

2025 UK Transfer Pricing Updates - Documentation

Tier	Tier definition (consolidated group)	TP documentation/reporting requirements
Largest	> EUR 750 million turnover	<ul style="list-style-type: none"> • Country-by-country reporting ('CbCR')¹ • Master File ('MF')² • Local File ('LF')³ • Intra-group agreements • Cross-border reporting via the International Controlled Transaction Schedule ('ICTS')⁴
Large	1) > 250 employees; or 2) < 250 employees and both > EUR 50 million turnover and > EUR 43 million assets	<ul style="list-style-type: none"> • TP report or LF³ • Intra-group agreements • ICTS⁴
Medium	< 250 employees and either one of: <ul style="list-style-type: none"> • < EUR 50 million turnover; or • < EUR 43 million assets 	<ul style="list-style-type: none"> • No legal requirements but other tax law would suggest at a minimum TP policy memo possibly with a benchmarking analysis • Intra-group agreements • Where counterparty is resident of a non-qualifying territory⁵, TP report, LF³ or ICTS⁴
Small	< 50 employees and either one of: <ul style="list-style-type: none"> • < EUR 10 million turnover; or • < EUR 10 million assets 	<ul style="list-style-type: none"> • Intra-group agreements • Where counterparty is resident of a non-qualifying territory⁵, TP report, LF³ or ICTS⁴

¹ CbCR requires multinational enterprises to disclose detailed financial, tax, and operational data – such as revenues, profits, taxes paid, employee count, and assets – for each country where they conduct business.

² MF includes a multinational enterprise's organisational structure, business activities, intangibles, intercompany financial arrangements, and TP policies across its global operations.

³ LF contains detailed information on a local company's business activities, specific intercompany transactions, including financial data, comparability analysis, and supporting documentation.

⁴ ICTS is applicable from 1 January 2027 onwards

⁵ A qualifying territory is the UK or any territory in which the double taxation agreement with the UK includes a non-discrimination provision and is not designated as a non-qualifying territory in regulations made by HM Treasury. A full list of qualifying can be found in HMRC's Guidance. A non-qualifying territory is one that does not meet these conditions. Some examples include Cayman Islands, Guernsey, Jersey, Hong Kong, etc.

2025 UK Transfer Pricing Updates – Other areas

Area	Previous state	Future state (based on November 2025 updates)
ICTS	N/A	<ul style="list-style-type: none"> • Introduction of a new reporting requirement for certain cross-border related party transactions • This would extend to dealings between UK companies and their overseas permanent establishments ('PEs'), and UK PEs of foreign companies • Please refer to section on ICTS for further detail
Intercompany financing	Currently prohibit any account to be taken of a guarantee; credit rating analysis to determine arm's length range of interest rates on intercompany loans to be performed on a standalone basis without considering group support	<ul style="list-style-type: none"> • Alignment with OECD Guidelines, i.e. consider guarantees (including implicit / group support) when performing credit rating analysis • Only applicable to interest rate pricing, not debt capacity
Intangibles	Intangibles transactions are often subject to both market value and arm's length valuation standards, resulting in significant complexity	<ul style="list-style-type: none"> • Arm's length standard to be applied to cross-border transactions within the scope of UK TP and the existing market value rules will be retained for all other scenarios • Acquired intangibles valuation may be adjusted either up or down; this is an exception to the 'one way street'
UK-UK transactions	<ul style="list-style-type: none"> • TP applies to UK-UK transactions • Typically seen as low risk and light touch approach to TP analysis appropriate 	<ul style="list-style-type: none"> • General exemption from UK-UK TP when both persons are subject to UK Corporation tax at same rate • Election to apply TP rules available • HMRC's to have ability to issue a TP notice to disapply exemption
Participation Condition	There is a requirement for common control typically through the holding of shares of two entities or for one entity to control another	<p>The participation condition will be broadened to include:</p> <ul style="list-style-type: none"> • Companies subject to arrangements that secure common management by the same person or group and determined having regard to all of the circumstances. • Any arrangements whose main purpose is to prevent the participation condition from being met, which will be disregarded; and • Situations where HMRC issues a transfer pricing notice requiring a company to apply arm's length pricing, where it considers that the participation condition should apply consistent with Article 9 of the OECD Model Tax Treaty, but which would otherwise fall outside of the UK rules.
PE	Chapter 2 CTA 2010 – currently mirrors the OECD Model Tax Convention ('MTC') in 2003	<ul style="list-style-type: none"> • Purpose of changes to align UK with 2017 OECD MTC Article 5 and Article 7 • Current text to be replaced by treaty wording and interpreted consistent with MTC and other OECD material • Dependant Agent PE verbatim changes to match 2017 MTC thus lowering the bar
Diverted Profits Tax ('DPT')	<p>DPT is charged at 31% as a separate tax, and is currently applicable in two cases:</p> <ol style="list-style-type: none"> 1. where groups create a tax benefit by using transactions or entities that lack economic substance; and / or 2. where foreign companies have structured their UK activities to avoid a UK PE 	<ul style="list-style-type: none"> • DPT will be abolished and replaced with a new mechanism - Unassessed Transfer Pricing Profits ('UTPP') - within the UK Corporation Tax framework • UTPP keeps key elements of the DPT regime - such as a higher 31% tax rate, preliminary and charging notices, and a specific assessment process - while removing the separate notification duty and improving clarity on cross-border provisions • New legislation will enable DPT - related disputes to be covered by Mutual Agreement Procedures