



Comparative Overview of Germany's Transaction Matrix & Indian Compliance

The Germany's transaction matrix provides a structured, tabular record of cross-border related-party transactions, capturing contractual basis, transaction value, transfer pricing method, tax jurisdiction, and deviations from standard taxation. It allows auditors to assess both the form and substance of transactions and must be maintained retrospectively. In contrast, India's Form 3CEB focuses on reporting transaction nature, value, and transfer pricing method, without requiring disclosure of contractual terms or the tax status of associated enterprises. The article emphasizes Germany's framework and illustrates insights that can be drawn to strengthen Indian transfer pricing compliance.

The transaction matrix is a structured, tabular overview that contains relevant information on the taxpayer's or Multinational Enterprise's ('MNE') cross-border business relationships with related parties and permanent establishments introduced in Germany as part of its enhanced transfer pricing documentation regime under the Fourth Bureaucracy Relief Act, effective from 1 January 2025. Its purpose is to provide tax auditors with an overview of cross-border related-party transactions undertaken by a German MNE.

The introduction of the transaction matrix aligns with the OECD's BEPS Action 13 framework and complements the existing Master File and Local File documentation requirements. In essence:

- The Master File provides a global business overview of the MNE group.
- The Local File details the entity-specific transfer pricing analysis.
- The Transaction Matrix offers a clear, transaction-level overview.

Importantly, prior to the introduction of the Transaction Matrix, there were no additional disclosure obligations in place. Consequently, German taxpayers were relatively exempt from the reporting requirements applicable in neighboring countries, such as the annual transfer pricing report (TPR form) mandated elsewhere.

Furthermore, German tax authorities clarify that a tax audit order issued often encompasses examination periods prior to 2025, which requires taxpayers to prepare the transaction matrix for those prior years as

From an Indian perspective, the transaction matrix serves a function similar to that of Form 3CEB under section 92E of the Indian Income tax Act, 1961. While Form 3CEB is a prescribed statutory form that must be filed annually, while the transaction matrix is part of the transfer pricing documentation to be maintained and furnished to the German tax authorities upon request. Both aim to ensure transparency and facilitate the assessment of whether international transactions are conducted at arm's length.

Each entry in the transaction matrix summarizes the economic and operational characteristics of a controlled

- a) The subject and nature of the business transactions (for example, supply of goods or an ongoing business relationship)
- b) The parties involved in the transactions, with an indication of the recipient and provider of the goods or services
- c) The volume and remuneration (in euros) of the transactions (for example, the loan volume and interest, or the remuneration for a supply of goods or services)
- d) The contractual basis (specifying the contract document)
- e) The transfer pricing method applied (for example, cost plus method or comparable uncontrolled price method)
- f) The tax jurisdictions concerned
- g) Whether the business transactions are not subject to standard taxation in the tax jurisdiction concerned

The German Ministry of Finance has published two formats of transaction matrix.

Picture 1 – depicts the first format of transaction matrix

Picture 2 – depicts the second format of transaction matrix

¹ <https://www.bundesfinanzministerium.de/Content/EN/Downloads/Taxation/External-Tax-Relations/transaction-matrix.pdf>

The first format must be followed when the taxpayer acts solely as a provider or solely as a recipient of goods or services in its cross-border related-party transactions. The second format must be followed when the taxpayer or the transaction partner acts both as a provider and recipient of goods or services. In such cases, separate transaction matrices must be prepared for each role to ensure clarity in reporting and to avoid overlap of information.

In principle, these examples must be followed closely. Any deviations must be discussed and agreed upon with the tax authorities in advance.

Illustration

During FY 2024–25, a German entity engaged in the following cross-border transactions with its related parties:

Taxpayer² – German Co BV
FY – 2024-25

No	Transaction partner ³	Subject and nature of the business transaction	Volume	Remuneration (€)	Contractual basis	Transfer Pricing Method Applied	Tax jurisdiction of the transaction partner	Deviation from standard taxation (on the part of the transaction partner)
1	Parent Co Ltd.	Purchase of raw materials	82	8,200,000	Purchase Agreement dated 01.04.2024	CUP Method	Japan	No
2	Parent Co BV	Payment of royalty for trademark and know-how	*	350,000	License Agreement dated 01.01.2024	CUP	Netherlands	Yes
3.	Subsidiary Co BV	Receipt of management support services (HR, Finance & IT)	*	480,000	Master Services Agreement dated 01.04.2024	Method	Netherlands	No

- It purchased raw materials from Parent Co Ltd. (Japan) under a Purchase Agreement dated 01.04.2024 for €8,200,000, applying the CUP method
 - It paid royalties of €350,000 to Parent Co BV (Netherlands) for trademarks and know-how under a License Agreement dated 01.01.2024, using the CUP method
 - It received management support services (HR, Finance, IT) from Subsidiary Co BV (Netherlands) under a Master Services Agreement dated 01.04.2024, remunerated at €480,000 using TNMM (3–5% markup).
- These transactions are summarized in the transaction matrix as below:

² Indication of whether the taxpayer is a recipient or provider of goods or services. If a taxpayer is both, separate tables must be prepared for each case.

