



Overview

Garrigues Portugal, S. L. P. - Sucursal, Taxand Portugal

Garrigues Portugal, a law firm headquartered in Spain, with offices in Portugal (Lisboa and Porto), offers a full range of tax and legal advisory services at local, regional and global level. Currently, it is the only law firm in Portugal that covers all areas of tax, including transfer pricing "TP", counting with a specialized, fully dedicated and experienced team providing a full-service and offering, e.g. advisory services ranging from mere documentation to engaging analysis, strategic planning and addressing disputes and controversies or valuations, as follows:

- ❖ Preparation of TP documentation (Master File / Local File / Country-by-Country Reporting "CbCR"); Assisting on the tax returns related with TP policies and transactions; Drafting and review of intercompany agreements (TP aspects)
- ❖ Review and design of TP policies, economic analysis / TP benchmarks (e.g., prices, margins, interest rates, royalty rates, valuations); Model intragroup transactions and supply chain
- ❖ Preparation and negotiation with the tax authorities of advance pricing agreements "APAs"; Assistance in relation to mutual agreement procedures "MAPs"
- ❖ Assisting in TP inspection procedures and litigation.

General: Transfer Pricing Framework

Article 63(1) of Corporate Income Tax Code "CITC" and article 1 of Ministerial Order no. 268/2021, of 26th of November "Ministerial Order no. 268/2021" foresee the arm's length standard by requiring for corporate tax purposes that the terms and conditions practiced, accepted and agreed between related parties in their commercial, financial, restructuring dealings and profit/loss allocations follow those that would have been expected in similar transactions between unrelated parties. The OECD Transfer Pricing Guidelines "OECD Guidelines" are referred in the Portuguese Transfer Pricing legislation "Portuguese TP legislation" as a source of recommended guidance in the application of the arm's length principle, given its complex application and the need to avoid double taxation and litigation.

TP documentation obligations are also in force.

Accepted Transfer Pricing Methodologies

The TP methods stipulated in Portuguese TP legislation - Article 63(3) of CITC and Article 6(1) of Ministerial Order no. 268/2021 - are aligned with those outlined in the OECD Guidelines and can be categorized into two groups: traditional methods and profit-based methods. The Comparable Uncontrolled Price "CUP", Resale Price and Cost-Plus methods are considered traditional methods, while the Transactional Net Margin Method and Profit Split Method fall under the profit-based category. In addition, the Portuguese TP legislation provides the possibility to adopt

other generally accepted methods, techniques or models for the economic valuation of assets, whenever the previously mentioned methods cannot be used due to the unique or singular nature of the transactions or the lack of reliable comparable information.

In line with the OECD Guidelines, the Portuguese TP legislation has eliminated any specific reference to a hierarchy in their application, adopting the best method rule. The selection of the most appropriate method depends on the specific characteristics of the transaction under analysis and requires that the selected TP method ensures a reliable assessment of the arm's length principle.

Transfer Pricing Documentation Requirements

Article 17 of Ministerial Order no. 268/2021 states that the obligation to prepare the TP documentation (comprised by both Master File and Local File) applies to any taxpayer registering annual revenues equal to or higher than EUR 10,000,000 during fiscal year to be documented. There is a reporting exemption for controlled transactions in amounts of less than EUR 100,000 (per transaction, per counterparty) and, in globality, of EUR 500,000. These exemptions do not cover controlled transactions carried out with taxpayers resident outside the Portuguese territory and subject to a more favourable tax regime.

Despite being exempt from preparing TP documentation, since the total revenues are lower than the threshold of EUR 10,000,000, the Portuguese taxpayers should be in position to prove the compliance with the arm's length principle regarding the transactions carried out with related entities in case of a potential tax inspection conducted by Portuguese Tax Authorities "PTA".

The Portuguese TP legislation currently in force requires more and more detailed information, when compared with the OECD Guidelines, to be included both in the Master File and Local File, stating in Appendix I of the Ministerial Order no. 268/2021 an exhaustive list of elements which are mandatory to include.

Taxpayers qualified as Small and Medium Enterprises "SME" are allowed to prepare simplified TP documentation.

The TP documentation must be prepared in Portuguese.

Controlled transactions and amounts must be reported in Annex H of the so-called Simplified Business Information "IES", together with other TP relevant information (e.g., the taxpayer should indicate if TP documentation was prepared, whether any restructuring has been implemented).

Large Taxpayers are obliged to submit their TP documentation to PTA no later than the 15th day of the 7th month following the fiscal year end. The same deadline applies to the filing of the "IES". For taxpayers not falling under this category, the submission of TP documentation is compulsory upon PTA's request. The usual administrative deadline for submitting the documentation is 10 days.



