpayers may use provisional pricing and apply period-end true-up adjustments, but these mechanisms must be supported and implemented consistently with the underlying commercial arrangements.

The practical message is that in New Zealand, transfer pricing adjustments should not be treated as retrospective tax-only entries. They should form part of a coherent pricing framework that is established upfront, monitored during the year, and implemented consistently across the relevant legal, tax, and customs positions.

Key Risks and Practical Considerations

From a New Zealand perspective, the key risks associated with transfer pricing adjustments arise less from prescriptive procedural rules and more from documentation quality, consistency of implementation, and alignment across different regulatory frameworks.

A primary area of focus for Inland Revenue is the quality and timing of transfer pricing documentation. Taxpayers are expected to maintain contemporaneous, locally-relevant documentation that clearly supports the arm's-length nature of their arrangements. When adjustments are made and the supporting documentation is inadequate or not aligned with New Zealand-specific facts, Inland Revenue is more likely to initiate audit activity and may impose shortfall penalties, potentially of up to 40 percent.

The form and consistency of implementation are also critical. Inland Revenue expects alignment between the transfer pricing analysis, accounting records, intercompany agreements, and tax return positions. Adjustments that are only reflected in the tax computation, without corresponding support in the accounts or underlying arrangements, face a higher risk of being challenged. This is particularly relevant when adjustments are made after the relevant income year or when they materially alter the taxpayer's reported position without clear contemporaneous support.

The direction of the adjustment is another important consideration. Upward adjustments are generally less contentious, whereas downward adjustments that reduce taxable income are more sensitive. In cross-border contexts, such adjustments may not be recognized by the counterparty jurisdiction, giving rise to double taxation risk. Relief in these cases may need to be pursued through MAP processes, which can be time-consuming and uncertain.

When transfer pricing adjustments relate to arrangements involving tangible goods, customs implications should also be assessed. Inland Revenue guidance notes that valuation adjustments may need to be considered alongside customs requirements, particularly when provisional pricing mechanisms are used. This reinforces the need to ensure that any adjustment is consistent with the pricing framework and supported by appropriate documentation across both regimes.

Finally, the broader enforcement environment in New Zealand should be considered. Inland Revenue has increased its focus on transfer pricing compliance, with particular attention on accurate delineation, local substance, and consistency with OECD principles. In this context, transfer pricing adjustments not clearly supported by a coherent and well-documented framework will likely attract scrutiny.

The practical message for New Zealand is that transfer pricing adjustments should be anticipated, documented, and implemented consistently rather than treated as ex post corrections. Particular care is statutorily required for downward adjustments and cross-border positions, in which alignment with counterparties and access to treaty-based mechanisms may be necessary to achieve the intended outcome.

The Philippines

Recognition and Treatment of Adjustments

The Philippine transfer pricing framework, principally under Revenue Regulations No. 2-2013, adopts the arm's-length principle in a manner broadly consistent with OECD principles. However, the rules do not provide detailed, prescriptive guidance on the treatment of transfer pricing adjustments.

In practice, this results in a principle-based but audit-driven approach. The Bureau of Internal Revenue (BIR) generally evaluates transfer pricing adjustments in the context of tax audits rather than through a detailed ex ante compliance or approval mechanism.

Voluntary upward adjustments that increase taxable income are generally more acceptable because they align with the BIR's revenue collection mandate. These adjustments are

typically implemented through year-end true-ups reflected in the accounts or through tax return adjustments, provided they are supported by contemporaneous documentation and are consistent with the relevant intercompany agreements.

Downward adjustments that reduce taxable income are significantly more contentious. There is no explicit legal mechanism under Revenue Regulations No. 2-2013 or the Philippine tax code that clearly allows unilateral downward transfer pricing adjustments through self-assessment. Consequently, the BIR is likely to scrutinize or disallow those adjustments unless they are clearly supported by contemporaneous transfer pricing documentation, contractual provisions allowing price adjustments, and strong commercial justification.

When taxpayers seek relief from double taxation, they may need to rely on treaty-based mechanisms such as the MAP rather than domestic unilateral relief.