³ Indication of whether the transaction partner (party involved in the business transaction) is a recipient or provider of the goods or services. If a taxpayer is both, separate tables must be prepared for each case.

Note: A detailed format must be followed if the taxpayer or the transaction partner acts both as a provider and recipient of goods or services. In such cases, separate transaction matrices should be prepared to reflect each role in accordance with the guidance issued by the German Ministry of Finance.

Comparative Overview: India's Form 3CEB and Germany's Transaction Matrix

Both India and Germany require detailed disclosures of cross border related party transactions, but the compliance approach differs. In India, Form 3CEB is a statutory filing submitted annually along with the income tax return. In Germany, the transaction matrix forms part of the transfer pricing documentation and is submitted to tax authorities only upon request. The following table outlines the key distinctions and similarities between them.

Aspect	India – Form 3CEB	Germany – Transaction Matrix
Legal Basis	Section 92E of the Income Tax Act, 1961 read with Rule 10E	Section 90(3) of the German Fiscal Code (AO) under the Fourth Bureaucracy Relief Act
Purpose	Statutory disclosure of international and specified domestic transactions	Structured overview of cross-border related-party transactions
Filing Requirement	Mandatory annual filing with the income tax return	Maintained as part of transfer pricing documentation; submitted upon request
Prescribed Format	Fixed form notified by the Income Tax Department	Standardized template issued by the German Ministry of Finance
Information Captured	Nature, volume, value, and transfer pricing method of each transaction	Nature, volume, remuneration, contract basis, method, deviation from standard taxation and tax jurisdiction
Verification	Certified by a Chartered Accountant	Reviewed by the tax authorities during audit
Regulatory Objective	Ensures statutory compliance and reporting transparency	Facilitate efficient transfer pricing audits
Penalty	Penalty of INR 1,00,000 shall be imposed on failure to comply in filing the form.	Penalty of Euro 5,000 shall be imposed on failure for not providing/ maintaining a Transaction Matrix.

Distinctive Disclosures in Germany's Transaction Matrix

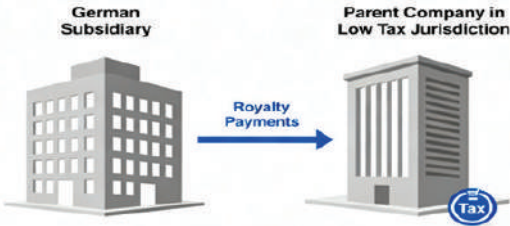
The German framework goes beyond listing transactional details to include the contractual basis and taxation status of the transaction partner, both of which strengthen the credibility of the transfer pricing documentation.

The requirement to specify the “contractual basis” ensures that each related-party transaction is supported by a corresponding agreement or documented understanding. This enables tax authorities to verify

whether the terms recorded in the contracts align with the actual conduct of the parties, thereby testing both the form and substance of the transaction.

The disclosure of “deviation from standard taxation” requires taxpayers to indicate whether the transaction partner is subject to normal corporate tax in its jurisdiction or benefits from a preferential regime or exemption. This helps auditors identify potential base-erosion or profit-shifting risks early in the review process.

For instance, where a German subsidiary makes royalty payments to its parent entity situated in a jurisdiction that provides a preferential tax regime for intellectual property income, such as a patent box regime etc, this information is required to be reported in the deviation from standard taxation column of the transaction matrix. The inclusion of this disclosure allows the tax authorities to identify that the transaction partner is subject to a lower effective rate of taxation and to assess whether the royalty payment has been determined in accordance with the arm’s length principle.



In contrast, the Indian transfer pricing framework does not require disclosure of either the tax status of the associated enterprise or the contractual basis of the transaction. Form 3CEB primarily focuses on reporting the nature, value, and transfer pricing method applied to international transactions, without referencing the underlying intercompany agreements that govern these arrangements.

