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Overview

Travers Smith LLP, Taxand United Kingdom

Travers Smith's Transfer Pricing team advises multinational clients on the legal aspects involved with complex cross-border pricing arrangements. We work seamlessly with partner firms and our Taxand network colleagues to deliver coordinated, practical, and commercially focused solutions that ensure alignment with global regulations and mitigate transfer pricing audit risk.

Our services include providing legal advice in connection with the structuring and documentation of intra-group transactions, mergers and acquisitions, and due diligence involving transfer pricing matters. In partnership with specialist firms, we can help facilitate benchmarking studies, economic analysis, and the design and implementation of transfer pricing policies.

Transfer Pricing Framework

For accounting periods ending on or after 1 April 2010, the UK's transfer pricing legislation is mainly governed by Part 4 of the Taxation (International and Other Provisions) Act 2010. Part 4 was significantly amended by the Finance Act 2026, with the principal changes taking effect for accounting periods beginning on or after 1 January 2026.

The UK's transfer pricing regime is based on the arm's length principle. The UK rules mandate that profits and losses should be calculated for tax purposes by substituting an 'arm's length provision' in place of an 'actual provision.' In broad terms, the UK's transfer pricing regime is triggered where:

- the actual provision differs from the arm's length provision, and
- the actual provision confers a potential 'UK tax advantage' on a person (or persons).

For these purposes:

- an arm's length provision means a 'provision' which would have been made between two independent enterprises (construed consistently with the expression of the arm's length principle in (a) Article 9 of the OECD Model Tax Convention ("OECD MTC"), as interpreted in accordance with the OECD's commentary, and (b) the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations ("OECD TPG"));
- an 'actual provision' means a provision which has been made or imposed between the two 'connected parties' by means of a transaction (having a very wide definition) or series of transactions. The UK regime applies to both cross-border and UK-to-UK transactions (or series of transactions), subject to the introduction of the UK-to-UK transfer pricing exemption (see section below);
- a 'provision' is (broadly) equivalent to the phrase "conditions made or imposed" in Article 9 of the OECD MTC;
- two parties are 'connected parties' if (broadly) one controls the other, or a third-party controls both. However, the connection (or participation) test is satisfied in three additional scenarios involving indirect control:
  - Joint ventures ("JV"): such that a 40% participant in the JV will be deemed to control the JV if there is one other participant who also owns at least 40% of the JV – this is known as the 40% test;
  - Financing arrangements: such that persons that have 'acted together' in relation to the provision of finance – broadly, where parallel equity interests in respect of financing arrangements exist which would, if aggregated, result in the control of the borrower – will also be connected; and
  - Common management: for accounting periods beginning on or after 1 January 2026, such that two persons that are managed by the same person (or group of persons) in a way that is intended to align the economic interests of their shareholders will be treated as being connected; and
- A potential UK tax advantage includes any reduction of taxable profits, or any increase (or creation) of tax losses.

With effect for chargeable periods beginning on or after 1 January 2026, the regime also includes an anti-avoidance provision that ensures any arrangements with a main purpose of not meeting the participation test will be disregarded. In addition, in certain circumstances HM Revenue and Customs ("HMRC") have the power to require a taxpayer to file on the basis that the participation test is treated as met for the chargeable period (and future chargeable periods).

Where the regime applies, the advantaged party (or parties) must make a transfer pricing adjustment(s) in the tax return for the relevant period. HMRC also has the power to impose a transfer pricing adjustment in a tax return. When a transfer pricing adjustment has been by one party, if certain criteria are met, another party (who is not advantaged) may make a 'compensating adjustment.' Any 'balancing payments' made between the parties in such cases are treated as neither taxable receipts nor allowable expenses.

Special rules apply to entities that are life assurance companies or North Sea oil and gas companies.

The UK transfer pricing regime does not apply to dormant companies.

Small and Medium Sized Enterprise ("SME") Exemption:

The UK regime exempts most transactions carried out by a business that is a SME. A SME is a business (together with any group or associated companies) with:

- 250 or fewer staff, and
- either:
  - Annual turnover of less than €50 million, or
  - Total balance sheet assets of less than €43 million.

