

Practical Steps to Prepare a Transfer Pricing Study Report

Practical workflow + real challenges faced in TP assignments

CA Pratik R Mehta
(FCA, DISA (ICAI), Registered Valuer (S&FA))





Why TP Study Matters



Arm's-Length Pricing

Ensures transactions between related parties reflect market conditions



Mandatory Compliance

Required under Rule 10D, 92E, ICAI standards, and OECD guidelines



Risk Mitigation

Reduces audit exposure and penalty risk significantly

The Process: Document → Analyse → Compare → Conclude

Step 1: Data Collection from Associated Enterprises



Key Challenges

- Associated enterprises often reluctant to share financials and commercial agreements
- Basic documentation frequently missing—contracts, cost sheets, allocation methodologies
- Time-zone differences create communication delays and slow response cycles



Solution: Issue formal documented requests with specific references to Rule 10D requirements and follow up systematically

Step 2: Collect Tested Party Data

1

Statutory Documents

Obtain AOC-4, MGT-7, MOA/AOA from MCA/ROC filings

2

Registration Details

Collect PAN, Certificate of Incorporation, GST registration, organisational chart

3

Critical Verification

MCA filings frequently don't reflect actual business operations—cross-verify through management discussions

Common Issue: Website descriptions often contradict statutory filings, requiring thorough validation



Step 3: Functional Analysis (FAR)

Understanding Functions, Assets, and Risks

What We Analyse

- Detailed management interviews
- Real functions and team structure
- Pricing control mechanisms
- Delivery and operational processes

Key Challenges

- Management struggles to clearly articulate functions performed
- Difficulty identifying actual commercial risk bearers
- Informal processes not properly documented

Best Practice: Use structured FAR questionnaires and document all meeting minutes comprehensively

Step 4: Comparable Company Search

01

Database Research

Search Capitaline using industry keywords and business activity filters

02

Multiple Filter Testing

Apply various industry classification codes to capture all relevant companies

03

Manual Validation

Verify each result independently—database classifications are often unreliable

Major Challenge: Industry codes in MCA filings are frequently incorrect. Identical businesses appear under completely different industry verticals, making database results unreliable without manual verification.

Step 5: Website Review and Document Validation



Website Analysis

Visit each comparable's website to confirm actual business activities and service offerings



Cross-Reference Filings

Compare website information against AOC-4, MGT-7, and annual reports



Identify Gaps

Many companies provide vague descriptions; segment details often missing entirely

Solution: Combine all available sources—website content, public filings, and transparent assumption documentation



Step 6: Apply Quantitative Filters

Standard Filters Applied

- Turnover range thresholds
- Related-party transaction percentage
- Export revenue criteria
- Employee cost ratios
- Persistent Losses

Data Availability Issues

Export sales frequently not disclosed in financial statements

Gratuity/leave provisions often missing

RPT percentages not reported by smaller companies

Approach: Use best-available data & reconcile with AOC-4 Form

Steps 7–8: Finalise Comparables and Arm's Length Margin

Comparable Finalisation Challenges

Annual Re-evaluation Required

Comparables change yearly as companies establish foreign subsidiaries, increasing RPT beyond 25% threshold

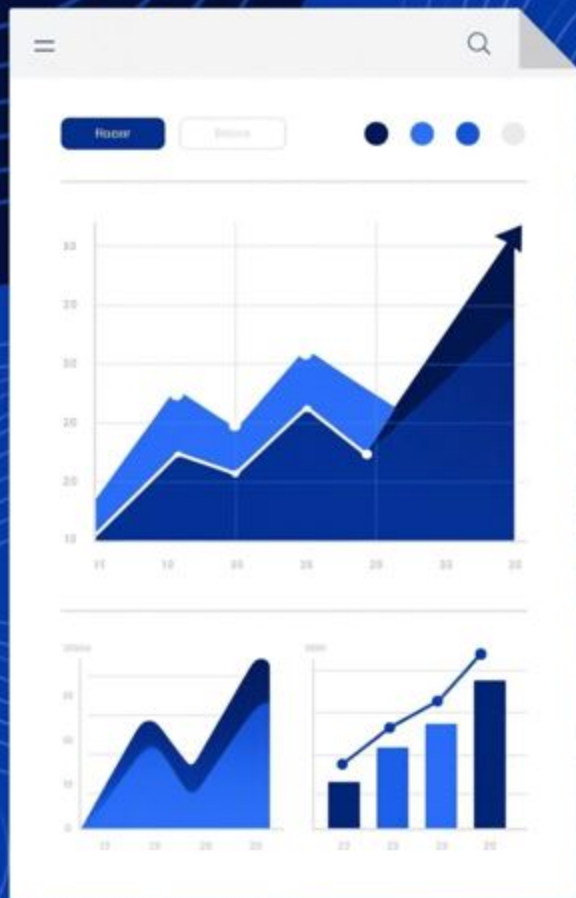
Business Line Changes

Companies diversifying into new activities require rejection and replacement

Limited Adjustments

Only Working Capital Adjustment is reliably quantifiable—risk-based adjustments lack proper supporting data

Key Principle: Keep adjustments limited to provable, data-backed items only





Key Takeaway: TP Is
Detective Work

20% Method 80% Verification

The Real TP Formula

Documentation

Thorough, transparent, and
defensible records at every
stage

Verification

Cross-checking multiple
sources to establish accurate
facts

Clear Processes

Systematic workflows ensure strong compliance and defensible
positions

Success requires: Early planning, clear responsibility allocation, and
persistent follow-up—especially for complex filings like Form 3CEAA
Part B and Country-by-Country Reporting

DISCLAIMER



DISCLAIMER

- Please note that all above stated points are general in nature and there are other conditions, restrictions or options available to each individual case.
- Views expressed are personal in nature.
- Sharing any content of this article without written consent of author would be liable for legal actions.
- Presentation has been prepared keeping in mind the participants involved and not people in general.

For further inquiries or details, please contact us:

capmehtaco@gmail.com

www.capmj.com