

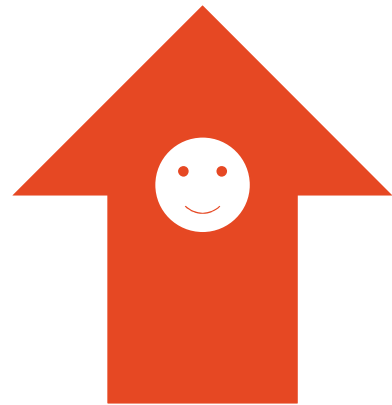


TRANSFER PRICING CHALLENGES IN BEPS WORLD

CONTENTS

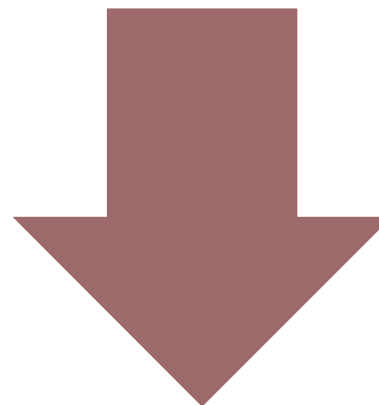
- **New Global Era**
 - What BEPS Brings for TP
 - CbCR Implementation Map
 - Master file Implementation Map
 - CASE STUDY
- **MNEs Current TP Challenges**
- **Country Specific Outlook**
 - ASPAC Regulatory Overview
- **Managing Risk**

NEW GLOBAL ERA

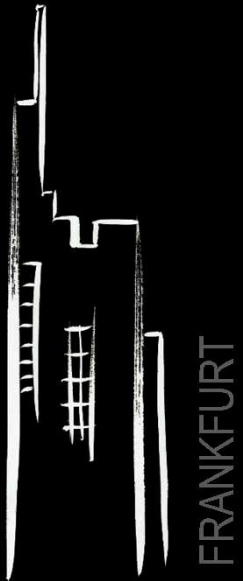


Fair Taxation
Economic Substance

- Have Evidence?
- Have Substance?



