

Transfer pricing scope and documentation
Response by the Chartered Institute of Taxation

1. Executive Summary

- 1.1. The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in providing our response.
- 1.2. We welcome the consultation on *Transfer pricing scope and documentation* published on 28 April 2025. These proposals are being consulted upon alongside a technical consultation on a larger package of reform to the UK's legislation concerning transfer pricing, permanent establishments and Diverted Profits Tax.
- 1.3. Broadly, we accept that removing the exemption for medium sized businesses will bring the UK more in line with the international norms, and that this change will be mitigated by the general exemption from UK to UK transfer pricing that is being introduced (and is the part of a separate technical consultation on transfer pricing). That said, we suggest that the proposed level of the exemption for small businesses that is to be retained, at £10 million, is low. A higher level, at least reflecting the uplift to the €10 million level because of inflation would ensure that the smallest businesses, that have very few transfer pricing transactions remain out of scope, while picking up the medium sized businesses that are perceived to be a risk to the UK tax base.
- 1.4. We agree that an ITCS could improve HMRC's ability to spot and evaluate risks and could be welcomed by businesses if this translates into more focussed transfer pricing enquiries. However, it will be an additional compliance burden, and we encourage simplicity, minimising duplication and alignment with similar information requirements to the greatest extent possible.

2. About us

- 2.1. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers,

their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

- 2.2. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 2.3. The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 2.4. Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

3. Amendments to the exemption for small and medium-sized enterprises

- 3.1. We welcome the proposal to maintain an exemption from transfer pricing for small enterprises. We agree that the proposed structure of the tests for the definition of small enterprises of turnover, balance sheet and staff headcount are sensible, and that having the monetary thresholds in sterling will be easier for businesses. However, the proposed threshold for the turnover and balance sheet at £10 million seems to us to be low, particularly as this will apply for a whole group, or linked and partnership enterprises.
- 3.2. Although we do not have access to the data that HMRC has to justify the threshold, €10 million is an historic figure and we suggest that the thresholds should at least be uplifted for inflation. Monetary thresholds of around £15-20 million would seem to be a better level, which we would expect to pick up the medium-sized businesses that are perceived to be a risk to the UK tax base, while ensuring that the smallest businesses with very few transfer pricing transactions remain out of scope. In addition, we are no longer in a low inflation environment which means that more and more businesses will come into scope whatever new threshold is set. Therefore, there should be a commitment to review the threshold in the future.
- 3.3. However, we would also note that, currently, there are businesses that are above the SME threshold and within scope of transfer pricing but are not large enough within the UK's corporate tax compliance framework to be within the Customer Compliance Manager (CCM) regime. Companies without a CCM do not have access to the same level of help and guidance from HMRC as those who can speak to their CCM. Lowering the threshold at which the transfer pricing rules apply means that more businesses will be within scope, but without a CCM, thereby increasing the number who suffer a significant disparity in terms of possible communications with HMRC.
- 3.4. We appreciate that HMRC is not able to give tax advice, but it is very difficult for businesses that do not have a CCM to find someone within HMRC who is able to provide an answer to questions that the largest businesses could legitimately raise with their CCM. We suggest that as part of these proposals around the level of the exemption from transfer pricing, consideration should be given to ensuring fairness as between taxpayers.
- 3.5. We recognise that from a resource perspective it would not be possible to expand the CCM regime so that all businesses which are within scope of complex rules such as transfer pricing have a dedicated CCM. However, at the very least, HMRC should ensure that there is a dedicated contact point to either a 'roving' CCM, or via the temporary CCM program so that companies without a CCM have a route to transfer pricing specialists and are able to ask practical questions that a CCM would answer.

4. International Controlled Transactions Schedule (ICTS)

- 4.1. We agree that an ICTS could improve HMRC's ability to spot and evaluate risks, which, in turn could also help avoid as much corporate time being taken up answering very basic questions, or on wild goose chases as part of an enquiry. However, it is important to explore how this objective would be achieved in practice, to ensure that any new information requirements have a benefit, as well as being an additional burden, for taxpayers. We welcome that in the consultation document the government recognises the need to explain how the data from the ICTS would be used and how the ICTS would complement existing compliance obligations.
- 4.2. Further to this, it would be helpful if HMRC could share how the local files that are currently required to be filed are being utilised by HMRC. We appreciate that the information required in local files is qualitatively different from the information envisaged for the ICTS, with the local file being more narrative compared to the data driven approach of the ICTS. Also, the local file requirement sits at a higher threshold than that being proposed for the ICTS, as it is linked to Country by County Reporting Requirements. Nonetheless, the local file is still a very new requirement, and the government should wait until HMRC has had time to properly assess the usefulness of the local files and how best to use them. HMRC will then be able to decide what further information, and in what form, would be most useful.
- 4.3. A new ICTS will be burdensome on businesses, and we welcome that the government recognises this and is committed to minimising the burden to the greatest extent possible, while providing HMRC with the information that it thinks it can usefully use. Still the ICTS will provide HMRC with a large amount of additional information. We hope that in the development and design of this measure HMRC has carefully considered its capacity to process the additional information it will receive to good effect, to justify the additional compliance burden for businesses. In finalising the design of the ICTS and the information required in it, it is important to focus on what HMRC would do with the data to ensure that an appropriate level of detail is required. We encourage simplicity to the greatest extent possible.
- 4.4. In addition, we would encourage greater alignment with similar information requirements of other major jurisdictions. Alignment reduces the compliance burden for businesses. However, we recognise that the information requirements of other jurisdictions are not the same. Taking two examples of the US and Australia, these are completely different. There is no consensus as to which of the approaches of these jurisdictions is preferred; this depends largely on which one they are currently required to comply with. However, from a UK perspective, it would be preferable for (at least some) businesses if HMRC decided what information they needed and picked one approach or the other. Currently the proposals appear to be a merging of the two, which is unhelpful and means there is no alignment for any business. We also note that once the schedule is in force, the number of datapoints could theoretically be expanded or reduced if it is providing insufficient or less useful information than was anticipated. From a taxpayer perspective, the cost of setting up and changing systems may not be insignificant, so we would warn against relying on frequent changes, but erring on the side of starting with a streamlined (and internationally aligned) number of the most useful datapoints with a commitment to review after a reasonable period of time.
- 4.5. Regarding international comparators, we note that while many major countries do have an information requirement along the lines of the proposed ICTS, several do not. For example, Ireland does not have a similar requirement. The impact of the UK's attractiveness against such international comparators should also be considered and balanced with the perceived benefit to HMRC's risk assessment abilities.
- 4.6. In the long run, this measure will be judged as to its success and reasonableness by whether and how useful the information is (and is seen to be by taxpayers), and the extent to which it reduces the burden of enquiries.

We hope that there will be a re-thinking of how HMRC deals with transfer pricing enquiries and sufficient resource invested in training compliance officers so that enquiries become more focussed because of the analysis of the additional data provided.

5. Acknowledgement of submission

- 5.1. We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation
4 July 2025