



# Latest updates on determination and application of Transfer Prices

- In this issue we would like to bring to your notice the latest developments in the area of determination and application of Transfer Prices passed with the Decree of the Board of the Ministry of Economy of Azerbaijan Republic.
- Until the end of the year the latest changes will be presented to business community by the officials of the State Tax Service by the Ministry of Economy of the Republic of Azerbaijan.

## Latest development in the area of determination and application of Transfer Prices

*On 21 July the Board of the Ministry of Economy of Azerbaijan has passed the Decree on a number of changes to be made to existing "Decree on determination and application of Transfer Prices" (hereinafter, "The Decree")*

The key changes adopted within the Decree are the following:

1. The definition of Arm's Length Range - For the purposes of reviewing the prices applied in the Controlled Transactions for compliance with arm's length principle the Arm's Length Range is determined as interquartile range of all respective indicators (price, margin, weighted indicators) of the independent transactions identified as a result of Comparability Analysis.
2. The search period of Comparability Analysis - The search period for conducting comparability analysis is determined as the year of a Controlled Transaction and two previous years. The Arm's Length Range is built based on average indicators of such three years. The indicators included in the Arm's Length Range should be available for each of the three years for which such are determined.
3. Application of Transfer Prices - If respective indicator (price, margin, weighted indicators) applied in a Controlled Transaction are outside the Arm's Length range the taxes are recalculated based on the Median of an Arm's Length Range.

4. Documents Required for review of Transfer Prices:
  - Financial statements of the transaction parties,
  - The functional profiles of the parties and functional analysis of the transaction,
  - The structure of the MN group, key business strategies and economic results of group's activities;
  - Details of the Controlled Transaction, selection of TP method, details of Comparability Analysis and related documents.
5. Advance Pricing Agreement:
  - The period for review of applications for Advance Pricing Agreements was determined as 30 days with the two times extension right for the tax authorities.
  - The Application should be filed before the transaction.
  - The letters issued by the tax authorities in response to the application are valid for three years.
  - The letter issued on advance agreement of transfer pricing method could be applied in respect of similar transaction of a taxpayer conducted in previous periods.

## Contacts

We hope that you will find this overview helpful. For more detailed information, please contact the following specialists:



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