

Instructions for Form 14234-B, Material Intercompany Transactions Template (MITT)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to the Material Intercompany Transactions Template (MITT) go to <https://www.irs.gov/businesses/corporations/compliance-assurance-process>.

Purpose of the Form

The MITT is used by the IRS for risk assessment purposes to review material cross-border transactions between the taxpayer and foreign related parties. The IRS will consider the information in the MITT (along with other information) when determining the transfer pricing compliance risks associated with cross-border controlled transactions.

Who Must File

All taxpayers that participate in the Compliance Assurance Process (CAP). Taxpayers selected for the Bridge phase for 2021 do not have to file a MITT as listed below.

What and When to File

First Year Applicants – Provide with the Application

For those applying to CAP for the first time, please provide a MITT based on the last filed tax return prior to the CAP year using the information on Form 5472, 8865 & 8858 and the IRC 6662(e) transfer pricing documentation. This information will be used to support the determination of suitability for CAP.

For all 2022 CAP Taxpayers

- **Initial 2021 MITT.** A taxpayer must file a MITT by the 90th day after the end of its 2021 taxable year, using information from the 2021 tax return. Filing this MITT may necessitate the use of estimates and this should be noted on the form. If the due date falls on Saturday, Sunday, or legal holiday, the taxpayer can file on the next business day. For example, a MITT using information for the calendar year 2021 is due March 31, 2022. This MITT is used to begin the risk assessment process for the 2022 CAP year.
- **Interim 2022 MITT (if necessary).** If a material new transaction(s) or changes to existing transactions (including cessation) have taken place during the 2022 tax year ((e.g., change that could give rise to either a different transfer pricing method or a different application of the same method), a taxpayer must file a MITT only for the relevant transaction(s) within 30 days of the change. For example, if during the 2022 tax year there are material new transactions not present in the Initial 2021 MITT or there is a material change from the Initial 2021 MITT, an Interim 2022 MITT should be provided only for the relevant transaction(s).
- **Final 2021 MITT.** When taxpayer files the 2021 tax return, a Final MITT must be provided simultaneously to the CAP team for their review. If there are material changes or new material transactions since the last filed MITT (i.e., the Initial 2021 MITT or Interim 2022 MITT) should be clearly noted. For example, when the 2021 Form 1120 is filed in the calendar year 2021, a Final 2020 MITT must be provided simultaneously to the CAP team for their review. This Final 2021 MITT is the equivalent of the MITT to be filed by first-year applicants to enter the 2023 CAP program.

Where to File

File the taxpayer's MITT with your designated IRS CAP account coordinator.

Required Attachments

- Global tax organization chart - each time a MITT is submitted
- IRC 6662(e) transfer pricing documentation - each time a MITT is submitted when any intangible property transaction, transactions based on a cost of sales method, or financial transactions not subject to the AFR safe-harbor are listed on the MITT
- Additional Information - any additional relevant information that would help the IRS perform a transfer pricing risk assessment.

Specific Instructions

The MITT must be submitted as an Excel file. Use the Excel file template that is attached to this PDF. PDF or other formats will not be accepted.

Material Intercompany Transaction

A material intercompany transaction is defined as a new or recurring intercompany transaction for which the amount reported in Column h of the MITT is greater than the last agreed upon permanent materiality threshold.

- Controlled transactions should be listed separately. However, to the extent the transfer pricing documentation aggregates similar transactions using the same method, aggregation is allowed, but all parties' countries must be listed.
- Controlled transactions with disregarded entities should be reported indicating the Controlled Foreign Corporation (CFC) that owns the entity.
- Controlled transactions with foreign partnerships and other foreign entities should be reported separately.
- Include controlled transactions between U.S. entities and U.S.-owned foreign disregarded entities.
- Include domestic transactions between controlled non-consolidated domestic entities.
- The sale of debt or securities should be reported on the MITT. Aggregation is permitted for similar transactions using the same transfer pricing method.
- Sales, transfers, licenses, exchanges or acquisitions of intangible property to or from a related party should be reported on the MITT.
- If a material intercompany transaction reported on a prior MITT ceases to exist in the current year, include a short explanation of why it has been replaced.
- Foreign-to-foreign intercompany transactions should not be reported on the MITT.

