

Transfer pricing introduced



New regulations

On 7 June 2021, Jordan published inaugural transfer pricing regulations, which were followed by their implementation guidelines in September 2021. The transfer pricing regulations require multinational enterprises operating in Jordan to transact with cross-border related parties in accordance with the arm's length principle. This means that these multinationals need to deal with a related party as if they are dealing with an unrelated/third party.

For banks and entities operating in the financial services industry, this has the following implications. In case you are

operating through a branch in Jordan with head office outside Jordan, or with subsidiaries group entities under common control in or outside Jordan, then you will be subject to transfer pricing reporting obligations in relation to cross-border related party transactions.

In practice, this means that four transfer pricing documents must be prepared and filed with Tax authorities in Jordan; a disclosure form and affidavit, a local file, a master file, and country by country reporting including notifications. Assessing the transfer pricing readiness of banks is becoming critical as the

compliance reporting obligations for the financial year of 2021 are in April 2022.

For banks, critical transfer pricing considerations are in two categories of income and expense: interest and non-interest. For the first, it is important to consider the booking of loans under syndication, loan transfers, and sales credit. For the second, this entails the booking of upfront non-interest income, like upfront fees in relation to advisory projects which may include project finance, mergers & acquisitions, equity capital market, and debt capital market.

Change management

The new regulations call for big change management for taxpayers in Jordan. A review of above-mentioned related party transactions shall guide secure good understanding to how these income- and expense components are split/shared amongst the parties related to the concerned multinational enterprises.

This can be initiated through following simplified steps:

- 1 Obtain a related party schedule.
- 2 Map the transaction type, nature, and economics of the transactions.
- 3 Discuss economics of the transaction with concerned related parties, supplemented by a review of transfer pricing documentation maintained by these related parties (if applicable).

It is also important to consider some of the operational aspects like transfer pricing governance, risk management, withholding tax, value added tax (VAT), inter-company billing, settlements, and reconciliations arising by virtue of these related party transactions.

An altogether different scenario can also arise given the introduction of the transfer pricing regulations in Jordan, which may result in the need to establish new framework of policies to ensure related party transactions are carried out in accordance with arm's length principles and the guiding regulations, and set-up appropriate transfer pricing governance to actively monitor and risk manage.

To sum-up, Jordan is now fully aligned with transfer pricing international standards and given the inherent complexities of the financial services, it is recommended that businesses start evaluating their current inter-company set-up.



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