Legal Taxation



1

ACTION 8-10

Transfer Pricing outcomes should be in line with Value Creation

Significant people

Intangibles

Management of Risks

Unique Fixed Asset / Capital

Embedded workforce

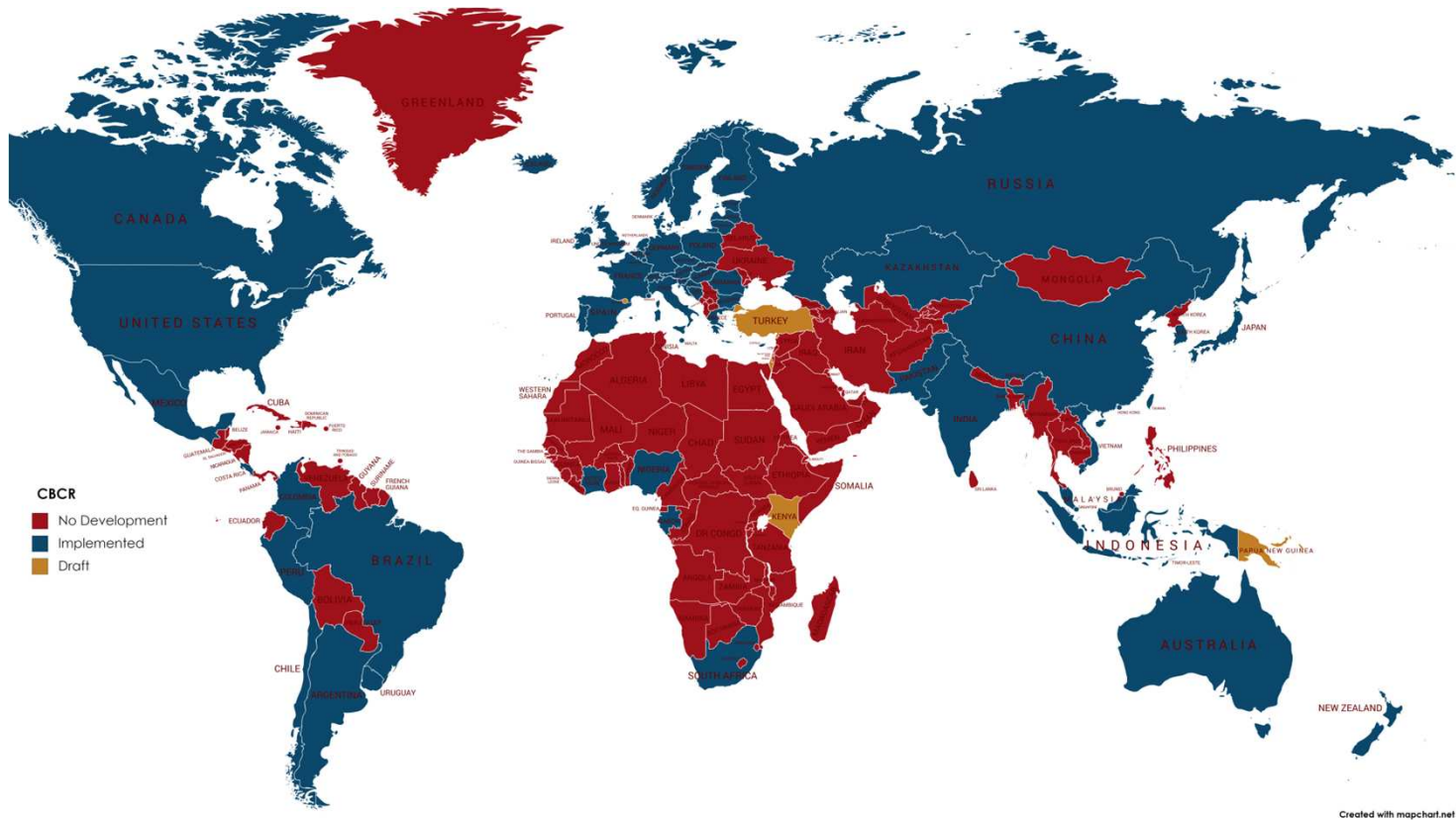
Local Marketing Efforts

- OECD Guidelines Revised June 2018 / July, 2017
- To be updated
 - transactional profit split method, in the context of global value chains.
 - Financial Transactions