Under Revenue Audit Memorandum Order No. 1-2019, BIR transfer pricing adjustments usually act as primary adjustments. These either raise taxable income or disallow taxable deductions. Although Philippine rules do not expressly codify secondary adjustments, the BIR may recharacterize an adjustment as, for example, a constructive dividend or service income. This may create withholding tax exposure, depending on the nature of the transaction and the characterization of the payment.

Overall, transfer pricing adjustments in the Philippines are recognized in principle but applied conservatively in practice. The practical bias is toward adjustments that increase the Philippine tax base, while adjustments that reduce taxable income require a higher level of support.

Timing and Procedural Requirements

Philippine transfer pricing rules emphasize contemporaneous documentation and consistency although they do not prescribe detailed procedural mechanics for transfer pricing adjustments.

Under Revenue Regulations No. 2-2013, and as reinforced by Revenue Audit Memorandum Order No. 1-2019, taxpayers are required to prepare transfer pricing documentation when

transactions are undertaken. The documentation should demonstrate that the relevant pricing is arm's length based on available data. This reflects an ex ante expectation that is broadly consistent with OECD principles and limits the defensibility of purely retrospective adjustments based on hindsight.

From a practical perspective, year-end adjustments are more defensible when they are expressly provided in intercompany agreements (for example, through true-up clauses), reflected in the books and financial statements before finalization and supported by contemporaneous benchmarking and economic analysis.

There are no formal filing or approval requirements specifically for transfer pricing adjustments in the Philippines. However, documentation should be available during audit and is typically expected to be submitted within 30 days of a BIR request under standard audit procedures.

Adjustments should also be aligned with invoicing and contractual arrangements. The absence of actual intercompany settlement, such as debit notes, credit notes, or cash movement, may weaken the taxpayer's position because it raises questions for whether the adjustment was commercially implemented or merely reflected as a tax computation entry.

In summary, the Philippine framework does not prescribe strict procedural steps for transfer pricing adjustments. However, to withstand audit scrutiny, adjustments should be timely, documented, contractually grounded, and consistently reflected across accounting, tax, and legal records.

Key Risks and Practical Considerations

Transfer pricing adjustments in the Philippines carry multilayered risks beyond corporate income tax, particularly because of a lack of detailed administrative guidance and the BIR's increasingly active transfer pricing audit posture.

Double taxation presents one of the most prominent risks. A unilateral transfer pricing adjustment, particularly a downward adjustment, may not be recognized by the counterparty jurisdiction. Conversely, an upward adjustment imposed by the BIR may not be matched by a

corresponding adjustment overseas. Given the absence of a clear domestic corresponding adjustment mechanism, relief will generally depend on the MAP under an applicable tax treaty, which can be time-consuming and uncertain.

Another risk is withholding tax. The characterization of the adjustment is critical. The BIR may treat a transfer pricing adjustment as a service fee, royalty, interest, or constructive dividend. Such recharacterization may trigger final withholding tax, even when the taxpayer intended the adjustment to operate merely as a pricing correction. This risk is particularly relevant for outbound payments.

The third risk is VAT. When a transfer pricing adjustment is linked to the price of taxable goods or services, the BIR may assess output VAT adjustments. However, corresponding input VAT recovery may not be automatic, potentially resulting in irrecoverable VAT leakage. The absence of explicit rules on the VAT treatment of transfer pricing adjustments increases uncertainty.

The fourth risk involves documentation and audit exposure. Under Revenue Audit Memorandum Order No. 1-2019, transfer pricing has become a key audit focus area. The BIR may examine functional and comparability analyses, consistency between contracts, invoices and actual conduct, and the linkage between the taxpayer's transfer pricing policy and financial results. Adjustments that are insufficiently supported by contemporaneous documentation or not reflected in actual conduct are at high risk of challenge by the relevant tax authorities.

The fifth risk is penalties and surcharge exposure. BIR-initiated transfer pricing adjustments may result in deficiency income tax, surcharge, interest, and compromise penalties. Although the Philippines does not have a separate penalty regime specifically for transfer pricing adjustments, the general tax penalty regime applies.

