Operational Transfer Pricing in Thailand: From Compliance to Strategic Execution

As global tax scrutiny intensifies and regulatory frameworks become more sophisticated, multinational enterprises (MNEs) are evolving beyond traditional compliance-based transfer pricing (“TP”) approaches. In Thailand, this evolution is especially evident in the rising prominence of Operational Transfer Pricing (“OTP”) — a proactive and data-driven approach that ensures TP policies are closely aligned with actual business operations through real-time data integration and system connectivity.

What is Operational Transfer Pricing?

Operational Transfer Pricing (OTP) is the framework multinational enterprises (MNEs) use to **allocate revenues and costs** between associated enterprises (“AEs”) in a way that aligns with both strategic policies and day-to-day business operations.

Unlike traditional transfer pricing, which often happens as a **year-end compliance exercise**, OTP is embedded into a company’s **financial and operational systems**, allowing for **real-time or periodic monitoring**. This ensures:

- **Consistency** across accounting, finance, tax, and operational teams
- **Compliance** with the arm's length principle under OECD guidelines
- **Alignment** with prices that independent parties would agree to in similar transactions

Key focus of OTP:

- Transaction-level accuracy: Ensure accurate pricing for transactions.
- Real-time profit monitoring: Regular test of margins with target ranges.
- Cross-functional accountability: Coordinated execution between finance and operation.
- Data-driven adjustments: Adjusting and decisions based on information.

Why is OTP Relevant in Thailand?

Thailand's Revenue Department has increased its focus on TP transparency, following the enactment of the Amendment Act on Revenue Code No. 47 (2018), along with secondary regulations on transfer pricing and alignment with OECD, Base erosion and profit shifting ("BEPS") Action Plan- particularly Action 13 on documentation and country-by-country reporting.

Key developments driving OTP relevance include:

1. Mandatory TP Documentation – Thai companies with annual revenue exceeding THB 200 million must prepare a local file each year.
2. Intensified Audit Activity – Tax authorities are examining intra-group transactions more closely, with a sharper focus on substance, consistency, and profit allocation.
3. Shift to a Digital Tax Environment – Increased use of data analytics, e-filing, and automatic information exchange raises the likelihood of detecting mismatches and triggering audits.

Key Components of OTP in Thailand

Policy Design to Execution Alignment	Real-Time Profitability Monitoring	Intercompany Charge Management	Data Integration & Quality Control	Adjustments & True-Ups
• **Define** clear pricing policies aligned with functions, business goals, and Thai regulations. • **Embed** chosen methods (e.g., Cost-Plus, TNMM) directly into ERP and finance systems.	• **Track** margins against arm's length ranges. • **Investigate and resolve** operational or commercial variances promptly.	• **Automate** or standardize intercompany billing. • **Apply** correct pricing, FX rates, and markups consistently.	• **Connect** ERP, billing, and TP systems for consistent reporting. • **Keep** audit-ready files: master file, local file, TP disclosure form, pricing policy, agreements.	• **Establish** quarterly or annual true-up/true-down processes. • **Align** accounting entries with tax reporting to avoid mismatches.

Transfer pricing life cycle

Planning	Implementation				Compliance	Controversy
Strategy	**Build**	**Calculate**	**Invoice & Book**	**Monitor**	**Report**	**Audit**
• Design and document **TP policies**	• **Implement** pricing calculations, processes, procedures and agreements	• Run TP **calculation**	• Post and **settle** intercompany amounts	• **Reconcile** results to TP policy, processes and procedures to ensure arm's length outcome across jurisdictions	• **Tax return, TP report, Other disclosures** (e.g., CbCR reporting, financial statements, etc.)	• Respond to tax and financial **audits**

Forward-looking
Set TP policy for how IRPDs will be priced

Backward-looking
Document how policies were applied over past year

Impact of year-end TP adjustments on Value added Tax ("VAT")

One critical area often overlooked in Thailand is the **VAT treatment** of **year-end TP adjustments**, especially when these involve cross-border intercompany transactions as per summarized in the table below.

Section	Details
The Issue	Year-end TP true-up or true-down can trigger VAT complications when: • No formal invoice is issued • Adjustments are journal entries without VAT docs • Adjustments are retrospective
Key VAT Rules (Thailand)	• Output VAT is due when goods/services are supplied and invoiced • Credit notes must be issued within 6 months of the original invoice • Additional charges (e.g., TP top-ups) require supplementary tax invoices and are VATable if the original supply was taxable
Risk Areas	• Timing mismatch between TP adjustments and VAT periods • Lack of documentation for intercompany services • Misclassification of adjustments as non-VATable (e.g., journal entries labeled as "intercompany settlements")
Best Practices	• Plan adjustments early for proper invoicing and VAT compliance • Align tax and finance teams on TP and VAT filings • Maintain documentation on service nature and pricing • Issue debit/credit notes per Thai VAT rules, especially for retroactive changes
Challenges	• Limited ERP flexibility in smaller subsidiaries • Manual processes causing delays/errors • Coordination gaps across tax, finance, and operations • VAT often overlooked during TP execution
Opportunities	• Early implementation of OTP reduces audit/VAT risks • OTP supports faster close cycles and accurate tax forecasting • Aligning with HQ standards improves governance and investor confidence

BDO insight

Please note that TP adjustments (True-up or True-down) made by the company at **year end** or in following year, have several issues and should be avoided (i.e., custom duty, WHT, VAT, etc.). Instead the recommended approach would be to:

- Consider more frequent adjustments (e.g., quarterly),
- Maintain robust supporting information, and
- Explore the possibly of entering into an Advance Pricing Agreement (APA) to gain certainty over TP methodologies.

Furthermore, Operational Transfer Pricing (OTP) is no longer a 'nice-to-have' but a **critical capability** for businesses operating in Thailand. With rising regulatory focus on both income tax and VAT compliance, periodic (i.e., quarterly, annually) TP adjustments must be operationally aligned and properly documented.

By embedding OTP into daily business operations — and incorporating VAT awareness — companies can move from reactive compliance to **proactive tax management**. This approach leads to more resilient business models, improved audit readiness, and stronger trust with tax authorities.

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