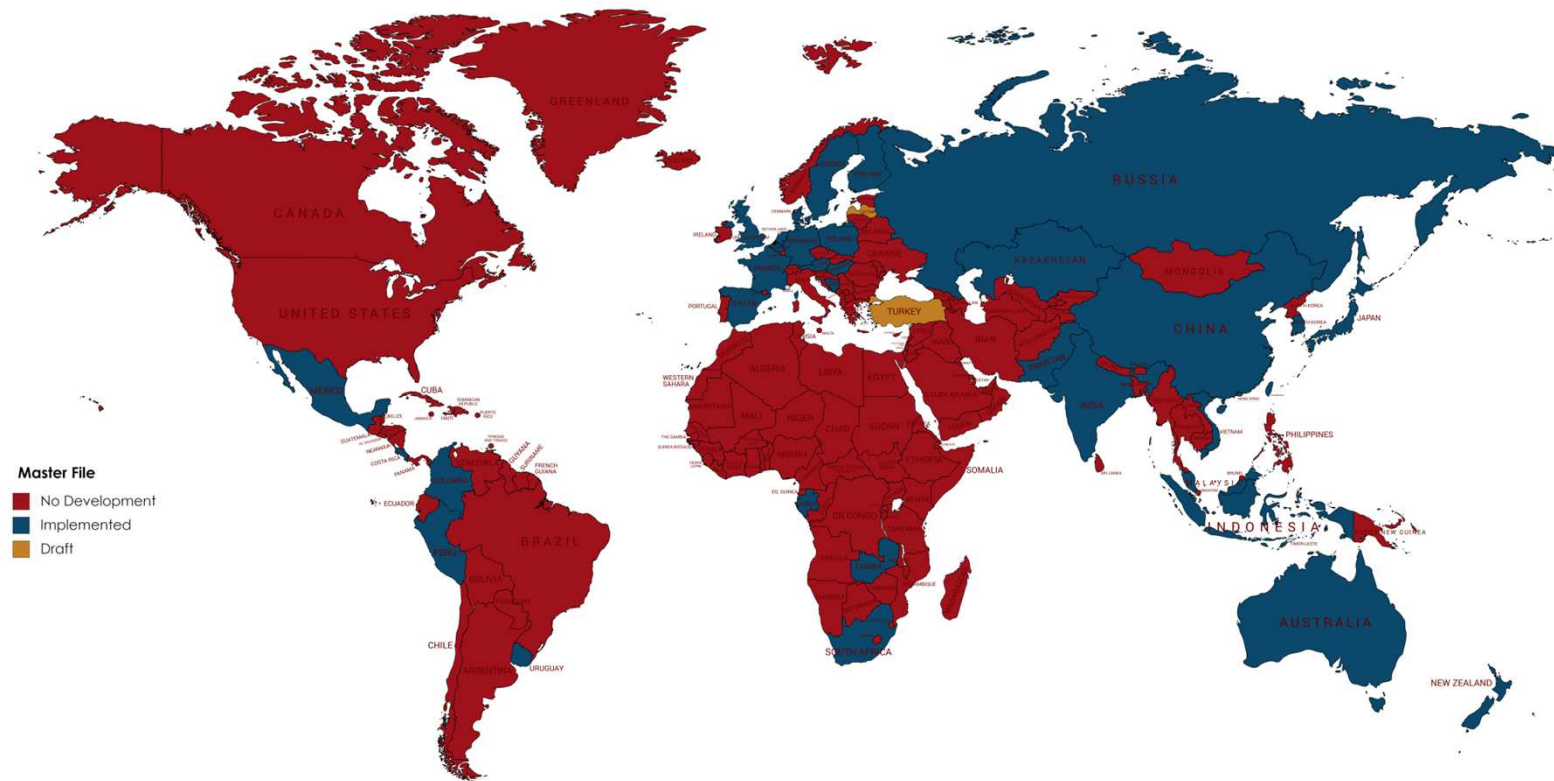
ACTION 13



COUNTRY BY COUNTRY REPORT IMPLEMENTATION MAP



MASTER FILE IMPLEMENTATION MAP



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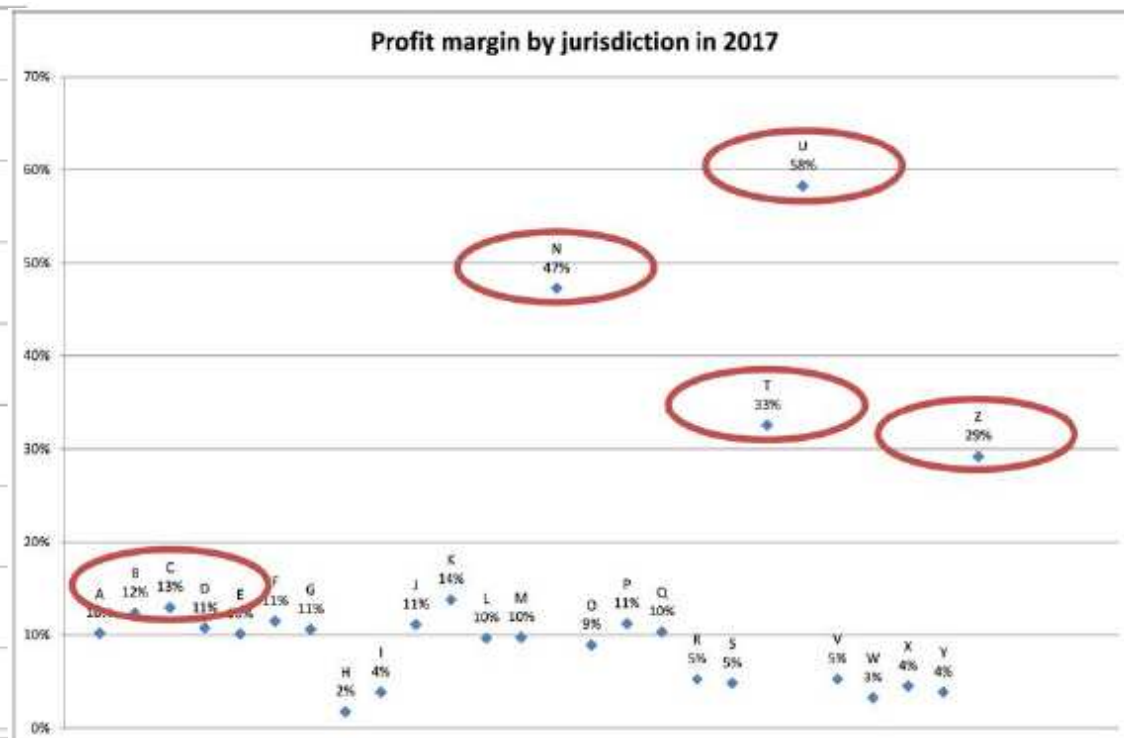
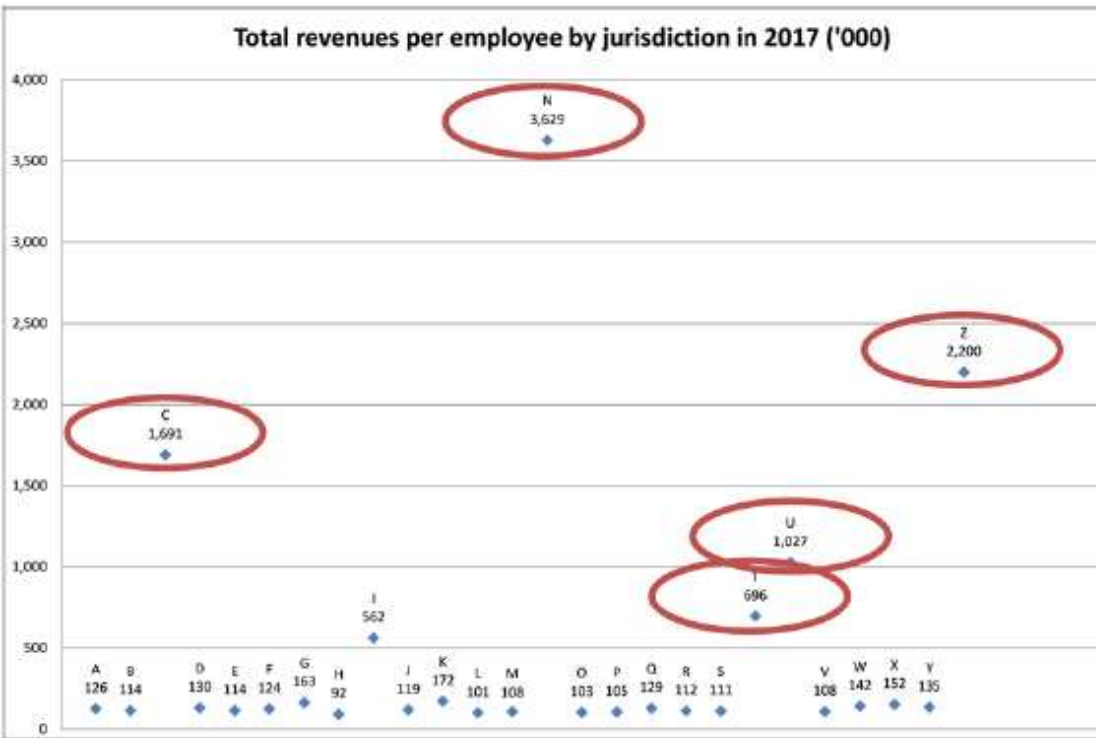
CASE STUDY 1 – CBCR RISK ASSESSMENT