However, the exemption for SME does not apply where:

- the business enters transactions with parties in a non-qualifying territory (i.e., a territory with which the UK does not have a double tax treaty with a non-discrimination article);
- HMRC has issued a transfer pricing notice to a medium-sized enterprise;
- HMRC has issued a notice requiring the SME to apply transfer pricing in respect of a provision related to a claim made under the UK Patent Box regime; or
- the SME has made an election to remain subject to transfer pricing rules.

UK-to-UK Exemption

For accounting periods beginning on or after 1 January 2026, the UK transfer pricing rules do not apply to provisions between UK-resident companies for a chargeable period, provided certain criteria have been met and none of the disqualifying criteria apply.

The exemption is intended to reduce the compliance burden in cases where the application of transfer pricing to UK-to-UK transactions would produce a tax-neutral result.

For a transaction to qualify for the exemption, the following criteria must be met:

- both parties to the transaction are UK-resident companies throughout the relevant period;
- the provision is relevant to the calculation of the profits or losses of both companies, and throughout the relevant period, any resulting profits are chargeable to corporation tax;
- both companies are subject to corporation tax at the same statutory rate; and
- both companies use the same reference currency.

The exemption does not extend to transactions involving partnerships, individuals or trusts. The exemption will further not apply where:

- the provision comprises or includes a contract which is not treated as a derivative contract for UK tax purposes (because of its underlying subject matter) in relation to one (but not both) of the parties;
- the provision relates to the UK patent box regime;
- an exemption adjustment for profits or losses of foreign permanent establishments is made;
- one or both companies is an 'excluded company'. Very broadly, an excluded company is one that operates certain specified businesses including oil and gas, banking, insurance, securitisation, and certain investment vehicles; or
- HMRC has issued a 'transfer pricing notice' disapplying the exemption where it considers this necessary to prevent a net loss of UK tax.

In addition, the potentially advantaged company can make an election for the exemption not to apply to them (or to a particular provision) for a chargeable period. The election is irrevocable once made.

Groups should be mindful that notwithstanding the introduction of this exemption, rules outside the transfer pricing regime may still regulate related-party transactions conducted on non-arm's length terms.

Pre-1 January 2026: Diverted Profits Tax ("DPT")

The UK's Diverted Profits Tax ('DPT') was introduced to counter perceived aggressive tax planning that diverted profits from the UK. The standalone DPT charge has been repealed with effect for accounting periods beginning on or after 1 January 2026 (but continues to apply to accounting periods beginning before that date). For those periods, the DPT is triggered in two circumstances:

- arrangements lacking economic substance: where arrangements between related entities (including those at arm's length) lack economic substance or were intended to exploit a tax mismatch to obtain a tax benefit, and
- avoided permanent establishment: subject to certain thresholds, where an entity was carrying on activities in the UK (in connection with the supply of services, goods, or other property) in a way designed to avoid creating a UK permanent establishment.

The DPT does not apply to a SME or in circumstances where (absent a tax avoidance motive) non-UK tax is being paid on the diverted profits (as defined) equal to at least 80% of the UK corporation tax that would otherwise have been payable.

The current general rate of DPT is 31%. The rate of DPT applicable to banking companies' profits subject to the corporation tax surcharge is 33%. The rate of DPT applicable to ring fence profits of oil and gas companies is 55%.

HMRC consider that the DPT is separate and distinct from UK corporation tax and so not covered by the UK's double tax treaty network.

Post-1 January 2026: Unassessed Transfer Pricing Profits ("UTPP")

For accounting periods beginning on or after 1 January 2026, a UTPP charge replaces the DPT. The UTPP is the main anti-avoidance tool aimed at deterring multinationals from circumventing the UK's transfer pricing rules.

The UTPP sits within the UK corporation tax regime and works by applying a higher rate of corporation tax to identified profits that should have been included in the company's corporation tax return. As was the case for DPT, the UTPP charge is not self-assessed: A company will only be subject to a UTPP charge if it receives a UTPP assessment from HMRC.

Subject to limited exceptions, UTPP will apply in relation to a provision in an accounting period where:

- the profits of the company for that period are subject to a transfer pricing requirement in relation to that provision, but the transfer pricing requirement was not wholly reflected in the company's tax return (i.e., "unassessed transfer pricing profits");
- the omission of those profits has resulted in a reduction in UK tax without a commensurate increase in tax in another jurisdiction (an 'Effective Tax Mismatch Outcome'); and
- it is reasonable to assume that the arrangements were designed to achieve the reduction in UK tax.