From a practical perspective, transfer pricing adjustments in the Philippines often fail not because the pricing outcome is inherently unsupported but because the implementation is weak. Common issues include the absence of agreement-based adjustment mechanisms, inconsistencies between accounting and tax treatment, lack of actual settlement or

documentation, and failure to consider indirect tax and withholding tax consequences upfront.

The overall Philippine perspective is therefore consistent with the broader theme across the APAC region. Transfer pricing adjustments are most defensible when they are anticipated, documented contemporaneously, contractually supported, implemented on a timely basis, and consistently reflected across tax, accounting, and legal frameworks.

Taiwan

Recognition and Treatment of Adjustments

Taiwan takes a more procedural approach to year-end transfer pricing adjustments. Under Ministry of Finance Decree No. 10804629000, a one-time year-end transfer pricing adjustment may be conducted but only when specific conditions are satisfied.

The parties to the controlled transaction must enter into an agreement in advance concerning the adjustment. The other participants in the controlled transaction must also make corresponding adjustments. When the adjustment concerns imported goods, the import declaration must be marked as subject to a year-end one-time transfer pricing adjustment. The taxpayer must then submit an application and supporting documents to customs within one month upon the close of the accounting year for determination of the final customs value and settlement of any resulting additional customs duties and related taxes, or refund of overpaid amounts.

When VAT applies, the taxpayer must attach a one-time business tax transfer pricing adjustment statement with supporting documents, to their final VAT return for the accounting year. When a commodity tax is applicable, a commodity tax one-time transfer pricing adjustment statement and supporting documents must be attached and filed together with the commodity tax return for the final month of the accounting year.

Withholding tax must also be considered. If the price adjustment involves income subject to withholding, such as the purchase of foreign services, any withholding tax overpayment or underpayment must be refunded or supplemented in accordance with the relevant regulations.

Taiwan also distinguishes between taxpayer-initiated and tax authority-initiated adjustments. When a tax authority initiates a transfer pricing adjustment, it typically results in an upward adjustment to income tax payable. Under these circumstances, obtaining a refund of customs duties is generally difficult.

Timing and Procedural Requirements

The timing requirement is particularly important for imports. Enterprises must file a year-end one-time transfer pricing adjustment within one month after the close of the accounting year.

The procedural requirements should be considered before the adjustment is made. In particular, if the import declaration was not marked as being subject to a year-end one-time transfer pricing adjustment — a subsequent adjustment — increasing the purchase price may not be permissible.

Key Risks and Practical Considerations

The practical lesson for Taiwan is that taxpayers should not treat year-end transfer pricing adjustments as purely internal tax calculations. If the adjustment may affect imports, VAT, commodity tax, or withholding tax, the relevant procedural requirements must be considered in advance.

Failure to properly mark the import declaration or file within the prescribed period can materially limit the taxpayer's ability to implement the adjustment effectively. Taxpayers should also avoid aggressive transfer pricing adjustments that create significant fluctuations in financial results because these may attract scrutiny and undermine the credibility of the taxpayer's pricing policy.

Taiwan therefore illustrates the importance of procedural discipline. A transfer pricing adjustment may be technically supportable from an arm's-length perspective but still fail in practice if the taxpayer does not satisfy the relevant customs, VAT, commodity tax, or withholding tax procedures.

Thailand

Recognition and Treatment of Adjustments

Thailand's transfer pricing legislation applies to accounting periods beginning on or after January 1, 2019. However, there are currently no specific subordinate regulations that comprehensively govern the treatment of transfer pricing adjustments, particularly ones made after the end of the accounting period.

In practice, the Thai Revenue Department generally expects taxpayers to maintain supporting documents to substantiate transfer pricing adjustments made in respect of intercompany transactions. Such adjustments may be subject to scrutiny, and the burden of proof rests with the taxpayer.

Transfer pricing adjustments are commonly made by adjusting the transfer price for intercompany transactions, such as purchases or sales of goods and royalty arrangements, with the objective of ensuring that the taxpayer's profit falls within the arm's-length range. However, because the treatment of post-year-end adjustments is not specifically addressed in detailed regulations, taxpayers should exercise care when implementing such adjustments, particularly when they have a material impact on taxable profits.