CbCR and CbCR notification rules, generally in line with the OECD Guidelines, are also in force. CbCR must be submitted by the ultimate parent entity of the Group until the end of the 12th month after the end of the fiscal year to which it refers. The CbCR notification must be submitted by the Portuguese constituent entities until the end of the 5th month after the closing of the fiscal year to which the CbCR refers.

Local Jurisdiction Benchmarks

There is a tendency to prefer domestic comparables specially in those cases where the controlled transactions under evaluation would involve terms and conditions significantly connected with specific/exclusive characteristics of the domestic market. If necessary, Iberian or European comparables may be used.

The use of both internal and external comparables is accepted.

The criteria used by the taxpayer when preparing benchmarks together with the point of the range used as reference are often scrutinized by PTA in tax inspections.

Domestic legislation allows the use of an arm's length range and statistical measures for its determination. The use of the median as reference value in the context of potential adjustments resulting from a tax inspection is stated in the legislation.

When applying a TP method, and if the terms and conditions of the tested transaction are not fully comparable in any of the relevant aspects required for an arm's length test, comparability adjustments must be performed in order to eliminate the effect of the existing differences. The Portuguese TP legislation is generally in line with the OECD Guidelines regarding comparability adjustments.

The benchmarking searches may remain valid for three years (with a compulsory yearly update of the financials), provided that the facts and circumstances surrounding the transactions have not materially changed.

Another important note to point out is the independence threshold specified in the Portuguese legislation.

In addition, there is a preference for the weighted average three-year approach for benchmark analysis.

Finally, if the TP technical studies are prepared by a third-party expert, a Declaration of Responsibility regarding the methods, information and techniques must be issued.

Focus on Financial Transactions

Under Portuguese law, transactions between a taxpayer and any related entity must be contracted, accepted and carried out in terms and conditions substantially identical to those that would normally be agreed upon between independent entities in comparable transactions (arm's length). This framework covers intragroup financial operations – loans, guarantees, cash pooling, treasury, among other transactions – and imposes an analysis considering the substance of the transaction, availability of reliable information and degree

of comparability. The Portuguese legal system also requires accurate delineation of controlled transactions, in line with the OECD TP Guidelines, meaning the PTA may look beyond the contractual form to identify the real economic substance of the arrangement. Where the terms and conditions of an intragroup financial transaction do not reflect the terms and conditions agreed by independent parties, the PTA may recharacterize the transaction and pursue the necessary adjustments.

Portuguese case law on transfer pricing for intragroup financial transactions reveals a trend of decisions favoring taxpayers, largely driven by queries on PTA's comparability analysis. The PTA's reliance on statistical data – such as average interest rates – published by the National Bank "Banco de Portugal" or the European Central Bank "ECB" as benchmarks under the CUP method arises as a recurring issue, which has been repeatedly challenged before arbitral and tax courts. Recent decisions have held that such statistical averages fail to meet the comparability requirements and therefore cannot be used as reliable arm's length benchmarks for certain operations in the same group, such as cash pooling, without the necessary adaptation of the specific characteristics of the transactions in question.

On other topic, case law has established that intragroup guarantees cannot be benchmarked against standalone bank guarantees, given the different risk allocation and the fact that such guarantees arise from corporate relationship itself.

Advance Pricing Agreement "APA"

Since 2008, Portugal implemented an APA programme that follows the principles set forth by the OECD Guidelines. Taxpayers may apply for a unilateral, bilateral or multilateral APA in Portuguese jurisdiction. The rules on the procedures related with the conclusion of APA are foreseen in Article 138 of CITC and Ministerial Order no. 267/2021, of 26th November which transposes some of the work developed by OECD, recommending and endorsing the use of the OECD Guidelines.

The procedure to request an APA comprises two phases:

- ❖ Pre-filing phase, which entails a preliminary evaluation of the initial taxpayer proposal and may involve joint meetings with PTA, and
- ❖ Proposal phase, which entails the submission, analysis and negotiation of the APA proposal, that in any case should be presented at least 6 months before the beginning of the applicable tax year.

As regards the time frame to finalize the critical second phase, the law provides that unilateral agreements should be concluded within a maximum of 180 days, whilst a 360-day period applies to bilateral/multilateral APAs.

An APA may not exceed a 4-year period and under certain conditions, rollback provisions are possible.



Upon the implementation of an APA, taxpayers are required to file an annual report on the execution of the agreement, in addition to the general obligation to comply with local TP documentation rules. Failure to comply with this requirement may render the APA invalid.