Where it applies, UTPP imposes a corporation tax rate that is 6% above the relevant company's underlying marginal rate. The tax is payable within 30 days of a UTPP assessment.

Since the UTPP rules are an anti-avoidance measure, no statutory or non-statutory clearances will be granted by HMRC in respect of their application, nor will they provide an informal view on whether transactions are likely to fall within the scope of UTPP. However, a UTPP assessment cannot be made on a basis that is inconsistent with the terms of an Advance Pricing Agreements (see the Advance Pricing Agreement "APA" section below).

Integrating the UTPP charge within the corporation tax framework means that companies subject to a UTPP assessment are entitled to access the UK's double tax treaty network and the Mutual Agreement Procedure ("MAP").

Profit Diversion Compliance Facility "PDCF"

Since 2019, HMRC has operated a voluntary disclosure system, the PDCF. The PDCF is intended to encourage multinational enterprises ("MNE") to review the design and implementation of their transfer pricing policies (including, but not limited to, any arrangements targeted by UTPP (for accounting periods beginning on or after 1 January 2026), or DPT (for accounting periods beginning before that date)) to ensure:

- they are aligned with factual operations;
- they accord with the OECD TPG; and
- the MNE can make amendments where necessary or appropriate.

The PDCF process can be onerous and requires MNEs to submit a detailed report (supported by evidence and signed by a senior responsible officer) outlining proposals to correct transfer pricing irregularities, pay any additional tax owed (plus interest) and any applicable penalties due. However, using the PDCF can help protect the MNE against HMRC action in relation to the UTPP (or DPT) and mitigate the scale of any penalties for non-compliance.

Accepted Transfer Pricing Methodologies

The UK's transfer pricing regime must be interpreted in accordance with the most recent versions of the OECD MTC, OECD commentary on the OECD MTC, and the OECD TPG, adjusted for any reservations, declaration or elections made by the UK on those materials, whether there is a treaty in force between the UK and the other country or not.

The UK Treasury has reserved the power to make regulations to add to the list of OECD materials that can be used as interpretive aids, set out the effect of any elective provisions, and if necessary to 'opt out' of any updated OECD materials. The power has not yet been exercised.

The general interpretative requirement includes ensuring the arm's length principle applies to a controlled transaction by replacing the actual terms of the transaction with arm's length terms and, for tax purposes, recalculating the profits accordingly.

HMRC's view is that the OECD TPG explain how to choose and apply the most appropriate transfer pricing methodology in any given case. As a result, any of the three traditional transaction methods (Comparable uncontrolled price "CUP"; Resale minus; and Cost plus), or either of the transactional profit methods (Profit split; and Transactional net margin method) may be used, provided that it is the most appropriate method to achieve the necessary degree of acceptable comparability with the transactions being tested in that case.

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Although HMRC do not enforce any absolute hierarchy, their guidance states that the traditional transactional methods are the most direct way of establishing whether arrangements are at arm's length, and (consistently with the OECD TPG) where the CUP and another pricing method can be applied equally reliably, the CUP method should be preferred.

Transfer Pricing Documentation Requirements

Under normal self-assessment rules, entities within the charge to UK tax must (unless they benefit from an exemption) keep sufficient records demonstrating that the results of their transactions with connected parties are determined according to UK transfer pricing rules and the application of the arm's length principle. Failure to keep or to preserve adequate records can result in penalties being charged.

HMRC can request transfer pricing records informally, or to support risk assessment activity, or as part of a formal enquiry. HMRC's formal information powers require entities to provide specified transfer pricing records within a reasonable period, typically 30 days. Failure to comply with requests can result in penalties being charged.

It should be noted that maintaining the specified transfer pricing records forms part of the responsibilities imposed by the UK's Senior Accounting Officer ("SAO") regime. Failure to keep the records may, therefore, be interpreted by HMRC as being an indication of not establishing and maintaining adequate accounting processes and arrangements for the purposes of SAO (and result in penalties being applied).

MNE groups

Entities that are part of a MNE group that meets the Country-by-Country Reporting ("CbCR") threshold, and have at least one 'material controlled transaction,' must create and preserve both a 'Master File' and a 'Local File.'