The absence of such disclosures limits the ability of the tax authorities to verify whether the terms of the transaction align with the actual conduct of the parties or whether the counterparty operates under a preferential tax regime. Consequently, potential risks relating to substance, characterization, or base erosion are often identified only during detailed scrutiny or through specific information requests, increasing the time and effort required to complete transfer pricing assessments.

Insights from Germany's Transaction Matrix for Strengthening Indian Transfer Pricing Disclosures

The introduction of the transaction matrix marks an important advancement in Germany's transfer pricing documentation framework. It seeks to enhance transparency, ensure uniformity in reporting, and facilitate a more systematic approach to transfer pricing audits. By bridging the informational gap between the Master File and the Local File, the transaction matrix provides a concise yet comprehensive representation of intercompany transactions.

Drawing from this approach, incorporating the disclosure of the contractual basis and deviations from the standard tax regime in the Indian Form 3CEB would empower tax authorities to verify that the contractual terms are consistent with the actual conduct of the parties. This approach would allow a more thorough assessment of both the form and substance of intercompany transactions, while the disclosure of “deviation from standard tax regime” helps provide an effective mechanism to evaluate potential profit shifting.

The disclosure of the contractual basis in Form 3CEB ensures that Indian entities enter into related-party transactions only pursuant to documented intercompany agreements. Since the agreement is documented in writing rather than being based on verbal arrangements, it provides certainty. Relying on vague or verbal arrangements across multiple transactions would not present a favorable impression to tax authorities. Therefore, this disclosure effectively reinforces the need for companies to maintain proper, written agreements and compliance in related-party dealings.

Indian entities with AEs in Germany, including multinational groups with subsidiaries or operations in the country, must ensure that disclosures made in India’s Form 3CEB are fully aligned with the German transaction matrix. It is imperative to understand and align the disclosures made under Form 3CEB in India with the information presented in the German transaction matrix as such alignment is critical to achieving consistency in reporting across the multinational group, providing a clear and unified view of intercompany transactions, and preventing any discrepancies, redundancies, or conflicting information in reporting.

Moreover, should India incorporate a requirement for the disclosure of deviations from the standard tax regime in its Form 3CEB, it would facilitate the concurrent assessment of transfer pricing and international taxation issues, streamline enforcement, and enhance the effectiveness of tax framework.

Obligation of non-residents to maintain Transaction Matrix

Under the German Fiscal Code, as per section 90(3) any taxpayer who has cross-border business relations with related parties or permanent establishments should maintain transfer pricing documentation.

The German Fiscal Code defines a taxpayer as any

person who owes a tax, is liable for a tax, or is obliged to withhold and remit to the revenue authorities a tax due on behalf of a third party, to file a tax return, to provide collateral, to maintain accounts and records, or to fulfill other obligations imposed by the tax laws.

This implies that Indian entities with a significant presence in Germany, such as permanent establishments, or those earning income from Germany as non-residents, and thereby subject to German tax obligations, may be required to maintain a transaction matrix and comply with the German Fiscal Code to ensure proper reporting and adherence to transfer pricing requirements.

With the continued global convergence of transfer pricing regulations under the OECD’s framework, maintaining consistency, accuracy, and coherence across jurisdictions has become a critical aspect of effective compliance and transfer pricing risk mitigation.

Conclusion

- Germany’s transaction matrix goes beyond mere transactional disclosure by capturing the contractual basis, tax jurisdiction, and any deviations from standard taxation, thereby providing tax authorities with a structured, transaction-level view of related-party dealings.
- This approach enhances transparency, facilitates systematic audits, and allows for a clear assessment of both the form and substance of intercompany transactions. Its retrospective requirement ensures that historical transactions are consistently documented, reinforcing compliance and credibility.
- In contrast, India’s Form 3CEB primarily focuses on reporting the nature, value, and transfer pricing method of international transactions, without requiring disclosure of contractual terms or the tax status of associated enterprises.
- Adopting elements from the German framework, specifically, the disclosure of contractual basis and deviations from standard taxation, would enable Indian tax authorities to assess intercompany transactions more thoroughly, mitigate base erosion risks, and improve alignment with global practices.
- Non-residents may have to maintain a Transaction Matrix in Germany, if they qualify as “taxpayers” under Section 33 AO and they are subject to German tax on account of a permanent establishment or other taxable presence in Germany.

Authorised by

AMEET BAID
ASA

VIRTI SHAH
ASA

SAGAR NAGARAJ
ASA