



## TRANSFER PRICING: SCOPE AND DOCUMENTATION CONSULTATION

Issued 4 July 2025

ICAEW welcomes the opportunity to comment on the Transfer Pricing: Scope and Documentation Consultation published by the government on 28 April 2025, a copy of which is available from [this link](#).

For questions on this response please contact our Tax team at [taxfac@icaew.com](mailto:taxfac@icaew.com) quoting REP 53/25.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 150 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

This response of 4 July 2025 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

## KEY POINTS

1. We appreciate HMRC's early engagement on this issue to try and gather views from relevant stakeholders ahead of any decision to implement these changes.
2. While ICAEW members appreciated the rationale for HMRC's proposals, many were concerned that the increased administrative burden could be challenging for many businesses. Furthermore, given the removal of the medium-sized exemption, any new tax administration requirements could affect relatively small businesses close to the £10m turnover threshold that are unlikely to have any in-house tax resource.
3. Members also noted that these changes are happening in parallel with the wider transfer pricing documentation developments which require more extensive record keeping. While these other changes apply only to large multi-national groups, it is important to remember that there are already significant demands on businesses in this space and these recent proposals could extend this burden considerably.
4. Only a relatively small proportion of ICAEW members operate in this specialist international space on a routine basis. We expect that responses on the detailed technical aspects of the consultation will be provided by large international businesses and advisers who regularly operate in this area. On this basis we have decided to provide a high-level response that focuses on the tax simplification and growth agenda rather than answer each question individually.

## REMOVAL OF MEDIUM-SIZED EXEMPTION

5. ICAEW members were keen to retain an exemption from transfer pricing for small enterprises and did not express any strong opinions around changing how the thresholds are defined by virtue of turnover, balance sheet total and staff headcount. Having the threshold expressed in £GBP rather than €Euros was also regarded as sensible.
6. Members appreciated HMRC's rationale for removing the medium-sized exemption in that many other jurisdictions globally have this requirement for medium-sized enterprises. However, members had wider concerns around the increased administrative burden, particularly for those who are at the lower end of the 'medium' bracket. This is of particular concern given the proposals around the introduction of the international controlled transactions schedule (ICTS) that would affect these entities (see below).
7. Members indicated that, in their experience, many medium-sized businesses would generally apply transfer pricing principles and seek to record transactions at arms-length in any event, albeit with a more 'light-touch' approach than these proposals are demanding. For many privately-owned businesses, the new rules would result in increased tax administration costs. This therefore does not represent a simplification for many businesses and will result in increased compliance costs and may impact growth.
8. Members agreed that a 'grace period' in applying transfer pricing rules would be beneficial and supported the proposal that the small threshold must be breached for two consecutive periods before entities would be drawn into transfer pricing.

## INTERNATIONAL CONTROLLED TRANSACTIONS SCHEDULE

9. ICAEW members understood HMRC's desire to capture further information around entities' related party transactions to better risk assess groups and target HMRC compliance activity.

10. It was also noted that there is not an agreed OECD approach for this schedule as the OECD does not provide a similar information gathering standard. With this in mind, members questioned whether this initiative was absolutely necessary at this point in time, particularly given that businesses are facing a number of challenges. If it is considered necessary, a phased introduction to the rules and/or a soft-landing might be beneficial, particularly for medium-sized enterprises that have previously not been included within transfer pricing rules.
11. Given the original thresholds were set at EU level over a decade ago, members did question whether it would be worthwhile considering raising the threshold at which a business qualifies as medium. A threshold of £10m turnover is still capturing relatively small enterprises that are unlikely to have any in-house tax resources. Similarly, some members questioned the likely impact of bringing these entities into scope. Realistically how much tax would be at stake and would HMRC resources be better spent analysing data from larger entities? HMRC could consider raising the threshold for the ICTS if there was no appetite to raise the threshold for the transfer pricing exemption more widely.
12. In other areas of tax we have seen increased administrative burdens (eg. within research and development tax relief, including the additional information form) and members advise us that this information is simply not reviewed and largely ignored by HMRC compliance teams. Should HMRC place increased demands and associated costs on businesses to provide related party transaction information, it is imperative that it has the resources to properly analyse that information and reduce the ongoing burden of compliant taxpayers. We have seen little or no evidence of adequate risk assessment on the back of similar initiatives in other areas of HMRC. Those businesses most affected by the challenging compliance environment were often smaller entities where HMRC teams appeared the least experienced to interpret the data that was provided. Should HMRC not have adequate resources to analyse and use this information appropriately, we strongly recommend the ICTS is not implemented or a much higher transaction de minimis and/or entity threshold is considered to reduce the amount of data received.
13. Members did suggest that the ICTS represents a significant increase in work when compared to the local file. Therefore, HMRC should be aware that this type of measure has the potential to be a major compliance and admin burden for many businesses. Collecting data to populate the template from existing records is unlikely to be straightforward for many businesses. Resources will need to be put into this project and this could be expensive and time consuming for taxpayers.
14. While we note the proposed de minimis of £1m on aggregated related party transactions, members indicated that this was relatively small. Similarly, the loan relationship thresholds (£5m loan balance and £100k effect on P&L) were also considered to be relatively low. Members also suggested that a transaction-level threshold is not always easy to manage in practice, as businesses will likely have to do the work to monitor how close they are to the threshold. Therefore, an exemption based on the size of the business might be a more pragmatic and less costly solution.
15. Members also stressed that it was important not to rush implementation. It is important to give businesses sufficient time to prepare, particularly smaller businesses unaccustomed to formal transfer pricing documentation requirements and those without a customer compliance manager (CCM). Also, HMRC should ensure that it is ready to effectively analyse any extra documentation received.

## APPENDIX 1

### ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).