The CbCR threshold is met when the group:

- includes two or more enterprises that are tax resident in different jurisdictions; and
- has consolidated revenues of at least €750 million in a given period (whether the group is UK headquartered or not).

The Master File and the Local File must be prepared in accordance with the OECD TPG. The Master File and Local File form part of the statutory records of any UK entity and need to be available to HMRC upon request. HMRC expect both Master File and Local File to be reviewed annually (as a minimum) to determine that the functional and economic analysis remains accurate, and that necessary updates are made.

The country-by-country ("CbC") report (containing information relating to the global allocation of the MNE group's income and taxes paid) must be submitted for the period immediately following that in which the threshold requirement is met. A CbC report must be filed within 12 months after the end of the period to which it relates by:

- any UK resident ultimate parent entity "UPE" of the group; or
- the top UK entity in the group (if the non-UK UPE has not filed, does not need to file, or authorises the UK entity to file on its behalf)

Even where entities are not required to maintain a Master File and Local File, HMRC guidance states that preparing documentation in line with the OECD's recommended approach is an appropriate way to demonstrate that provisions between related parties adhere to the arm's length principle.

Local File: Preparation and materiality

For the purposes of preparing the Local File, controlled transactions are aggregated by category to assess materiality. A *de minimis* threshold of £1m applies to each category of controlled transaction such that, where the aggregate value of transactions is no more than £1m, those transactions do not need to be included in the Local File (but, for the avoidance of doubt, must still be priced in accordance with the arm's length principle).

HMRC guidance emphasises that because the Local File is an entity-based document, materiality must be assessed from the perspective of the UK entity preparing the Local File (rather than the MNE group as a whole).

However, certain categories of transactions are always material due to their nature and complexity, regardless of value. These are transactions:

- priced using a profit split method;
- involving the transfer or license of intangible assets;
- concerning Hard to Value Intangible assets;
- relating to the transfer of, use of, or right to use, key or strategic assets required by entity to carry on its business;
- concerning global or regional strategic or leadership services;
- involving Cost Sharing Agreements or Cost Contribution Agreements; and
- relating to business reorganisations (including where functions, assets, or risks have been moved into (or out of) the UK during the relevant period and transactions that commence or cease in the relevant period).

For other transaction categories, materiality should be determined on a case-by-case basis considering all relevant facts and circumstances, including factors such as the size of the UK entity, the nature of the transaction, risk level, impact on profit or loss, and industry context. Entities are required to set out their approach to assessing materiality in the Local File.

Local File: UK-to-UK Exemption

As detailed in the section 'UK-to-UK Exemption' above, for accounting periods beginning on or after 1 January 2026, a statutory exemption for UK-to-UK transactions disapplies the transfer pricing regime to qualifying domestic transactions. This will include documentation and Local File obligations.

For UK-to-UK transactions that do not qualify for the UK-to-UK Exemption, for example, because one or both entities is an excluded company, or the exemption has been disapplied by HMRC notice, a separate Local File exemption continues to apply. Subject to certain specific exceptions, information relating to 'material controlled transactions' with another entity does not need to be included in the Local File provided that both entities either:

- a company UK resident for tax purposes;
- a trust (where the trustees are UK resident for tax purposes); or
- a partnership (where the partners are UK resident for tax purposes).

International Controlled Transactions Schedule ("ICTS")

The UK government intends for the ICTS (a new annual filing requirement) to take effect for accounting periods beginning on or after 1 January 2027. The ICTS is intended to improve fairness, increase efficiency, and facilitate automated, data-led risk assessment by HMRC, facilitating more accurate identification of transfer pricing risk.

It is expected that businesses that are required to prepare a Local File should be able to use their existing transfer pricing analysis when completing the ICTS. Full details of the ICTS obligations will be set out in future regulations.

Local Jurisdiction Benchmarks

Comparability is of critical importance. HMRC emphasise that whatever transfer pricing methodology is employed, the uncontrolled transactions used must show an acceptable degree of comparability with the transactions being tested.

Since the UK legislation must be interpreted consistently with the OECD TPG, the nine-step process outlined there can be followed when performing a comparability analysis in the UK. The process envisages reviewing existing internal comparables (if any) before assessing available sources of information on external comparables.

