



Tax Newsletter

Timely news and information on national tax issues

Commodities transactions between related companies



In a globalized market, it may be reasonable for business groups to choose to incorporate in their value chain a commodities¹ trader,² when due to their productive process commodities are a relevant input. The advantage of having a trader is that it allows for the generation of economies of scale based on their specialization and trading in the markets, thus providing members of the group the necessary raw materials.

Given that these are transactions between related companies of the same business group, it is essential to demonstrate that the price at which the commodities are traded meets the arm's length principle. Traditional methods, and more specifically, the Comparable Uncontrolled Price Method (CUP), is considered to be the most direct method for confirming such principle because of the characteristics of these goods and their possible direct comparison between transactions in the market, due to the publicly accessible information that is available.

¹ Commodities, or raw materials, are basic products used as inputs in industries.

² A trader is a merchant that obtains profits through the purchase and sale of assets in financial and securities markets.

The application of the CUP method requires a high level of comparability and information for its use, thus resulting in the importance of preparing sufficient documentation that meets all of the comparability criteria.

In these types of transactions, the application of the CUP method is possible through:

1. Internal information: generated by the taxpayer, based on actual transactions performed with independent third parties.

Such information must have a **high degree of comparability**. For example, the type of commodity traded with the independent third party must be the same as the one being tested, with the same transaction date, Incoterm used, and unit of measurement. Furthermore, the possible differences that could alter the price, such as origin and destination of the good, must be considered.

2. External information: this could be determined by reference to comparable transactions performed between independent parties or by reference to quoted prices.

Usually, this type of information is administered by brokers, who provide such information, as well as the supply and demand of commodities.

One of the main characteristics is the market in which the commodities are traded, whether it is the spot or futures market.

Given the information available in the market, it is necessary to have a historical basis for the transactions performed, noting the criteria and conditions that were considered for the setting of a price in transactions with related parties.

An appropriate application of the CUP method occurs when there is complete information regarding the transaction. For example, if the commodities are traded in the futures market, the taxpayer must download the information according to the format provided by the "Trading Market," capturing the trade date of the contract, shipment date, Incoterm used, unit of measurement, quantities traded, freight and/or any other relevant aspect based on the commodity traded.

While the use of a commodities trader within a business group could represent an economic benefit, it could also result in greater control of the supporting documentation for each transaction, which must be supported and comply with the tax laws of each jurisdiction in which they are carried out.

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Tax Calendar

November 2023

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Tax Obligations before the Tax Office (Ministerio de Hacienda)



Municipal Tax Obligations



Payroll Management Obligations

November 2023

| S | M | T | W | T | F | S |
|----|----|----|----|----|----|----|
| | | | 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 24 |
| 26 | 27 | 28 | 29 | 30 | | |

To learn more about **November's** obligations:



Download the 2023 Tax Calendar

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