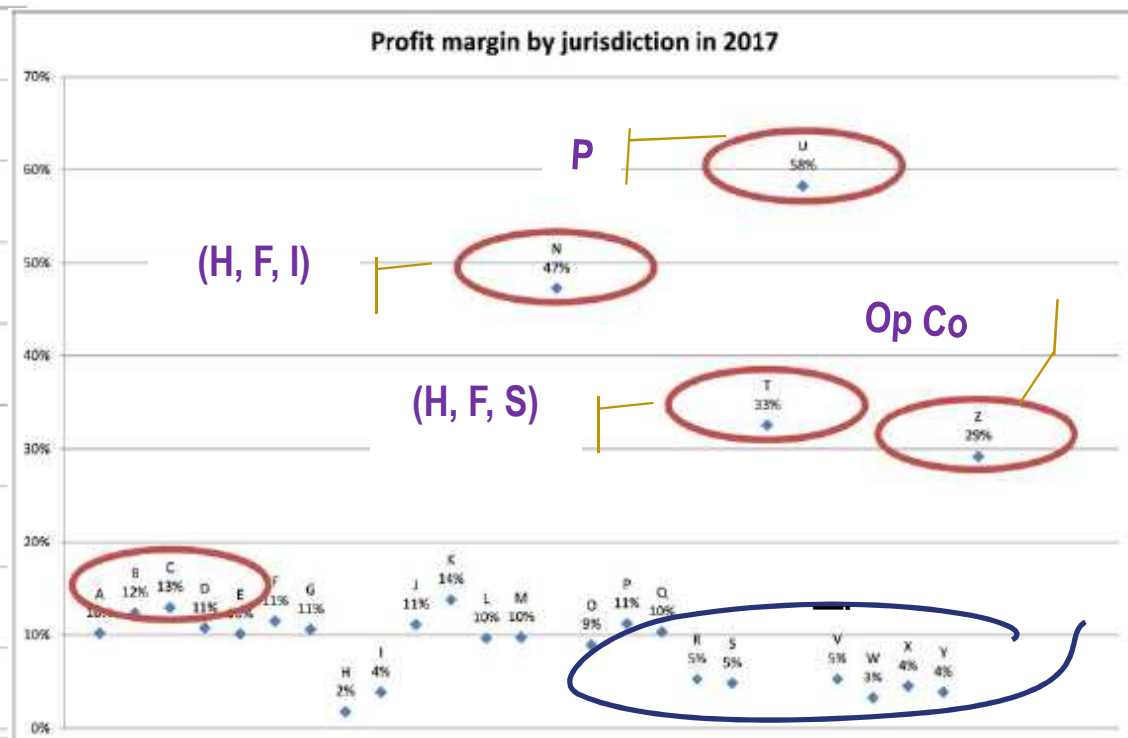
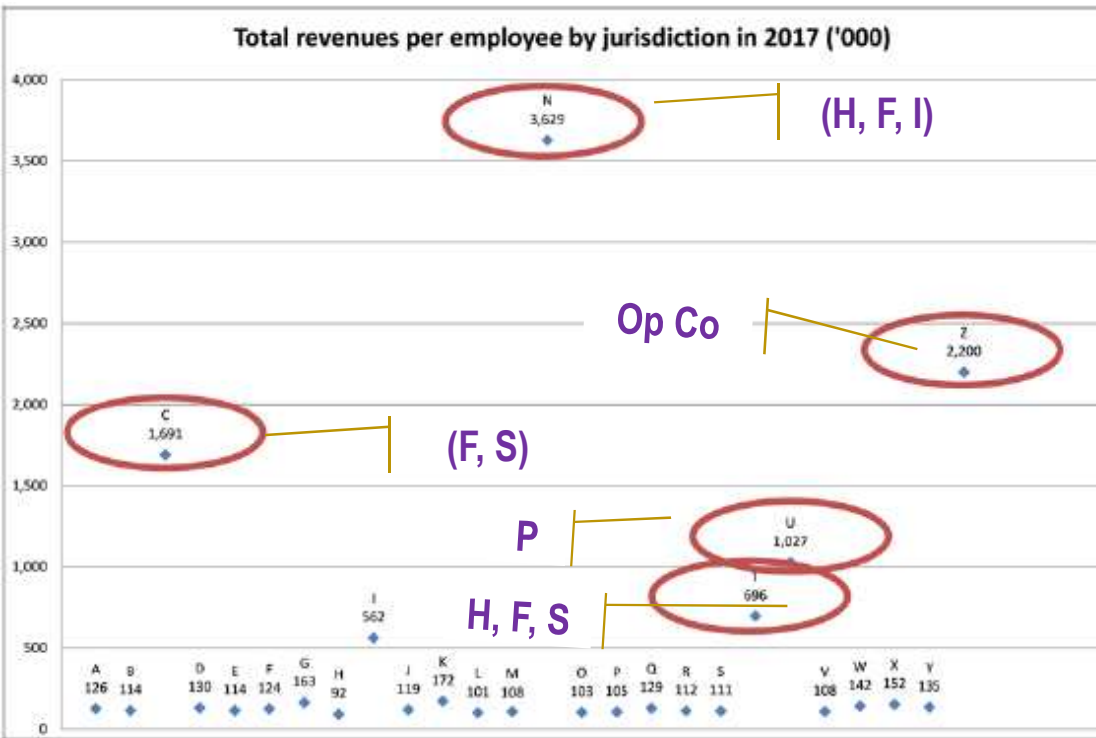
Europe	Americas	Asia Pacific
A – Parent , Hold Co , ServCo	L	R
B	M	S
C – FinCo , ServCo	N – HoldCo , FinCo , InsCo	T – HoldCo , FinCo , ServCo
D – R&D	O	U - Procurement
E	P	V
F	Q	W
G		X
H		Y
I – Hold Co		Z
J		
K – IP Hold Co		