HMRC state that internal comparables can be the best source of comparables. Entities should make efforts to identify if any suitable internal comparables are available (making appropriate adjustments if helpful) to ensure that the best available comparables have been reviewed. HMRC may challenge the work done by the entity if they do not think it has been sufficiently thorough.

For external comparables, the UK emphasizes the importance of assessing the market that the entity operates in. For UK companies, the starting point will normally be to consider UK market comparables first. However, where acceptable UK comparables cannot be found, using comparables from overseas markets (making appropriate adjustments as necessary) is acceptable.

Entities should update their transfer pricing comparability analysis 'regularly' (but not necessarily annually if the relevant operating conditions remain unchanged). The actual review cadence will depend on the factors set out in the OECD TPG (namely, the size of the transactions, complexity, level of risk involved, and the stability of the environment), but HMRC state that any functional change will mean a new benchmarking analysis is required.

Focus on Financial Transactions

The UK's transfer pricing regime applies to financial arrangements – widely defined to cover any arrangements made for providing or guaranteeing, or otherwise in connection with, any debt, capital, or other form of finance – between associated enterprises. The rules, therefore, apply to cases involving thin capitalisation. Although the general transfer pricing legislation and principles apply, it is worth re-emphasising that the test of indirect participation (connection) is expanded in relation to the provision of finance such that that persons that have 'acted together' will be treated as being connected. With effect for accounting periods beginning on or after 1 January 2026, the concept of persons 'acting together' has been simplified, is specifically defined in legislation, and is triggered where parties have parallel equity interests

With effect for accounting periods beginning on or after 1 January 2026, following technical reform in this area, the UK's rules are closely aligned to international standards. Specific rules setting out how the arm's length principle should be calculated in cases involving securities have (subject to transitional rules) been repealed. The requirement that the UK's transfer pricing rules must be interpreted in accordance with the most recent versions of OECD principles is now explicitly stated in legislation.

As a result, the principles set out in the OECD's 2020 Transfer Pricing Guidance on Financial Transactions, as incorporated into the OECD TPG, must be followed and applied. As a result, the UK regime also now clarifies, in relation to financial transactions involving guarantees, that:

- an intra-group guarantee that increases the amount of debt available to a borrower will never be considered an arm's length guarantee – The stated rationale for this is that the level of credit risk that a guarantor would assume in providing the guarantee of that additional amount of debt is the equivalent credit risk that would have been deemed non-arm's length for an independent lender to assume when evaluating the loan. It follows that if an independent lender would not be willing to assume the additional credit risk, an independent guarantor would be equally unwilling to assume the equivalent credit risk;
- allows UK resident companies to elect to act as a deemed guarantor for a borrowing provision of a related party UK resident company – The deemed guarantee will apply in respect of the amount of the borrowing which is excessive at arm's length in the provision between borrower and lender (that is, the amount that would not have been lent between independent enterprises without a guarantee). The aim of this easement is to ensure groups have flexibility in the way they structure and finance UK business operations; and
- the concept of implicit support (meaning any incidental benefit that arises because of a participatory relationship between companies) has been specifically carved out from the definition of a guarantee meaning that the effect of implicit support should be taken into account when considering the transfer pricing of financial transactions generally. HMRC recognise that presence and effects of implicit support are hard to evaluate. As a result, HMRC analysis of the point is likely to lead to further information requests to better understand the business. The degree of implicit support that may be considered appropriate, and its effects, will ultimately depend on the facts and circumstances of the case.

In addition, also with effect for chargeable periods commencing on or after 1 January 2026, exchange gains and losses arising on a 'qualifying financial instruments' (broadly, an instrument that is matched with another financial instrument for the purpose of eliminating or reducing exchange rate risk) are excluded from adjustment.

Finally, HMRC operates a specialist Advance Thin Capitalisation Agreement ("ATCA") process to address transfer pricing issues relating to complex financing arrangements. An ATCA allows a business to obtain advance agreement with HMRC on the arm's length borrowing capacity of a UK company and the interest deductibility profile of intra-group debt. The ATCA regime operates alongside, using the same legislation as, that used for agreeing Advance Pricing Agreements ('APAs').