An APA is subject to a filing fee depending on the taxpayer's average turnover (reduced by 50% for renewals and by 25% for SME taxpayers).

Transfer Pricing Audits

PTA may adjust prices set in controlled transactions whenever consider that such transactions do not comply with the arm's length principle. The burden of proof for those adjustments rests with PTA as long as the TP documentation requirements are sufficiently met. In Portugal, the statute of limitation on TP assessments is 4 years.

Recent practice and case law unveiled that financial transactions (including cash pooling mechanisms and intercompany guarantees), intangible assets transactions (with special relevance of the Hard To Value Intangibles "HTVI"), intra-group services, recurrent loss-making companies with significant cross-border intercompany transactions, contradictions between the disclosed TP information between the several TP sources and restructuring transactions are most frequent subjects of tax disputes. As referred, benchmarks' criteria are frequently challenged, as well as comparability features, functional analysis/profiles, TP methods selection and application, use of internal versus external comparables, among others.

In addition, recent tax disputes before arbitral courts challenged the PTA's systematic practice of adjusting the pricing practiced by taxpayers under controlled transactions directly to the median of the interquartile range, as under the OECD TP Guidelines and domestic law any result falling within the limits is generally presumed to comply with the arm's length principle. These disputes highlight the PTA's burden of proof when performing adjustments, which should rely on clear and sufficient reasoning over conclusory assertions that render the median as the only reliable benchmark.

The Burden of Proof in Transfer Pricing: Theory versus Practice

According to the Portuguese law (corroborated by case law), under a tax inspection on transfer pricing matters, the PTA has the possibility to perform transfer pricing adjustments if they consider that the arm's length principle was not accomplished by the Portuguese taxpayer, holding the burden of proof of such non-compliance. Nevertheless, the burden of proof shifts in case the taxpayer fails to prepare TP documentation when obliged to do so according to the Portuguese requirements (or if such documentation is not sufficient to demonstrate that the arm's length principle is being accomplished, e.g. if it is not prepared according to local specific requirements).

In this sense, and in practice, the taxpayer should demonstrate, in a first instance, that the transfer pricing practices adopted comply with the arm's length principle, by duly preparing strong and complete TP Documentation, in line with the local specific requirements (mandatory for certain taxpayers and highly recommended for taxpayers that, even though are not obliged, are part in material and/or risky controlled transactions, as this is the first mean of defense in case of inspection).

Burden of proof has been severally disputed in arbitration and judicial courts. Recent court decisions have clarified that the PTA bears the burden of proof of the assumptions that justify the transfer pricing adjustments performed, which are frequently considered insufficient, leading to the annulment of such adjustments by courts, which are arguing also that the court itself cannot assume the role of the PTA in determining the correct arm's length pricing. Several decisions corroborate the high importance of having a strong and robust TP documentation prepared as a way of defense against adjustments performed by PTA.

Transfer Pricing Penalties

Failure to prepare / submit TP documentation, IES, CbCR report or CbCR notification is subject to a penalty of EUR 500 to EUR 10,000, per fiscal year, per taxpayer, with an additional 5% of the penalty amount for each day of delay.

Failing to comply with the publishment of CbCR information is subject to a penalty of EUR 1,500 to EUR 30,000, applicable to fiscal years starting on or after 22nd June 2024.

Any inaccuracies in the information provided in the documents referred to above will be subject to a penalty of EUR 375 to EUR 22,500, per fiscal year, per taxpayer.

If the taxpayer has stated in the IES that the transfer pricing documentation has been prepared but refuses to submit it upon request of PTA, the applicable penalty can reach EUR 150,000, per fiscal year, per taxpayer.

Local Hot Topics and Recent Updates

Ministerial Order no. 268/2021 introduced significant amendments to Portuguese TP regulations by revising the previously applicable Ministerial Order no. 1446-C/2001, which

had been in effect for 20 years. These provisions aimed to align Portuguese TP regulations with the OECD Guidelines, for example, encompassing the full adoption of the three- tiered OECD documentation approach.

On 23rd August of 2023, Decree-Law no. 73/2023 transposed into Portuguese jurisdiction the public CbCR requirements as outlined in Directive (EU) 2021/2101 of the European Parliament and of the Council from November 2021. This law, applicable to fiscal years starting on or after 22nd June 2024, introduced fresh provisions concerning the public



disclosure of corporate tax information for multinational companies operating in Portugal. In compliance with some specific requirements, CbCR must be made accessible on the parent company's website (or the website of the subsidiary or branch, if the parent company is not based in the EU) in both an official language and one of the official languages of the EU.