■ 43 entities in 26 jurisdictions

- 29 in sales and manufacturing
- Hold Co in A, I, N and T
- Group Finance in C, N and T
- Service in A, C and T
- Procurement in U
- R&D in D
- IP HoldCo in K
- Captive Insurance in N

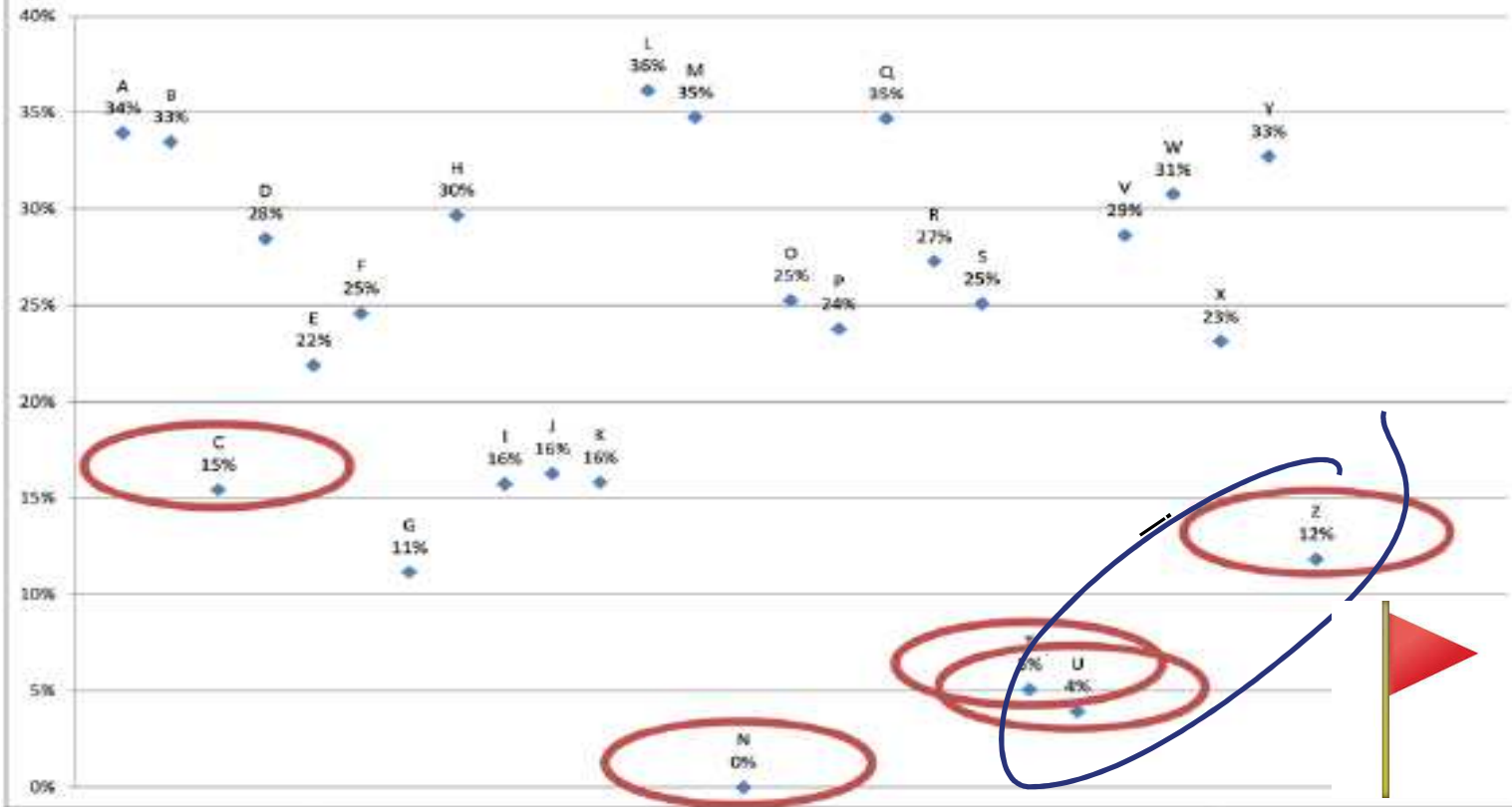
Source: OECD Risk Assessment Handbook on CbCR





