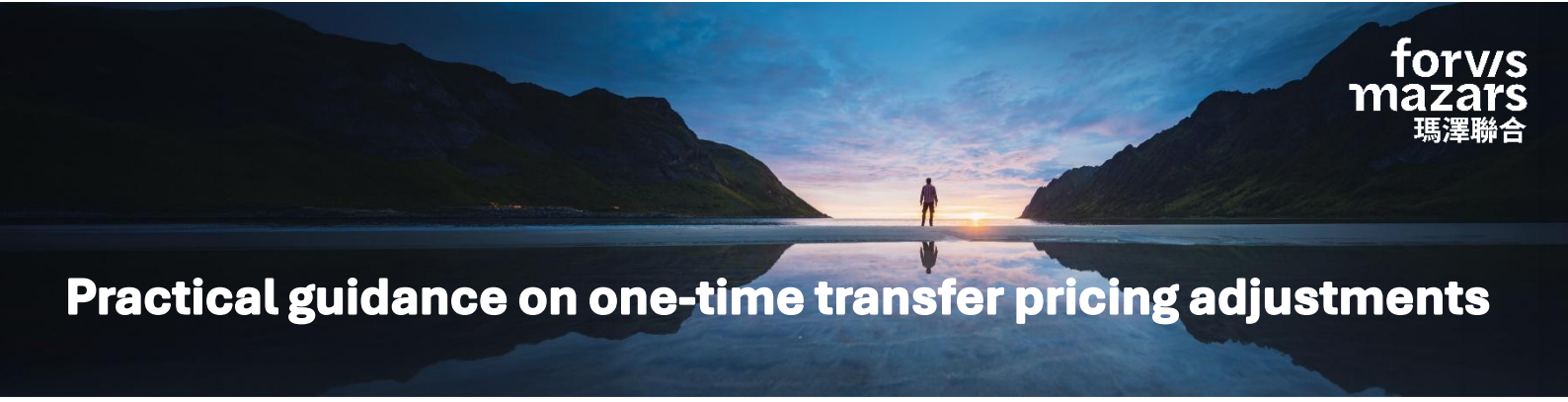


Practical guidance on one-time transfer pricing adjustments

Tax Insights and Practical Analysis

Summary

Under the regulations of the Ministry of Finance ("MOF"), an enterprise engaging in related-party transactions may make a one-time transfer pricing adjustment prior to fiscal year-end, provided that the parties to the transaction must reach an agreement in advance, make the corresponding accounting adjustments simultaneously, and complete the customs value determination procedures with the customs authorities as required. Failure to fully meet these requirements will result in the disallowance of the upward adjustment to purchase costs and the assessment of additional taxes.

Analysis

A multinational enterprise ("MNE") group may make one-time transfer pricing adjustments to modify the prices of related-party transactions, thereby managing transfer pricing risks and ensuring that profit allocation across affiliates aligns with the group's overall transfer pricing policy. Accordingly, on November 15, 2019, the MOF promulgated Tax Ruling No. 10804629000, stipulating that an MNE group engaging in related-party transactions may conduct a one-time transfer pricing adjustment prior to fiscal year-end, provided that the parties satisfy the following requirements:

1. **Agreement reached in advance**

   The participants in the related-party transactions shall reach an agreement on the transaction terms and all factors affecting pricing before the transaction. The receivables and payables adjusted pursuant to such agreement shall be recorded in their financial accounting books.

2. **Simultaneous corresponding adjustments**

   The participants in the related-party transactions shall make corresponding adjustments concurrently, ensuring the amounts recorded by both parties are consistent.

