

Working capital is one of the important factors for comparable study under transfer pricing

Summary – The Chennai ITAT in a recent case of Foxteq Services India (P.) Ltd., (the Assessee) held that Capital employed by assessee, including working capital, is one of relevant factors for purpose of determining arm's length price

Facts

- The assessee had submitted a detailed argument with regard to working capital adjustment for difference in working capital between the assessee and comparable. The DRP had also admitted that the details of working capital adjusted were also submitted. However, the same was not considered on the ground that the same was not verifiable as supporting documents for the source material was not provided. The DRP without considering the objection of the assessee on its merit, simply rejected the same. Therefore, according to assessee, the matter needed to be reconsidered.

Held

- With regard to working capital adjustment, the assessee claims that the difference in working capital between the assessee and the comparable companies would materially affect the profit determined. Therefore, certain adjustment needs to be made to bring them on equal footing. The assessee also brought to the notice of the DRP that the working capital adjustment, which was to ensure the profit derived by the comparable companies, can be compared with the profit of the assessee. This Tribunal is of the considered opinion that the capital employed by the assessee, including working capital, is one of the relevant factors for the purpose of determining the arm's length price. Therefore, the capital employed by the assessee, including the working capital, and that of comparable companies needs to be taken into consideration. Without comparing the working capital employed by the comparable companies and that of the assessee, there cannot be any transfer pricing adjustment.