

What is transfer pricing?

Transfer pricing means determining the price of goods and services sold between entities related to each other.



Who is considered connected person?

Related person considered persons, who controls each other fifty per cent (50%) or more of the shares, or are directly or indirectly controlled by a third person, when persons are relatives of the first, second and third row, according to the Law on Heritage.

Who is obligated to transfer the price?

All registered taxpayers in Kosovo who are involved in one or more controlled transactions.

What are controlled transactions?

Are transactions occur between two companies located in two different tax jurisdictions and are considered to be related parties.

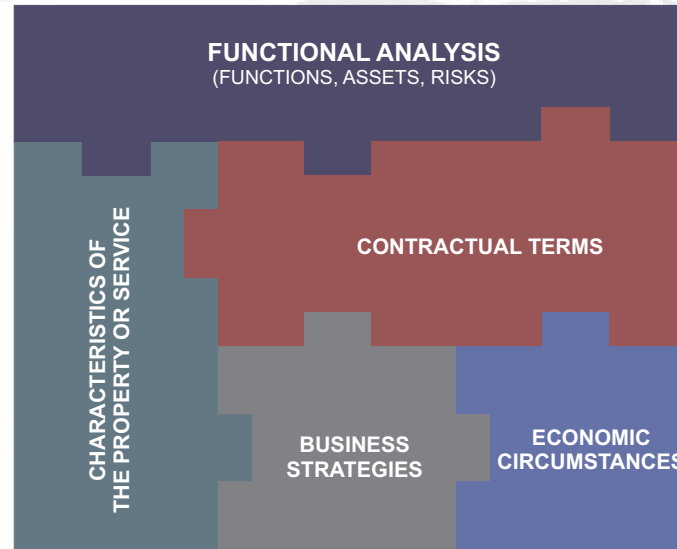
What do we mean with arm's length principle?

Arm's length principle for transfer pricing purposes is the price of the product sold or service provided between related parties, which should be the same as if the parties were not related.

How the arm's length principle does apply for transfer pricing purposes?

The application of arm' length principle is based on a comparison of the conditions in the controlled transactions with the conditions of comparable uncontrolled transactions.

Which factors should be considered for the comparability analysis



Which are transfer pricing methods?

Traditional transaction methods	
Comparable uncontrolled price method	What compares? price
Resale price method	gross profit level
Cost plus method	gross profit level
Transactional profit method	
Transactional net margin method	net profit level
Profit split method	gross profit; net profit; internal/external data

What is market range?

Market range is relevant financial indicators, i.e., prices, margins or parts of profit derived from the application of the most appropriate transfer pricing method for a number of uncontrolled transactions, each of which is almost equally comparable to the controlled transaction.

What is tested party?

Tested party is a party of the controlled transaction, for which the financial indicator (margin on costs, gross margin, or net margin indicator) is being tested.

How is selected tested party?

As a general rule, tested party is a party on a controlled transaction, for which one of the transfer pricing methods can be applicable in the most reliable manner, and for which can be identified the most reliable comparable uncontrolled transaction.

Which methods are used on a tested party?

Cost plus method
Resale price method
Transactional net margin method

How to select the most appropriated method?

Initially, comparable uncontrolled price method is used, and in cases where this method cannot be used, other most appropriate methods are used and it is not required to apply more than one method.

On which method, TAK is based initially?

TAK, in order to prove that the conditions of the controlled transaction within the arm's length principle, is based on the transfer price method applied by the taxpayer, and if the opposite is proven, another method is used.

When is it considered that the service transaction is within the arm's length principle?

The offered / received service transaction is considered within the arm's length principle:

- if the service is provided, it is actually paid;
- whether the service will provide an economic value;
- if the recipient of the service would be willing to pay for it by an independent party; and
- if the value of the service corresponds to the value for which the independent parties may agree.

Is a simplified approach applied to intra-group services with low value-adding?

For intra group services with low value adding, the service provider within the MNE will apply a margin of 7% to all accumulated costs.

When transfer pricing adjustment can be made?

The transfer pricing adjustment is made in cases when financial indicator from controlled transaction is out the market range.

What are the corresponding adjustments?

Corresponding adjustments occur when an adjustment is made within the terms of controlled transactions by the tax authority of another country and which results in taxing the profits in that country, for which the profit is already taxed in Kosovo. If the country proposing the adjustment has an agreement with Kosovo for the elimination of double taxation, then under these terms, TAK, after submission of a request by the Kosovo taxpayer, looks into compliance of that adjustment on arm's length principle.

Who should report for controlled transactions?

Taxpayer involved in the controlled transactions, including loan surpluses, which within fiscal exceed three hundred thousand euro (€300,000), complete and submit to TAK the form for "Notifying annual controlled transactions".

When is the deadline for submission of annual notification for controlled transactions?

The annual notice is submitted together with the annual statement and the financial statements, in physical or electronic form, at the latest on 31 March of the following year.

When should be submitted the transfer pricing documentation?

Transfer pricing documentation must be made available to TAK at its request, within thirty (30) days of receiving the request.

What includes transfer pricing documentation?

- summary of activities of the taxpayer
- description of the organizational structure of the corporate group in which the taxpayer is a member
- description of controlled transactions
- explaining the selection of the most appropriate transfer pricing method and, the financial indicators
- comparability analysis
- explanation of any economic analysis and support project
- conclusion on the compliance of controlled transactions terms within arm's length principle
- any other information that may have a material impact on the determination of the taxpayer's compliance within arm's length principle in relation to controlled transactions.

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TRANSFER PRICING