When taxpayers have entered into an APA and actual results differ from the arm's-length outcome agreed under the APA, any adjustment should be made in accordance with the APA terms so that the taxpayer reports the agreed arm's-length result for tax purposes.

Timing and Procedural Requirements

From a practical perspective, transfer pricing adjustments in Thailand should ideally be made before the end of the accounting period. This is particularly important given the absence of detailed rules governing post-year-end transfer pricing adjustments.

Thai taxpayers should therefore monitor actual operating results regularly during the year to assess whether their results remain within the targeted arm's-length range. Periodic monitoring, such as quarterly or midyear reviews, can help taxpayers identify potential deviations early and

make pricing adjustments before the accounting period closes.

When an adjustment is made, taxpayers should ensure that it is properly reflected in the relevant accounting records and supported by the underlying intercompany arrangements, pricing policy, and transfer pricing analysis. The taxpayer should also be able to explain the commercial rationale for the adjustment and how the adjustment aligns the relevant transaction with the arm's-length principle.

Key Risks and Practical Considerations

The key risk in Thailand is the absence of adequate transfer pricing documentation and supporting evidence to substantiate the adjustment. When the taxpayer cannot support the commercial rationale, calculation methodology, and arm's-length basis of the adjustment, the Thai Revenue Department may challenge the adjustment during a tax or transfer pricing audit.

This may result in additional tax shortfalls, penalties, and surcharges. The risk is likely to be higher when the adjustment is made after the accounting period, is insufficiently supported by contemporaneous evidence, or creates a material reduction in taxable profit.

In practice, taxpayers should maintain robust transfer pricing documentation, intercompany agreements, and supporting documents that demonstrate the underlying transaction, the pricing mechanism, the reason for the adjustment, and the relevant arm's-length range. The documentation should also show that the adjustment is consistent with the taxpayer's actual conduct and commercial arrangements.

Therefore, Thailand reinforces a broad theme across the APAC region: When the rules on post-year-end adjustments are not prescriptive, taxpayers should manage transfer pricing outcomes proactively during the year and ensure that any adjustment is well supported before it is reflected in the accounts or tax filings.

Singapore

Recognition and Treatment of Adjustments

Singapore generally accepts transfer pricing adjustments when they are consistent with the arm's-length principle and properly supported by

contemporaneous transfer pricing documentation. However, the treatment depends on the nature of the adjustment, when it is made, and whether it is implemented consistently in the accounts and tax filings of the relevant related parties.

Year-end adjustments are generally the most straightforward category. These are adjustments made at year-end or during the year-end closing process to align actual results with the arm's-length outcome described in the taxpayer's transfer pricing analysis and policy. Inland Revenue Authority of Singapore (IRAS) generally accepts such adjustments when the taxpayer has 1) completed a transfer pricing analysis and produced contemporaneous documentation to support the arm's-length price, 2) the adjustment is made symmetrically in the affected related parties' accounts to avoid double taxation or double nontaxation, and 3) the adjustment is made before the relevant tax returns are filed.

Compensating adjustments may arise when taxpayers have entered into an APA with IRAS and actual results differ from the arm's-length outcome agreed under the APA. In such cases, the adjustment should be made in accordance with the APA terms so that the taxpayer reports the agreed arm's-length result for tax purposes.

Self-initiated retrospective adjustments are treated more cautiously. These refer to upward or downward adjustments made for prior financial years based on a subsequent review of past transfer prices. IRAS will not allow retrospective downward adjustments unless they arise from an error or mistake and are supported by contemporaneous transfer pricing documentation. Retrospective upward adjustments are less problematic from a Singapore tax base perspective, but they should still be supportable under the arm's-length principle and may have surcharge, GST, withholding tax, or foreign tax implications.

Corresponding adjustments may be considered when the same profits are taxed twice because of a foreign tax authority's transfer pricing audit. In such cases, the Singapore taxpayer should not simply make a unilateral corresponding adjustment in its Singapore tax return or tax computation without informing IRAS. Relief should generally be pursued through

the MAP under the relevant double taxation agreement.