Advance Pricing Agreement ("APA") & Bilateral Advance Pricing Agreement ("BAPA") Overview

The UK transfer pricing legislation provides for APA. An APA will normally determine an agreed pricing mechanism. APA are normally only used for more complex transactions and/or where there is an elevated risk of double taxation. When the terms of the agreement are complied with, it provides assurance to the business that the treatment of those transfer pricing issues will be accepted by HMRC for the period covered by the agreement.

They can be:

- unilateral: a 'domestic agreement' between a business and HMRC;
- BAPA: an agreement between HMRC and the tax administration of another country made under the Mutual Agreement Procedure "MAP" clause of the applicable tax treaty; or
- multilateral: since there is no specific mechanism for reaching multilateral APA, these are effectively multiple and complementary BAPA between the business and all relevant administrations affected by the transfer pricing issues.

The potential scope of an APA is flexible and broad-ranging. It can relate all the transfer pricing issues of the business in question, or it may be limited to one or more specific issues. An APA cannot, however, determine whether a permanent establishment does or does not exist.

HMRC do not impose a charge for the APA process. Key features of the UK APA programme include:

- the APA process is initiated by the business submitting to HMRC an expression of interest (EOI). If HMRC are willing to consider an APA, the entity will normally need to submit a formal written application within six months;
- HMRC expect the actual pricing of the transactions covered by an APA to be consistent with the transfer pricing methodology and terms defined by the APA, and that the economic, accounting and tax positions of the arm's length price are aligned;
- a business may withdraw an APA request at any time before final agreement is reached;
- an APA will typically cover a period of three to five years. A longer term will only be possible in exceptional circumstances. It is possible to revise and/or renew an APA;
- subject to agreement, and where an agreed methodology is appropriate, an APA can 'roll back' to cover an earlier period, and can be used as a basis for amending an entity's return for that prior period;

- an entity is required to lodge an Annual Report for each accounting period covered by the APA;
- HMRC has the power to revoke an APA where the entity does not comply with its terms or where a critical assumption ceases to be valid. The APA may be nullified, and penalties can be applied, if false or misleading information is supplied fraudulently or negligently at any time during the APA process; and
- HMRC aim to complete the APA process within 30 months from the date of the formal submission. According to published data from HMRC, the average time taken to agree an APA in the UK in the 2024/25 tax year was 43.9 months (in 2023/24 the average was 53 months). HMRC granted a total of 26 APAs during the same period (in 2023/24 the total was 27).

Businesses can use the UK's APA programme to obtain certainty on the transfer pricing treatment of Cost Contribution Arrangements.

Transfer Pricing Audits

The UK transfer pricing regime is self-assessed as part of the UK's compliance framework for corporation tax. Transfer pricing related enquiries into company tax returns are, therefore, subject to the UK's normal corporation tax enquiry rules.

The general rule is that HMRC may open an enquiry into a corporation tax return within twelve months from the date the return is filed, but this can be extended to four years for a discovery assessment, six years in cases involving careless behaviour, and 20 years in cases involving deliberate behaviour. HMRC does not have to justify opening an enquiry and will not normally provide reasons (although they may identify the areas that an enquiry will focus on).

HMRC adopts a risk-based methodology when opening transfer pricing related enquiries. There is no set, mechanistic process, or regularity in their approach. HMRC emphasise the importance of understanding how a business makes its profits or losses. They will look at where a company carries on its key functions, holds its key assets, and bears key risks. HMRC guidance states that any significant mismatch between that location and the location where the business generates its profits may be an indication of non-arm's length pricing.

HMRC will examine numerous factors to identify potentially suspect transactions but should involve the business throughout the process. The process will involve gathering key information about the business, including the markets in which the group operates, the group's accounts, intellectual property, processes, and main competitors. HMRC will then assess whether any risks exist, including the potential amount of tax at stake, and consider the implications of those risks.

HMRC will collect information from a wide variety of sources to inform their assessment including reviewing the business' website, conducting meetings with the business, accessing commercial databases, as well as open-source resources (such as press reports, trade magazines, and internet searches).

Enquiry Process

HMRC aims to resolve new transfer pricing enquiries within specific periods:

- 18 months in most cases.
- 36 months in complex or high-risk cases.

