

Table of Contents

Editors	v
Contributors	vii
Preface	xxi
CHAPTER 1	
Global Transfer Pricing Developments	
<i>Raffaele Petruzzi & Sayee Prasanna</i>	1
1 Introduction	2
2 Recent Developments on the Work of International Organizations	3
2.1 Transfer Pricing Developments at the OECD	4
2.1.1 Transfer Pricing Documentation and Country- by-Country Reporting	6
2.1.1.1 Issues Relating to the Definition of Items Reported in the CbC Report	7
2.1.1.2 Issues Relating to the Entities to Be Reported in the CbC Report	8
2.1.1.3 Issues Relating to the Filing Obligation for the CbC Report	8
2.1.1.4 Issues Relating to Mergers/Acquisitions/ Demergers	9
2.1.2 Hard-to-Value-Intangibles	10
2.1.3 Transactional Profit Split Method	11
2.1.4 Attribution of Profits to Dependent Agent Permanent Establishments and to Warehouses	13
2.1.5 Digitalization of the Economy	14
2.1.6 Dispute Resolution	16
2.1.7 Toolkit for Low-Income Countries	18

Table of Contents

2.2	Transfer Pricing Developments at the European Union	19
2.2.1	Fiscal State Aid and Transfer Pricing	20
2.2.2	Tax Transparency on Country-by-Country Reporting	22
2.2.3	The Work of the EU JTPF	24
2.2.4	Digitalization of the Economy	25
2.2.5	Anti-avoidance	26
2.2.6	Dispute Resolution	26
2.2.7	VAT Implications of Transfer Pricing	27
2.2.8	EU "Blacklist"	28
2.3	Transfer Pricing Developments at the United Nations	28
2.3.1	The 2017 UN Practical Manual on Transfer Pricing for Developing Countries	28
2.3.2	Digitalization of the Economy	30
2.3.3	Extractive Industries	30
2.3.4	Dispute Avoidance and Resolution	31
2.3.5	Toolkit for Low-Income Countries	31
2.4	Transfer Pricing Developments at Other International Organizations	31
2.4.1	Recent Developments at the World Bank Group and at the International Monetary Fund	31
2.4.2	Recent Developments at the World Custom Organization	31
3	Recent Developments in Countries Specific Transfer Pricing Legislation, Guidelines and Jurisprudence	33
3.1	Digitalization of the Economy	33
3.2	Intra-group Financing Arrangements	35
3.3	Intra-group Services, Intangibles, and Cost Sharing Arrangements	38
3.4	Documentation	39
3.5	Dispute Resolution	40
3.6	Customs and Transfer Pricing	41
3.7	Other Notable Developments	41
4	Conclusions and Insights	43
CHAPTER 2		
Transfer Pricing Developments in the European Union		
<i>Isabel Verlinden, Stefaan De Baets, Pieter Deré, Paulina Szotek & Jasna Voje</i>		
1	The Call for Transparency	49
1.1	A Status Update on Public CbCR	50
1.2	Disclosure Rules for Intermediaries	51
1.2.1	Who Needs to Disclose?	52
1.2.2	What Needs to Be Disclosed?	53
1.2.3	When Does the Scheme Have to Be Disclosed and What Are the Consequences of Nondisclosure?	54
1.3	The EU List of Noncooperative Jurisdictions for Tax Purposes	55

Table of Contents

1.3.1	The Countries Listed	55
1.3.2	The Criteria	55
2	Taxation of the Digital Economy	56
2.1	Digitalization of the Economy	57
2.2	Toward a Sustainable Solution Embedded in International Tax Rules?	58
2.3	Ring-Fencing Digital Economy?	59
2.4	The Conundrum of Profit Allocation	59
2.5	Final Thoughts on Potential Changes in Regard to Taxation of the Digital Economy	60
3	State Aid: Line of Fire on Transfer Pricing	60
3.1	What to Expect on the EC's Approach to TP in the Months to Come?	62
3.2	The EC's Hunt for TP Rulings Continues: Amazon and Inter IKEA	64
3.3	An Era of Uncertainty?	67
4	A C(C)CTB Status Update	68
5	EU JTPF: Recent Work	68
6	There Are Often Two Sides to the Same Coin: How to Avoid Being Taxed Twice (or More)	69
6.1	A Promising Cure: Directive on Tax Dispute Resolution Mechanisms in the EU	70
6.1.1	Enlarged Scope	71
6.1.2	Procedure with Clear Enforceable Timelines	73
6.1.3	Mandatory and Binding Arbitration	74
6.1.4	Recourse for the Taxpayer	74
6.1.4.1	Denied Access	75
6.1.4.2	Set-Up of the Advisory Commission	75
6.1.4.3	Obtaining and Implementing the Decision	75
6.1.5	Increased Involvement of the Taxpayer	76
6.1.6	Transparency Measures	76
6.2	To Prevent Is Better than to Cure	76
7	(Non-)Applicability of Transfer Pricing Methods in Determining Custom Values	77
8	Conclusive Remarks	79
CHAPTER 3		
Transfer Pricing Developments in the United States		
<i>Komal Dhall, Prita Subramanian, Cameron Taheri & Marcus Heyland</i>		
1	Introduction	82
2	Summary of 2017 Tax Law Pertaining to Section 482	84
2.1	Revised Definition Intangibles	85

