

Senator George Brandis  
Chair  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Senator Brandis

Thank you for your letter dated 20 September 2006 addressed to Mr David Grecian and the Hansard transcript of discussions on transfer pricing as part of your Committee's Inquiry into Petrol Pricing in Australia.

In broad terms transfer pricing refers to the pricing of goods, services and intangible property between related enterprises, particularly in regard to cross-border transactions.

Australia's tax legislation, together with a number of public rulings issued by the Tax Office, seeks to ensure that arm's length principles are used for tax purposes when two or more related enterprises deal with one another. That is, that a transfer price should be the same as if the two enterprises involved were independent and were dealing at arm's length.

The Tax Office, through its compliance program, continuously monitors cross-border related party transactions, including crude oil sales and purchases. As part of the annual tax return compliance process, companies are required to lodge a schedule detailing all cross-border related party transactions. The Tax Office makes an assessment of any perceived risk to the revenue from the information disclosed in the schedule. If a material transfer pricing risk is identified, the Tax Office will carry out a transfer pricing risk review and if necessary undertake a transfer pricing audit which may result in adjustments being made to ensure the arm's length pricing principles have been applied. The Tax Office also carries out periodic detailed reviews to ensure compliance with the relevant tax legislation.

Should the Committee require further assistance with this matter please contact Julie Howe, Parliamentary Liaison Officer on (02) 6216 2858.

Yours sincerely

Peter Smith  
Senior Assistant Commissioner  
International Strategy & Operations