Governance Process

Although the opening of enquiries is not mechanistic, HMRC's governance process for transfer pricing enquiry cases follows three broad stages:

1) Selection: Ensuring the selection of appropriate cases.
2) Progress: Ensuring effective progress in each enquiry, including the issue of the formal enquiry notice, an action plan, and an anticipated timeline for the enquiry.
3) Conclusion: Ensuring an appropriate conclusion is reached, including the submission of conclusions to an appropriate HMRC panel for review, the agreement (or determination) of any transfer pricing adjustments, and imposition of any penalties.

With effect from 18 March 2026, it is no longer necessary for the Commissioners of HMRC to sanction a determination that a transfer pricing adjustment be made which has not been agreed by the business. Oversight of transfer pricing determinations in these circumstances is instead provided through an internal governance framework.

According to published data from HMRC, the total number of enquiry cases settled during the 2024/25 tax year was 143 (in 2023/24, the number was 128). The average age of enquiries settled in the same year was 41.0 months (in 2023/24, the average was 33.1 months).

The Burden of Proof in Transfer Pricing: Theory versus Practice

Since the UK transfer pricing regime is self-assessed, entities within scope are required to determine their transfer pricing position accurately, and HMRC can demand they justify transfer prices as part of any enquiry. The burden of proof under self-assessment lies clearly with the taxpayer.

HMRC will expect entities to prepare and retain documentation that might reasonably be expected of an entity similar in nature, size and complexity, and operating in a similar market, for that entity to be able to adequately demonstrate that their transfer pricing meets the arm's length principle.

The documents required will include:

- primary accounting records (i.e., records of transactions entered in an entity's accounting system);
- tax adjustment records (i.e., records that identify adjustments made by a business for tax purposes);
- records of transactions with associated businesses (i.e., records which identify transactions to which the transfer pricing rules apply); and
- arm's length calculations (i.e., records demonstrating arm's length for the purpose of transfer pricing rules).

A penalty up to £3,000 can be charged for each failure to keep or to preserve adequate records in respect of a tax return: this includes transfer pricing records. In addition, for the purposes of calculating tax-geared penalties, an inaccuracy in a submitted corporation tax return will be presumed to be careless where relevant transfer pricing records relating to the inaccuracy have not been maintained. The same presumption applies where HMRC makes a transfer pricing related discovery assessment of tax due, and the company has not maintained appropriate transfer pricing records.

Given HMRC's emphasis on adopting a risk-based approach to opening transfer pricing related enquiries, a company should consider regularly ensuring that its transfer pricing policy matches the reality of its commercial transactions and arrangements. In addition, it should ensure that its transfer pricing documentation clearly identifies economically significant risks and records all relevant related decision-making processes.

It may also be appropriate to conduct reviews of its value chain, functional analyses, economic analyses, and pricing methodologies, as well incorporating transfer pricing into other internal financial operating policies and procedures. Where the analysis suggests there is a risk of challenge from HMRC, the company should adjust transfer pricing policies and documentation accordingly and might consider applying to obtain an APA.

Transfer Pricing Penalties

Entities self-assess their compliance with the UK transfer pricing regime. Penalties will apply in situations where HMRC become aware of non-compliance. As highlighted already, entities within the charge to UK tax must keep records demonstrating that the results of their transactions with connected parties are determined in accordance with the arm's length principle.

Failure to keep or to preserve adequate records can result in a penalty of up to £3,000. Such a failure will also result in a presumption of carelessness for any inaccuracy contained in any document. However, where the entity can show that it has taken reasonable care there will be no penalty even if an adjustment is necessary. As a result, the higher the quality of the records retained by the entity the greater the protection against the imposition of penalties.

As already noted, HMRC can request transfer pricing records informally or as part of a formal enquiry. A failure to comply with an information request from HMRC within a reasonable period (normally 30 days) will result in a fixed £300 penalty plus £60 per day for every subsequent day of delay.

The submission of incomplete or inaccurate documents (including tax returns, the Master File and Local File) will also result in tax-geared penalties being charged depending on the severity of the failure and whether the entity has addressed the error voluntarily or not. Errors considered to be careless can trigger penalties equal to up to 30% of the extra tax due when the mistake is corrected. Deliberate, but unconcealed, errors can result in a penalty of up to 70% of the extra tax due, while deliberate and concealed errors will incur penalties equal to up to 100% of the extra tax due.

