

BENEFIT TEST

ANALYSIS OF INTRA-GROUP SERVICES

EXECUTIVE SUMMARY – CHANGES IN THE REGULATORY ENVIRONMENT

Under the new Hungarian transfer pricing regulations, which will be mandatorily applicable from the 2026 business year, Hungarian taxpayers are required to prepare a so-called **Benefit Test** for services provided between related parties under the transfer pricing documentation obligation.

The preparation of the Benefit Test represents a new **transfer pricing obligation** for Hungarian taxpayers, one that has so far occurred only very rarely in practice. Therefore, preparations should be started in due time in order to ensure a smooth documentation process for the 2026 business year.

Accordingly, in order to prepare the Benefit Test, **Niveus' transfer pricing team** will begin the preparatory work and the analyses during 2026, with the aim of achieving the following **business benefits**:

- **More time available** to complete the tasks in full;
- **Early identification of risk areas**, enabling intervention already during the business year under review;
- The possibility of offering **cost-effective advisory fees**.

THE DETAILS OF THE BENEFIT TEST

The Benefit Test is a **transfer pricing methodology** designed to determine **whether an intra-group service has genuinely benefited** the recipient entity and **whether its cost is economically justified**. The tax authority frequently scrutinizes the deductibility of intra-group services; therefore, it is crucial for companies **to properly document the legitimacy and market conformity of such services**.

The Benefit Test consists of five key evaluation criteria:

1. Verification of actual service provision

The first step is to confirm that the service was indeed provided and is not merely an **artificial cost allocation**. To substantiate this, detailed documentation is required, such as contracts, internal reports, presentations, emails, or other business records. Without tangible evidence of service delivery, tax authorities may easily challenge its validity.

2. Exclusion of shareholder activities

Costs that solely relate to the parent company or the overall corporate group's operations **cannot be allocated to subsidiaries**. Examples include expenses related to central management, stock issuance, or financial reporting obligations arising from regulatory requirements. Since these do not provide direct benefits to the subsidiary, tax authorities do not consider them as deductible intra-group service costs.

3. Economic value-added assessment

A service is only deemed justifiable if it provides measurable benefits to the recipient company. One key question is whether the subsidiary - if it had not received the service within the group - would have acquired it from an independent provider or performed it in-house. If the service is essential for operations and has no cost-effective alternative, its transfer pricing treatment is considered reasonable.

4. Elimination of duplicate services

One of the most common transfer pricing issues is **the duplication of services**. During the assessment, it is necessary to determine whether the company has received the same service from another source - whether from another group entity or an independent third party. If a service is duplicated, tax authorities may classify the cost as non-deductible and disallow it.

5. Exclusion of incidental benefits

A service is only considered legitimate if it was specifically **intended for the recipient company**. In some cases, an intra-group service may incidentally benefit other group members, but this alone does not justify cost allocation. Tax authorities expect services to provide direct and measurable benefits to the recipient entity.

CONCLUSION

Applying the Benefit Test is essential for ensuring compliance with **transfer pricing regulations and mitigating tax risks**. Companies must maintain detailed documentation to substantiate the legitimacy of their intra-group services, demonstrating their actual provision, economic value, and necessity. By meeting these criteria, the determination and allocation of intra-group service costs become **more defensible from a tax perspective**.

Should you have any questions regarding the above, please do not hesitate to contact us.



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