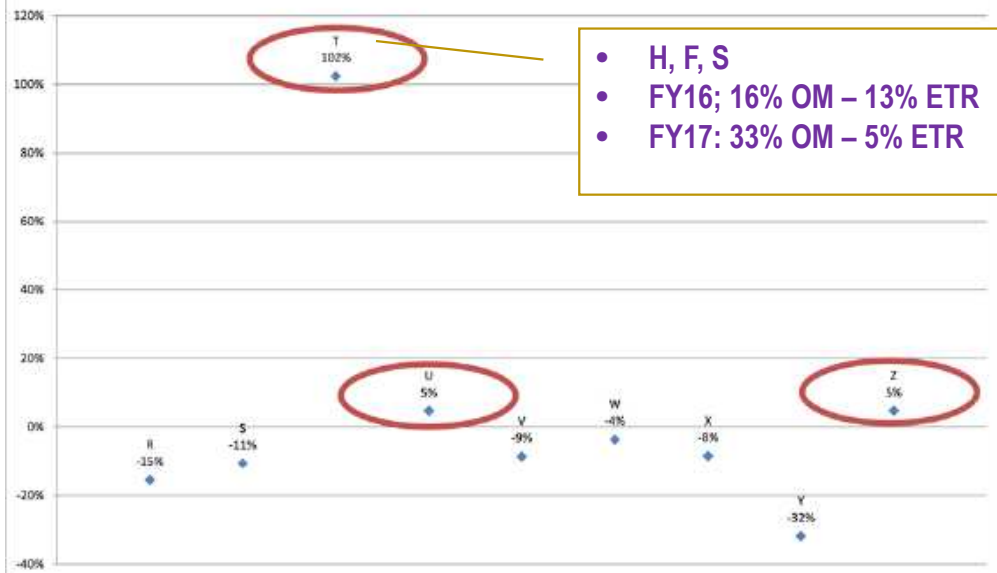
Sales and manufacturing activity in Asia-Pacific earns lower returns than that in other regions

Effective tax rate by jurisdiction in 2017



CASE STUDY 1: REGIONAL RISK ASSESSMENT

Changes in profit margin by jurisdiction in Asia-Pacific region from 2016 to 2017



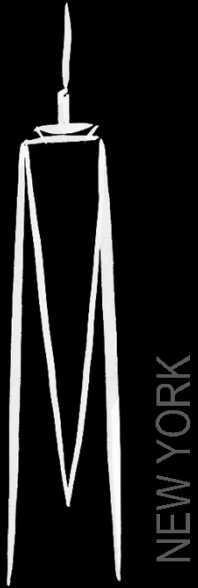
Effective tax rate by jurisdiction in Asia-Pacific region in 2017



MNEs TOP CHALLENGES

Regulatory,
Operational,
Industry Challenges

Know your
risks to
manage



CHALLENGES TO OVERCOME

REGULATORY CHALLENGES

- Exchange of tax sensitive information
- Coping with local interpretation of issues
- Value Creation
 - Value Chain Analysis: *more interested with how pie is sliced*
 - DEMPE Functions
- TP Documentation
- Current Tax Structures
 - Non-BEPS Compliance TP strategy
- Ineffective MAP Procedures
- TP vs. VAT & Customs
- TP for developing countries

OPERATIONAL CHALLENGES

- Complex Business Models
 - Digital Supply Chains
- Digitalization of business
 - Poor or lack of technology
- Inefficient TP process or systems (and communication)
- Lack of operational TP
- No internal control over TP

COUNTRY SPECIFIC OUTLOOK

Regulatory Outlook

- BEPS Minimum Standard is mostly fulfilled
- Generally committed tax force
 - Additional taskforce (AUS, MALAYSIA)
- Effect of US Tax Reform

Challenges

- CbCR
 - Timing Mismatches
 - Implementation issues



SHANGHAI

3

ASPAC REGULATORY OVERVIEW

ASPAC Countries	CbCR	MCAA	Master file
Australia	Implemented	53	BEPS Compliance
China	Implemented	3	BEPS Compliance
Hong Kong	Implemented	36	BEPS Compliance
India	Implemented	51	Local
Indonesia	Implemented	53	Local
Japan	Implemented	51	BEPS Compliance
Malaysia	Implemented	51	None
New Zealand	Implemented	53	BEPS Compliance
Philippines	No Development	0	None
Singapore	Implemented	51	None
South Korea	Implemented	53	Local
Sri Lanka	No Development	0	None
Taiwan	Implemented	0	Local
Thailand	No Development	0	None
Vietnam	Implemented	0	Local
Papua New Guinea	Draft	0	None
Pakistan	Implemented	48	Local

SELECTED COUNTRY UPDATES



- Value Chain Analysis to be included in Local file
 - (Local marketing activities) intangibles
- Intangibles and services are on the top of agenda
 - 6 test to be performed for services
- New Audit Program
 - Nationwide investigation programme (SAT has the leading role)
- Use of Big Data
- APA and MAP



- Diverted Profit Tax
- Significant Global Entity (SGE)
- Practical Compliance Guidelines (PCGs)



- APAs are quite popular
- Intangibles are quite on the agenda

SELECTED COUNTRY UPDATES



- Commencement of Thin Cap
- Secondary TP Adjustment Mechanism
- Limitation of interest deductions
- Introduction of Article 9/2 in Tax Treaty (Singapore and South Korea)
- Intangibles (Local marketing efforts)