Senior Accounting Officer

Maintaining the specified transfer pricing records forms part of the responsibilities imposed by the UK's SAO regime.

The SAO applies to UK incorporated companies that either alone or as part of a group have an aggregate turnover in excess of £200m and/or a relevant balance sheet total of more than £2bn.

The SAO regime requires affected companies to certify that they have implemented adequate tax accounting arrangements to ensure that the correct tax liabilities are reported to HMRC. Failure to keep the appropriate transfer pricing records may be interpreted by HMRC as being an indication of not establishing and maintaining adequate accounting processes and arrangements for the purposes of SAO.

Penalties under the SAO regime, each at a fixed flat rate of

£5,000, can be levied on:

- the company for failing to notify HMRC of the name of its SAO for the relevant financial year, and/or
- the SAO personally for:
  - Failing to comply with the obligations imposed by the regime, and/or
  - Failing to (or failing to accurately) certify compliance with the regime to HMRC.

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Local Hot Topics and Recent Updates

In Lifeplus Europe Ltd v The Commissioners for HMRC [2026] UKFTT 797 (TC), the First Tier Tax Tribunal provided some guidance on the extent of HMRC's investigatory powers in the context of transfer pricing.

The dispute was whether HMRC could require a UK company to supply its US parent's financial statements as part of a long-running enquiry into the UK company's transfer pricing arrangements. HMRC asserted that these documents were "reasonably required" to check the UK entity's tax position and adoption of transfer pricing method. The company appealed against HMRC's request, arguing that, following the OECD TPG, the US accounts were not relevant to the Transactional Net Margin Method used.

The tribunal allowed the company's appeal. It found that HMRC's information request was excessive and lacked a clear connection to the specific transfer pricing issues in dispute. In addition, it decided that the company did not possess the required documents, nor did it have the legal right (or practical ability) to obtain them. The tribunal emphasised the need for HMRC to follow the OECD TPG, confirming that companies are not automatically obliged to procure parent company records.

The judgment outlines the limits on HMRC's information powers in transfer pricing cases and reemphasises the importance of the OECD TPG.

Documentation threshold

Master file	Mandatory for entities with consolidated group revenues of at least €750 million. Subject to exceptions, SME are exempt. Recommended for all entities maintaining transfer pricing records.
Local file	As for Master file above
CbCR	Consolidated group revenue of at least €750 million

Submission deadline

Master file	Within a reasonable period (normally 30 days) of receiving a request from HMRC..
Local file	Within a reasonable period (normally 30 days) of receiving a request from HMRC.
CbCR	Within 12 months after the end of the accounting period to which the CbC report relates.

Penalty Provisions

Documentation – late filing provision	• Failure to keep or to preserve adequate records: up to £3,000. Failure to comply with an information notice: • £300 fixed penalty, plus • £60 per day daily penalties. Inaccurate documents and information, tax-geared penalty equal to a percentage of the extra tax due when the mistake is corrected: • Careless error, unprompted disclosure: 0% to 15% • Careless error, prompted disclosure: 15% to 30% • Deliberate but not concealed, unprompted disclosure: 20% to 70% • Deliberate but not concealed, prompted disclosure: 35% to 70% • Deliberate and concealed, unprompted disclosure: 30% to 100% • Deliberate and concealed, prompted disclosure: 50% to 100%
Tax return disclosure – late/incomplete/no filing	Failure to submit: • If submitted within 3 months of filing date: £100 fixed penalty (increased to £500 if late for three or more consecutive periods) • If submitted between 3 and 6 months after filing date: £200 fixed penalty (increased to £1,000 if late for three or more consecutive periods) • If submitted between 6 and 12 months after filing date: – £200 fixed penalty (increased to £1,000 if late for three or more consecutive periods), plus – Tax-geared penalty equal to 10% of unpaid tax • If submitted more than 12 months after filing date: – £200 fixed penalty (increased to £1,000 if late for three or more consecutive periods), plus – Tax-geared penalty equal to 20% of unpaid tax
CbCR – late/incomplete/no filing	Inaccurate documentation and information: up to £3,000. Late filing and failure to comply with an information notice: • £300 fixed penalty, plus • £60 per day daily penalties (potentially increased up to a maximum of £1,000 if the failure continues for more than 30 days)

UNITED KINGDOM

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