3. **Application to Customs for assessment of the customs value as required**

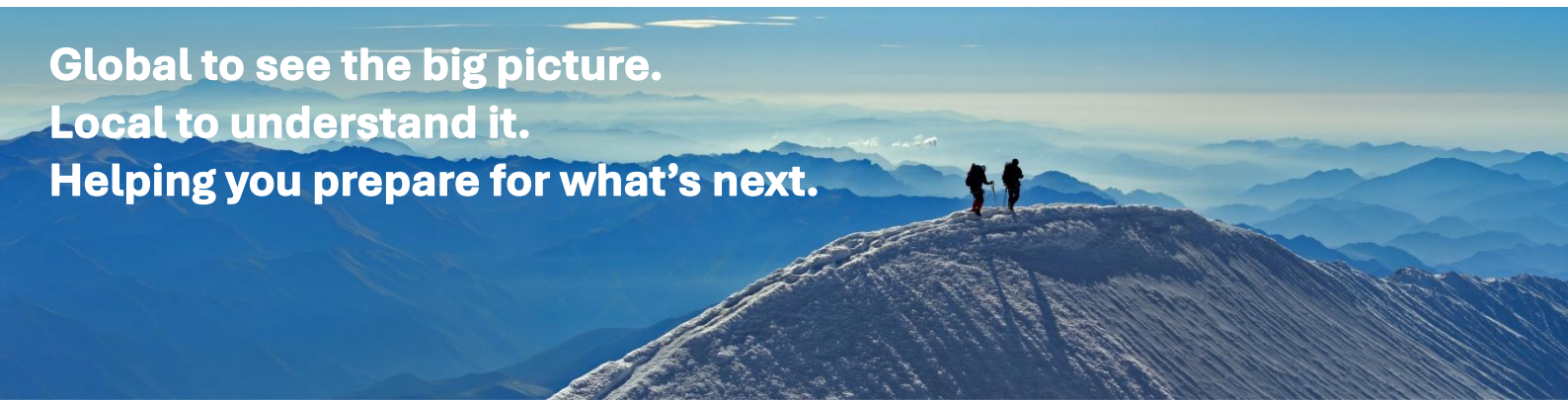
   For cross-border transfer of tangible assets, the import declaration shall be annotated with "One-time transfer pricing adjustment for fiscal year XXX" upon import. Based on the provisional price stated in a proforma invoice, the enterprise shall apply to Customs to have the goods released upon payment of a customs guarantee deposit. Within one month after the end of the fiscal year, the enterprise shall submit the following documents to Customs to apply for the assessment of the customs value: an application form for one-time transfer pricing adjustment, transaction contracts, formal commercial invoices, proof of payment, and other relevant information. Subsequently, the enterprise shall pay any additional import duties and related taxes and fees collected by Customs, or apply for a refund thereof.

For example: Company A is a Taiwan subsidiary of a foreign group. It mainly imports components from its parent company B, processes them in Taiwan and sells the finished products. In 2025, due to rising raw material prices, the parent company B issued an adjustment invoice prior to year-end that increased the price of goods charged to Company A by NT$60 million. Company A included this additional purchase amount in its annual operating costs and deducted it in its annual corporate income tax return, so that its operating margin would align with the profit allocation under the group's transfer pricing policy.

Although Company A and its parent company B signed an agreement at the beginning of the year regarding profit allocation, and the parent company B also made a corresponding adjustment to its recorded revenue, Company A did not annotate its import declarations with a one-time transfer pricing adjustment, nor did it apply to Customs for an assessment of the customs value after year-end. Based on this, upon audit, the tax authorities held that while Company A had met

the first two requirements, it had not completed the relevant customs assessment procedures and therefore did not satisfy the one-time transfer pricing adjustment rules. Consequently, the tax authorities disallowed the NT$60 million upward adjustment to operating costs and assessed additional corporate income tax of NT$12 million (NT$60 million x 20%).

Drawing on our extensive experience assisting enterprises with one-time transfer pricing adjustments, we remind businesses that all three aforementioned requirements must be met. Furthermore, taxpayers must duly complete the requisite filings, submit supporting documentation, and settle all applicable taxes and fees pursuant to the regulations to mitigate the tax risks of having upward adjustments disallowed and facing subsequent tax assessments.



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