When IRAS initiates a transfer pricing adjustment because a related party transaction is not arm's length, the adjustment may increase income, reduce deductions or allowances, or reduce losses. A 5 percent surcharge may apply to the amount of the transfer pricing adjustment regardless of whether additional tax is ultimately payable. Penalties or fines may also arise when the taxpayer does not comply with the statutory transfer pricing documentation requirements.

Timing and Procedural Requirements

From a timing perspective, Singapore does not prescribe one single rule for all categories of transfer pricing adjustments. The timing requirement depends on the type of adjustment. For year-end adjustments, the key practical requirement is that the adjustment should be made before the relevant tax returns are filed. This is important because the taxpayer is reporting the adjusted arm's-length result for tax purposes, even though that result may differ from the actual transactional outcome before the adjustment.

In practice, the most defensible adjustments are those that are contemplated upfront under a clear transfer pricing policy and implemented during the normal year-end closing or true-up process. Adjustments made much later, especially after tax returns have been filed, are more likely to be scrutinized. This is particularly true for retrospective downward adjustments, which directly reduce Singapore's taxable income or increase deductions or losses.

The accounting treatment should also be aligned with the transfer pricing position. When the adjustment changes the commercial pricing between the related parties, it should generally be reflected in the accounts of the affected parties rather than being treated solely as a tax computation entry. A tax-only adjustment, without corresponding accounting or commercial support, may be more vulnerable to challenge, especially when the taxpayer is seeking to reduce Singapore taxable income.

The adjustment should also be legally and commercially implemented. Depending on the nature of the transaction and the adjustment, this may involve intercompany invoices, debit notes,

credit notes, revised computations, accounting entries, or other supporting documents. The documentation should explain what the adjustment relates to, how it was computed, why it is arm's length, and how it is consistent with the underlying intercompany arrangement.

Tax return reporting should be consistent with the transfer pricing documentation, accounting treatment, and legal implementation. Inconsistencies between the tax filing, accounts, intercompany documents, and transfer pricing analysis may give rise to queries during an audit.

Key Risks and Practical Considerations

Singapore transfer pricing adjustments may give rise to several additional risks beyond corporate income tax.

The first is surcharge and penalty exposure. When IRAS makes a transfer pricing adjustment, a 5 percent surcharge may apply to the adjustment amount regardless of whether additional tax is payable. Certain adjustments, such as qualifying year-end adjustments, compensating adjustments made under an APA, and corresponding adjustments made pursuant to a MAP outcome, are not subject to the 5 percent surcharge. Separately, penalties or fines may arise when the taxpayer fails to comply with the statutory transfer pricing documentation requirements.

The second is withholding tax. When a transfer pricing adjustment leads to, or is treated as, a payment to a nonresident for interest, royalties, management fees, technical services, or other income of a type potentially subject to Singapore withholding tax, withholding tax should be assessed separately. The analysis should be based on the legal character and source of the payment, the underlying contract, the nature of the adjustment, and any applicable double taxation agreement.

The third is GST. A transfer pricing adjustment for income tax purposes may indicate that the value of a supply or import of goods or services has been understated or overstated for GST purposes. When the adjustment changes the value of a taxable supply or taxable import, GST adjustments may be required, subject to the detailed conditions and administrative concessions in IRAS's GST guidance. Conversely,

when there is no supply, no direct link to consideration, or the adjustment falls outside the GST adjustment rules, there may be no GST adjustment.

The fourth is double taxation. A unilateral adjustment in Singapore may not be recognized by the counterparty jurisdiction, and a foreign-initiated adjustment may not automatically be relieved in Singapore. When material double taxation arises, taxpayers should consider whether MAP relief is available under the relevant double taxation agreement.

From a practical perspective, Singaporean taxpayers should establish a clear transfer pricing policy upfront. This includes defining the pricing mechanism, target outcome, monitoring process, and adjustment triggers. Taxpayers should actively monitor results throughout the year and document the basis for any adjustment. It is crucial to assess GST and withholding tax implications before booking any adjustment. Finally, taxpayers should ensure consistency between accounting records and tax filings and seek bilateral alignment if the adjustment is material or risks double taxation. ■