Table of Contents

2.2	GILTI	85
2.3	BEAT	86
2.4	FDII	87
3	Intangible Property and the Selection of the Best Method	88
3.1	Licensing Arrangements and U.S. Case Law	89
3.1.1	Background U.S. Litigations	90
3.1.2	Summary of Coca-Cola Co. & Subsidiaries v. Commissioner	91
3.1.3	Summary of Medtronic, Inc. and Consolidated Subsidiaries v. Commissioner	92
3.1.3.1	Facts	92
3.1.3.2	Medtronic Position	92
3.1.3.3	IRS Position	93
3.1.3.4	Decision	93
3.1.4	Key Themes from the Medtronic, Inc. and Consolidated Subsidiaries v. Commissioner Case	94
3.1.4.1	Characterization	94
3.1.4.2	Aggregation	95
3.1.4.3	Comparability	95
3.1.5	Implications Looking Forward	95
3.2	CSAs and U.S. Case Law	96
3.2.1	Selection of Method	98
3.2.2	Useful Life	99
3.2.3	Discount Rate	100
3.2.4	Summary of Veritas Software Corp. v. Commissioner	100
3.2.4.1	Background	101
3.2.4.2	Method to Derive Arm's Length Intangible Value	101
3.2.4.3	Perpetual Versus Finite Useful Life	102
3.2.4.4	Applicable Discount Rate	102
3.2.5	Looking Ahead	103
3.3	Binding Nature of APAs or Prior Agreements with the IRS	104
3.3.1	Summary of Eaton Corp. & Subsidiaries v. Commissioner	105
3.3.1.1	Background	105
3.3.1.2	Decision	106
3.3.2	Implications of Court Findings and Context Given Tax Modernization	106
3.3.3	Looking Ahead	108
3.4	Limitation on Interest Deductibility	108
3.4.1	Overview	108
3.4.2	Comparison with BEPS Interest Limitation	109
4	Conclusions	109

Table of Contents

CHAPTER 4		
Transfer Pricing Developments in Developing Countries and Emerging Economies		
<i>Giammarco Cottani</i>		111
1	Introduction	111
2	Significant Transfer Pricing Developments in the Course of 2017: The Impact of Part D of the 2017 United Nations Manual	114
3	Brazil	119
4	China	125
5	India	131
6	Conclusions	137
CHAPTER 5		
Recent Developments on Transfer Pricing Documentation and Country-by-Country Reporting		
<i>Oliver Wehnert</i>		141
1	Introduction	142
1.1	History of Developments in Transfer Pricing Documentation Requirements	142
1.2	Need for Documentation Reforms	142
2	Key Observations on BEPS Action 13	143
2.1	Overview of the New Documentation Requirements	143
2.2	Master File and Local File	144
2.3	Country-by-Country Reporting	145
3	Global Implementation of BEPS Action 13	147
3.1	Emerging Implementation Challenges	147
3.2	Challenges for Taxpayers	148
3.3	Challenges for Legislators and Policy Makers	148
4	Taxpayer Reaction to Action 13	151
4.1	Review of Transfer Pricing Documentation Approach	151
4.2	Increasing Importance of Technology	152
4.3	Timing of Implementation	152
4.4	Changes in Transfer Pricing Principles Affecting Documentation Approach	153
4.5	Documentation and Tax Audit Management	153
5	Outlook: What Comes Next?	154
5.1	Changes to Conduct Tax Audits	154
5.2	Increasing Risk of Double Taxation and Disputes	155
5.3	Other International Developments Affecting Success of CbCR	156

Table of Contents

CHAPTER 6

Recent Developments on Comparability Analysis in Transfer Pricing

Stefaan De Baets & Junling Gao

159

1	Introduction	160
2	OECD Historical Developments on Standards of Comparability	163
2.1	1979 OECD Report: Transfer Pricing and Multinational Enterprises	163
2.2	1995 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations	164
2.3	2010 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations	165
2.3.1	Most Reliable Comparables	166
2.3.2	The Nine-Step Process	166
2.3.3	Comparability Adjustments	168
2.3.4	Arm's Length Range	168
2.4	2017 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations	168
2.4.1	Contractual Terms	170
2.4.2	Functional Analysis: In Particular Allocation of Risks	170
2.4.3	Evaluation on the Guidance on the Accurate Delineation of the Actual Transaction	175
2.4.4	Evaluation of the Guidance on Risk	175
2.4.5	Revised Guidance on Safe Harbors	176
3	International Guidance on Standards of Comparability from Other International Organizations	177
3.1	The United Nations	177
3.2	The World Bank Group	180
3.3	European Union JTPF	182
3.4	Platform for Collaboration on Tax	184
3.4.1	Accurate Delineation of the Transaction	185
3.4.2	Comparables Search Process	185
3.4.3	Safe Harbors	187
4	EC State Aid Investigations and Comparability	188
5	Conclusions	191

CHAPTER 7

Recent Developments on the Profit Split Method

Sébastien Gonnet

193

1	Case Study #1: Arm's Length Trademark Licenses Using the Contribution PSM Based on Comparable Data	195
1.1	Background	195
1.2	PSM "Theory" Relevant to the Case	196
1.3	Application of the PSM in the Case at Hand	199
1.3.1	Selection of Uncontrolled License Agreements	200

Table of Contents

1.3.2	Computation of Combined Profits	200
1.3.2.1	Identification of Combined Profits Related to the License Agreements	201
1.3.2.2	Computation of the Allocation of Combined Profits Between the Licensor and the Licensee	201
1.3.3	Results	201
2	Case Study #2: Determination of Prices of Products and Services, Using the Residual PSM	204
2.1	Background	204
2.2	PSM "Theory" Relevant to the Case	208
2.3	Application of the PSM to the Case at Hand	215
3	Conclusion	220
	Index	221