

**[Local company legal name]**

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**[Country]**

**Update to the Local File for the Financial Year 20XX covering the  
intercompany transactions undertaken in FY 20XX+1**

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**[Date, year]**

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# 1. Executive Summary

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[Name tax advisory firm] (hereinafter referred to as: “ABC Tax Advisors”, “we” or “us”) has been engaged to update the Local file covering the controlled transactions of [local company full legal name] (hereinafter referred to as: “[Local Opco]”) for FY 20XX (“last year’s Local file”). This update provides details on the controlled transactions in which [Local Opco] was involved in during FY 20XX+1 [This should be the year subject to review]. Due to the nature of such controlled transactions, this update should be read in conjunction with the Local file prepared for [Local Opco] for FY 20XX (please refer to *Appendix I*).

In last year’s Local file, it was established that [Local Opco] should be characterized as a limited risk distributor in the controlled transaction where it procures [name products] from its group companies [name group company 1] and [name group company 2] for resale. The most appropriate transfer pricing method to test the arm’s length nature of the transfer prices for the supply of [name products] was the Transactional Net Margin Method (“TNMM”) with Return on Sales (“RoS”) as the relevant Profit Level Indicator (“PLI”). A benchmark study was performed, with [Local Opco] as the tested party, to identify a set of independent companies that had a comparable functional and risk profile as [Local Opco]. This benchmark study resulted in an inter-quartile range of XX% [Lower quartile] to XX% [Upper quartile], with a median of XX% (please refer to *Appendix II* for the benchmark report).

Based on the functional interviews with [Local Opco]’s management held on [month, year], we understand that the relevant facts and circumstances as described in the last year’s Local file have not changed significantly in FY 20XX+1. [Local Opco] was not involved in any other controlled transactions then the ones identified in last year’s Local file. In addition, management indicated that the functions performed, assets employed and the risks assumed by [Local Opco], as well as its contribution to the value chain, have not changed significantly.

Having said that, we have concluded the following for FY 20XX+1:

- the functional characterization of [Local Opco] in the controlled transaction where it procures [name products] from its group companies [name group company 1] and [name group company 2] remained unchanged, i.e. [Local Opco] operates as a limited risk distributor;
- the TNMM with RoS as the relevant PLI is still applicable as the most appropriate method to test the arm’s length nature of the transfer prices for the procurement of [name products] from its group companies [name group company 1] and [name group company 2];
- Based upon the financial analysis we performed, it is concluded that the actual RoS of [Local Opco] for FY 20XX+1 [falls] within the financial results realised by the companies yielded in the final sample of the benchmark study undertaken in last year’s Local file. [Relevant text in case it is decided not to conduct a new benchmark study]

## 4. Functional analysis

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In the last year's Local file, it was established that [Local Opco] should be characterized as a limited risk distributor in the controlled transaction wherein it procures [name products] from its group companies [name group company 1] and [name group company 2]. The most appropriate transfer pricing method to test the arm's length nature of the transfer prices for the supply of the [name products] was the TNMM with RoS as the relevant PLI. A benchmark study was performed, with [Local Opco] as the tested party, to identify a set of independent companies that had a comparable functional and risk profile as [Local Opco]. This benchmark study resulted in an inter-quartile range of XX% [Lower quartile] to XX% [Upper quartile], with a median of XX%.

On [date, year], we conducted functional interviews with the management of [Local Opco]. The purpose of such interviews was to validate whether the facts and circumstances as described in the last year's Local file had remained largely unchanged.

Based upon the interviews, we concluded that the facts and circumstances have not changed significantly. In addition, it was established that [Local Opco]'s contribution to the value chain remained unchanged. Only minor changes occurred, which do not affect the functional characterization of [Local Opco]. The main differences with the last year's Local file were as follows: *[see sample language below]*

- the marketing department has been integrated with the sales department;
- [Competitor A] was acquired by [competitor B];
- [Local Opco] increased its revenue with 12%; and
- the number of FTEs of [Local Opco] increased from [XX] to [XX].

The above-mentioned implies that the functional characterization of [Local Opco] in the transactions wherein it procures [name products] from its group companies [name group company 1] and [name group company 2] remained unchanged, i.e. [Local Opco] operated as a limited risk distributor in FY 20XX+1.

*[It is noted that in case the functional and risk profile of [Local Opco] has changed significantly in FY 20XX+1, e.g. through a business restructuring, involvement in value creating sales activities or when it incurs additional risks, its characterization for transfer pricing purposes may have to be reconsidered. Any changes in the functional characterization of [Local Opco] will likely have an impact on the most appropriate transfer pricing method]*

## 6. Financial analysis

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*[This section is only required if local transfer pricing rules prescribe that an analysis should be made of how the actual financial results compare to the results found in the benchmark study. If this would be required under local rules, the final paragraph of Section 5 needs to be deleted]*

This section of the report analyses the actual results realized by [Local Opco] on the intercompany transactions with principal for FY 20XX+1 and compares these results to the results realized by independent third parties.

*[Please note that the actual results may have to be segmented in order to be able to analyze the RoS realized on the intercompany transactions. In the table below we assumed that almost all of [Local Opco]'s results were based on the intercompany manufacturing activities]*

The RoS of [Local Opco] for FY 20XX+1 is shown in the table below.

**Table 3: RoS of the [Local Opco]**

Actual results realized in [currency]	20[XX]
Operating profit	
Sales	
Return on Sales = (Operating Profit / Sales)	[X.X%]

From the financial analysis, it may be concluded that the actual operating margin (RoS) of [Local Opco] for FY 20XX+1 is [well] in line with the financial results realized by the companies yielded in the final sample of the benchmark study undertaken.

*[In case the actual RoS is outside the interquartile range, it is recommended to analyze the reasons why this occurred]*