

Table of Contents

<i>Preface</i>	<i>iv</i>
INTRODUCTION	1
CHAPTER 1: OVERVIEW/BEST PRACTICES	3
1 WHAT IS TRANSFER PRICING AND WHY DOES IT EXIST?	5
1.1 Transfer Pricing Example	5
1.2 Arm's-Length Standard	7
1.2.1 Arm's-Length Standard Defined in the US Transfer Pricing Regulations	9
1.2.2 Arm's-Length Standard Defined in the OECD Guidelines	9
1.2.3 Exceptions to the Arm's-Length Standard	9
1.3 Importance of Transfer Pricing to Today's Multinational Companies	10
1.3.1 Who Cares About Transfer Pricing?	11
1.3.1.1 Tax Departments.....	11
1.3.1.2 Chief Financial Officers	12
1.3.1.3 Operations	13
1.3.1.4 Accounting Departments	14
1.3.1.5 Legal Counsel	14
1.3.1.6 Government Authorities	15
1.3.1.7 Independent Auditors	16
1.3.1.8 Tax Planning and Compliance Advisors	16
2 TRANSFER PRICING LIFECYCLE	16
2.1 Phase 1: Planning	17
2.1.1 Identifying Intercompany Transactions for Analysis	19
2.1.2 Types of Intercompany Transactions	19
2.1.2.1 Tangible Property Transactions	19
2.1.2.2 Intangible Transactions	20
2.1.2.3 Services Transactions	22
2.1.2.4 Financing and Insurance Transactions	23

2.1.2.5	Buy-In Transactions, Cost Share Payments, and Cost Contribution Arrangement Payments	24
2.1.3	How to Prioritise Risk Areas	24
2.1.4	How to Conduct Functional Analysis Interviews.....	26
2.1.5	Determining How to Price Intercompany Transactions	28
2.1.6	Selecting Transfer Pricing Methods.....	29
2.1.6.1	Prioritisation of Methods of Analysis	30
2.1.7	Identifying Comparable Companies	33
2.1.7.1	Comparability Considerations.....	33
2.1.7.2	Geographic Differences	36
2.1.8	Arm's-Length Range	38
2.1.9	Single-Year versus Multiple-Year Data	40
2.1.10	Specific Transactional Considerations	42
2.1.10.1	Loan Guarantees.....	43
2.1.10.2	Stock Option Expense	43
2.2	Phase 2: Implementation	43
2.2.1	Key Implementation Steps and Timeline	44
2.2.1.1	Step 1: Communicating Transfer Pricing Policies to Key Stakeholders	44
2.2.1.1.1	Local Country Tax Personnel.....	45
2.2.1.1.2	Senior Management	45
2.2.1.1.3	Operations Personnel.....	46
2.2.1.1.4	IT and Accounting Departments.....	48
2.2.1.1.4.1	IT Department	48
2.2.1.1.4.2	Accounting Department	49
2.2.1.1.5	Legal Department	49
2.2.1.1.6	Tax Planning and Compliance Advisors.....	49
2.2.1.2	Step 2: Drafting and Executing Intercompany Agreements.....	50
2.2.1.3	Step 3: Determining Internal Pricing Mechanism.....	52
2.2.1.4	Step 4: Monitoring.....	55
2.2.1.5	Step 5: Developing Transfer Pricing Policy and Procedure Manuals.....	58

2.2.1.5.1	Accounting and Systems Manuals	58
2.2.1.5.2	Headquarter Service Allocation Manuals	58
2.2.1.5.3	Tax Department Policy and Procedures Manuals.....	59
2.3	Phase 3: Compliance and Documentation.....	59
2.3.1	Documentation Strategies and Considerations.....	59
2.3.1.1	Performing a Risk Assessment to Optimise Documentation Strategy.....	62
2.3.1.1.1	What Protection Do Transfer Pricing Documentation Reports Provide?.....	62
2.3.1.1.2	Evaluating the Cost/Benefit of Documentation	63
2.3.1.2	Decisions Concerning Local Country Documentation	63
2.3.1.2.1	Direct Local Country Documentation	63
2.3.1.2.2	Uniform Documentation Packages.....	65
2.3.1.2.3	OECD Global Policy Reports and the Masterfile Concept.....	66
2.3.1.2.4	Planning Reports	68
2.3.1.2.5	Limited Study	69
2.3.2	Documentation Review and Updates.....	70
2.4	Phase 4: Audit and Controversy	71
2.4.1	Best Practices for Transfer Pricing Audits.....	71
2.4.1.1	Understand Your Risk	72
2.4.1.2	Centralise Efforts and Develop a Clear Chain of Command	73
2.4.1.3	Control Information Flow	74
2.4.1.4	Do Not Panic.....	74
2.4.2	Addressing Transfer Pricing Disputes between Countries	75
2.4.2.1	Nature of Conflicts	76
2.4.2.2	Mutual Agreement Procedures.....	78
2.4.2.3	Advanced Pricing Agreements	80

3	RESOURCES FOR BASIC INFORMATION ON TRANSFER PRICING RULES AND REGULATIONS, DOCUMENTATION REQUIREMENTS AND PENALTIES.....	82
4	CONCLUSION.....	85
	CHAPTER 2: OECD TRANSFER PRICING GUIDELINES.....	87
1	THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) TRANSFER PRICING GUIDELINES	89
1.1	Purpose of the OECD Transfer Pricing Guidelines.....	89
1.2	Authority of the OECD Transfer Pricing Guidelines.....	90
1.3	Contents of the OECD Transfer Pricing Guidelines	91
1.3.1	Arm's Length Principle	92
1.3.1.1	Determination of the Arm's Length Nature of Intercompany Pricing	93
1.3.2	Transfer Pricing Methods.....	95
1.3.2.1	Traditional Transaction Methods.....	96
1.3.2.2	Transactional Profit Methods.....	99
1.3.3	Comparability Analysis	103
1.3.4	Administrative Approaches to Avoiding and Resolving Transfer Pricing Disputes	107
1.3.5	Documentation Standards	109
1.3.6	Special Considerations for Intangible Property.....	110
1.3.7	Intra-group Services	111
1.3.8	Cost Contribution Arrangements.....	112
1.3.9	Transfer Pricing Aspects of Business Restructurings	114
1.4	Current Topics in OCED Transfer Pricing	118
1.4.1	Transfer Pricing and Intangibles.....	119
1.4.2	Release of Multi-country Analysis of Existing Transfer Pricing Simplification Measures.....	120
1.4.3	Alternative Transfer Pricing Forums.....	120