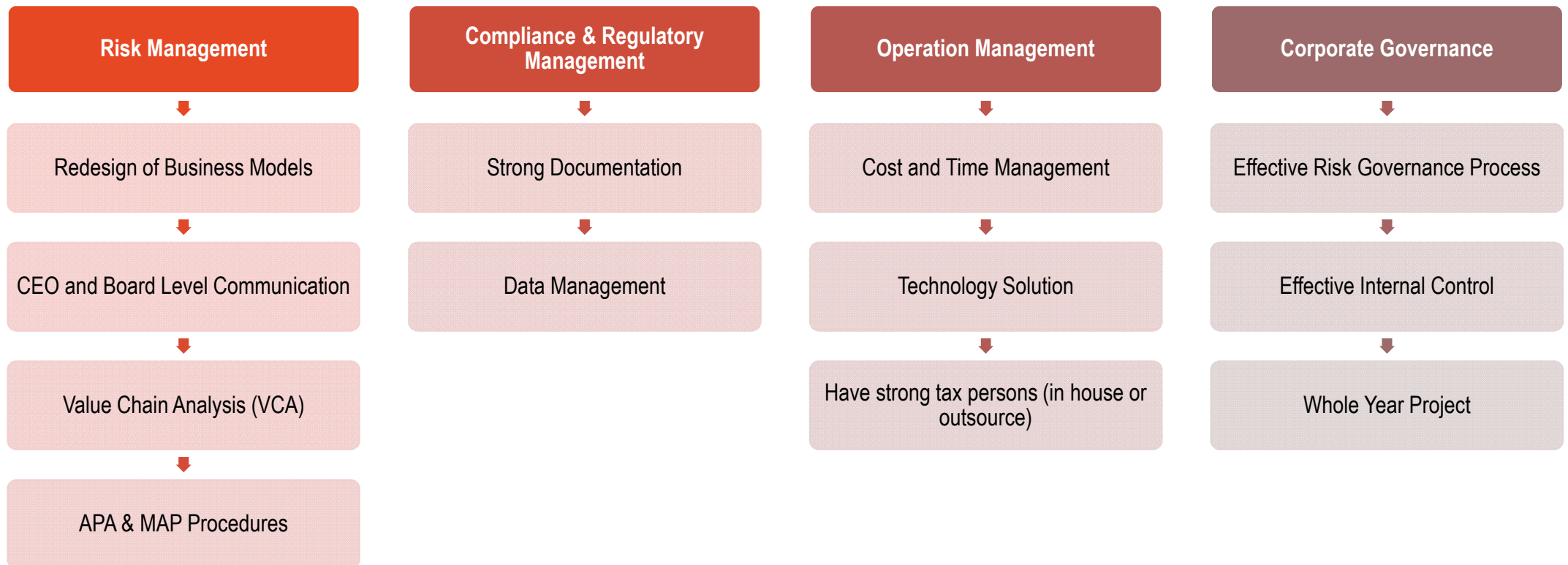


- Expanded TP Legislation
- Re-characterization
- TPG5
- Transition issue has been solved

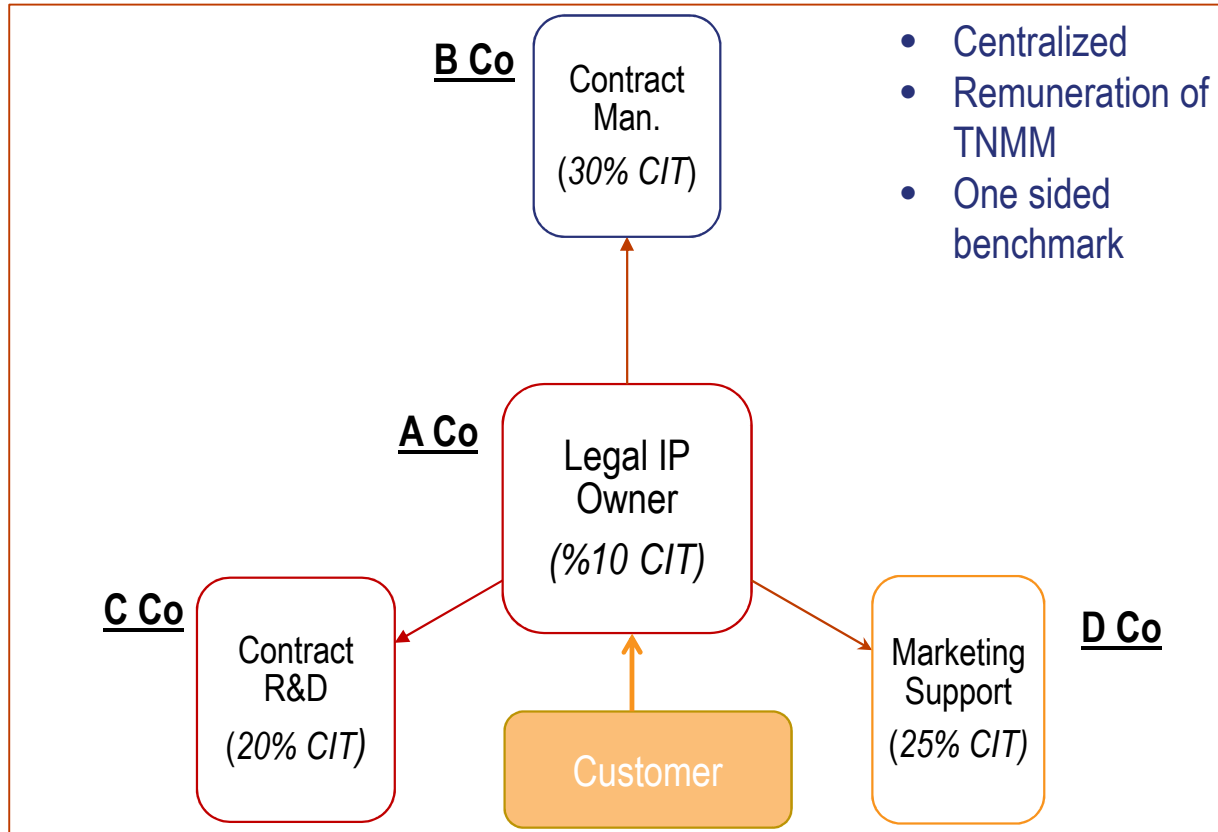


- Enforcement Decree as guidance
- fixed-ratio rule to limit related-party interest deductions to **30% of EBITDA** for transactions involving domestic and foreign related parties