All amounts entered on the MITT should be actual amounts—not estimates other than the Initial 2020 MITT, and such amounts should be the relevant amounts noted in the taxpayer's tax returns (e.g., Forms 5471, 5472, 8865, 8858) and IRC 6662(e) documentation. If the amounts are not actual amounts or differ from those reported in tax forms or IRC 6662(e) documentation, the taxpayer is required to state as such a discrepancy.

Column Instructions

Column a: CC Payor - Insert the IRS code for the country or countries from which payment(s) originates from the list at https://www.irs.gov/pub/irs-schema/mef_country_codes_ty200920102011.pdf.

Column b: CC Payee - Insert the IRS code for the country or countries in which payment(s) is received from the list at https://www.irs.gov/pub/irs-schema/mef_country_codes_ty200920102011.pdf.

Column c: Sub F - Indicate if the transaction gave rise to Subpart F income.

Column d: Transaction - Briefly describe the transaction and include legal names of the parties to the transaction. For financing transactions, include the loan, principal amount, coupon interest rate and loan term. For a transaction involving a cost sharing arrangement, footnote whether stock is included in the intangible development costs.

Column e: TPS Sec Ref - Reference the name and the section(s)/page(s) of IRC 6662(e) documentation in which this transaction was tested. If no such documentation exists, enter "None".

Column f: APA - "Yes" if an APA covers this transaction and the material facts and pricing of the transaction is consistent with the terms set forth in the APA, "No" if there is no APA (or if the facts/pricing of the transaction is inconsistent with the terms set forth in the APA), and "A" if the taxpayer has applied for an APA that has not been finalized.

Column g: Form - State the tax return form number where the transaction was reported (e.g., Form 5472, Form 5471, Form 8865 & Form 8858).

Column h: Amt Reported - State the amount reported on Form 5472 Part IV or Form 5471/8865/8858 Schedule M/N. For payments made by U.S. parties, report the amount as a negative. For payments received by U.S. parties, report the amount as a positive. For financing transactions, provide the interest amount.

Column i: Form Line # - State the line number of Form 5472 Part IV or Form 5471/8865/8858 Schedule M/N where the amount was reported.

Column j: Schedule M Column - State the column of schedule M/N where the amount was reported. If amount was reported on Form 5472, state the column.

Column k: Transfer Pricing Policy - State the transfer pricing policy that the taxpayer followed to price this transaction. For example, if Cost Plus was used, please state Cost Plus and include the markup used.

Column l: Transfer Pricing Method - State the transfer pricing method the taxpayer selected as the best method to test the arm's length nature of a controlled transaction. Please reference the transfer pricing methods in the Treasury Regulations. If an unspecified method is used, please provide an explanation of the IRC 6662(e) documentation.

Column m: Tested Party - If the taxpayer selected the comparable profits method (CPM) to test the arm's length nature of a controlled transaction, provide the name of the tested party.

Column n: Tested Party Function - If the taxpayer selected the CPM to test the arm's length nature of a controlled transaction, indicate the nature of the activity of the tested party with respect to the controlled transaction.

Column o: Tested Party OM - State the tested party (column m) operating margin (regardless of transfer pricing method or profit level indicator). Operating Margin should be stated as a percentage, $\text{Operating Margin} = \text{Operating Income (EBIT)} / \text{Sales Revenue}$.

Column p: PLI/Rate - Indicate the PLI or rate (royalty rate, interest rate, operating margin, cost plus markup, etc.) used to analyze and benchmark the tested party's or profit/residual profit split percentages (include dollar amount and routine return/non-routine return).

Column q/r/s: Benchmark Range - Provide the upper, median and lower quartile that resulted from the comparables analysis. If the full range is not provided, please footnote the full range.

Column t: Actual Results - Provide the actual PLI or rate achieved during the fiscal year. Note, the actual PLI or rate achieved may differ from the transfer pricing policy for various reasons. For example, the taxpayer may have a transfer pricing policy of selling intercompany at cost plus 4.7% but the actual mark-up charged ended up being 4.7%. In this example, column (t) should show cost plus 4.7%.

Column u: Change - Provide a brief explanation if there has been a change in policy or method (or application of method) from the last filed return. Indicate a new transaction. Enter "End" if the transaction was discontinued.