Recently, the PTA decided, in the context of a Binding Information Request / Pedido de Informação Vinculativa "PIV" an instrument correspondent to a ruling, that this is not the appropriate way for determining the transfer pricing method or the arm's length pricing between related parties under an intragroup service agreement. Instead, PTA considered that entering into an APA would be the suitable mechanism.

Finally, on 18th October of 2024, Law no. 41/2024, transposed into the Portuguese jurisdiction the Council Directive (EU) 2022/2523 of 15 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups whose annual consolidated revenue is equal to or greater than 750 million euros "Pillar Two Directive".

This new framework "Regime do Imposto Mínimo Global" or "RIMG", follows the model rules developed by the OECD/G20 Inclusive Framework, although it imposed a new top-up tax on low-taxed Portuguese entities, ("Qualified Domestic Minimum Top-up Tax" or, in Portuguese, "Imposto complementar nacional qualificado português") with some particular specifications.

Finally, Law no. 41/2024 of 8 November implemented in Portugal the rules arising from Council Directive ("EU") 2022/2523 of 15 December 2022, introducing the Global Minimum Tax Regime (Regime do Imposto Mínimo Global "RIMG"). This regime is aligned with the OECD/G20 Inclusive Framework's Pillar Two Model Rules and applies to multinational enterprise groups and large-scale domestic groups with annual consolidated revenue of at least EUR 750 million.

The Portuguese framework provides for the application of a Qualified Domestic Minimum Top-up Tax "QDMTT", as well as the Income Inclusion Rule "IIR" and the Undertaxed Profits Rule "UTPR", where applicable. In addition, in-scope groups should assess and comply with the reporting and filing obligations established under the RIMG, including the submission of the relevant returns, notifications and information filings within the applicable deadlines.

Case law

The number of cases related to transfer pricing has surged, both in judicial and in arbitration, with rather interesting rulings. For instance, a trend has emerged in terms of TP case law according to which the burden of proof has become a critical factor, with taxpayers possessing well-structured and technically sound documentation having a higher probability of success in legal disputes, whereas those without such documentation face lower odds.

The arbitral court has been issuing decisions regarding the legal strength of the OECD Guidelines in the Portuguese jurisdiction in TP adjustments.

The sale of capital shares between related entities is also a subject that is being more challenged recently.

Additionally, on 13 May 2026, the Court of Justice of the European Union "CJEU" issued a landmark ruling in Case C-603/24, which involves a Portuguese entity, which addresses the interaction between Value Added Tax "VAT" law and TP adjustments between related companies. The key question was whether an adjustment within a Multinational Enterprise "MNE" – made to align intercompany pricing with the arm's length principle – gives rise to consideration for a separate supply of services for VAT purposes. In this decision, the CJEU held that such adjustments do not automatically constitute remuneration for a separate supply of services, clarifying an area of uncertainty in transfer pricing. Therefore, a TP adjustment does not automatically establish the existence of a taxable transaction under the EU VAT Directive, unless there is an identifiable and direct link between a payment and a specific supply of goods and services.



Documentation threshold

Master file	Annual revenues equal to or higher than EUR 10 million
Local file	Annual revenues equal to or higher than EUR 10 million
CbCR	Consolidated revenues equal to or higher than EUR 750 million

Submission deadline

Master file	Should be available, within 15th day of the 7th month after the fiscal year end. For large Taxpayers, its submission to PTA on that deadline is compulsory.
Local file	Should be available within 15th day of the 7th month after the fiscal year end. For Large Taxpayers, its submission to PTA on that deadline is compulsory.
CbCR	Submission within 12 months after the fiscal year end.

Penalty Provisions

Documentation – late filing provision	Failure to prepare / submit TP documentation, IES, CbCR report or CbCR notification is subject to a penalty of EUR 500 to EUR 10,000, per fiscal year, per taxpayer, with an additional 5% of the penalty amount for each day of delay. Failing to comply with the publishment of CbCR information is subject to a penalty of EUR 1,500 to EUR 30,000, applicable to fiscal years starting on or after 22nd June 2024. Any inaccuracies in the information provided in the documents referred to above will be subject to a penalty of EUR 375 to EUR 22,500, per fiscal year, per taxpayer. If the taxpayer has stated in the IES that the transfer pricing documentation has been prepared but refuses to submit it upon request of PTA, the applicable penalty can reach EUR 150,000, per fiscal year, per taxpayer.
Tax return disclosure – late / incomplete / no filing	
CbCR – late / incomplete / no filing / no publishment	



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