MANAGING RISK

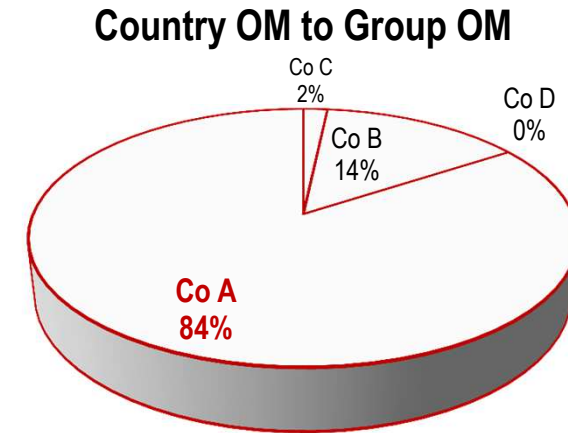


CASE STUDY 2

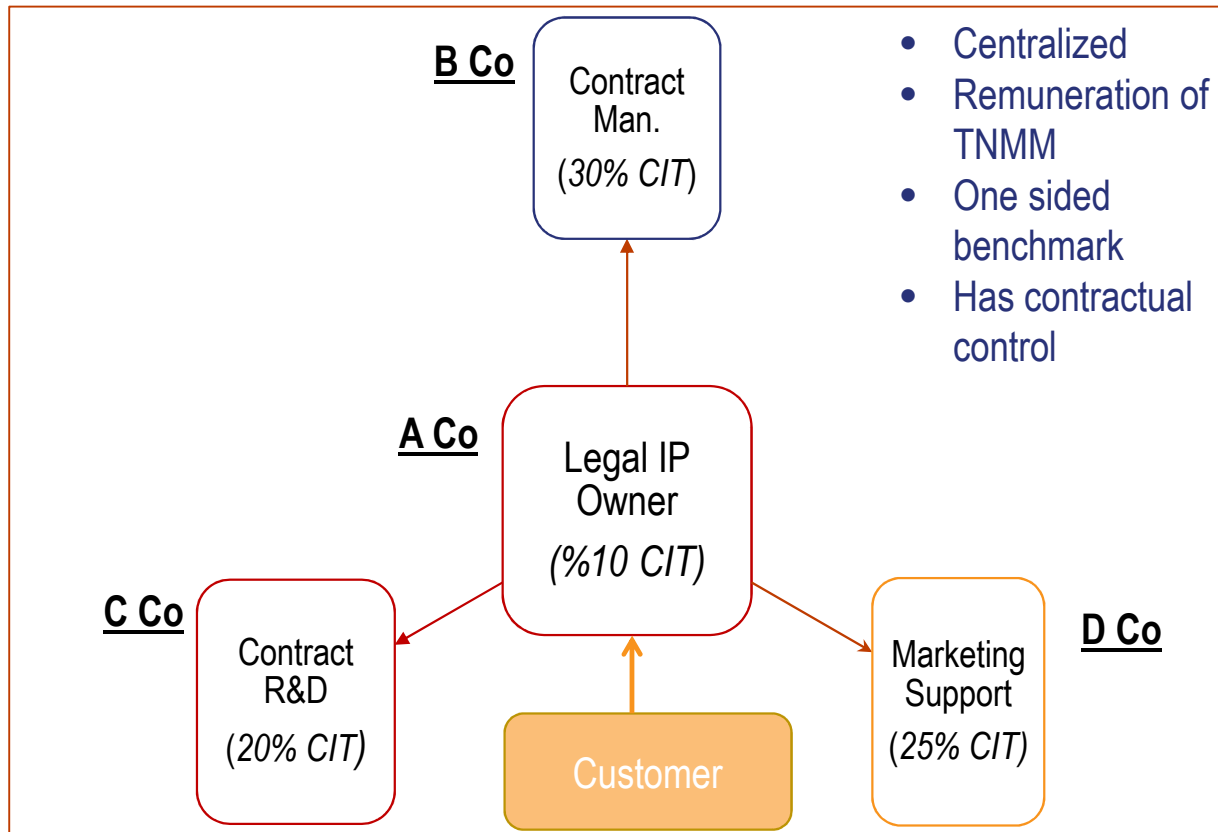


- Centralized
- Remuneration of TNMM
- One sided benchmark

→ Payment flow



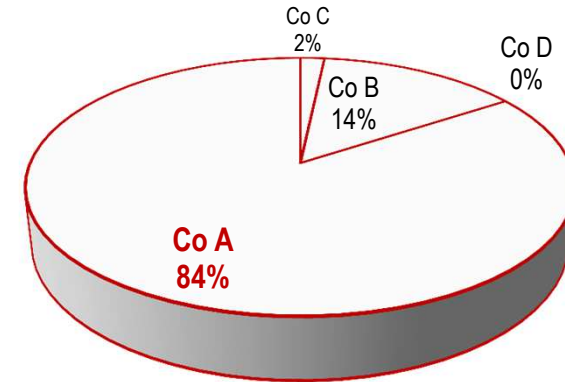
CASE STUDY 2



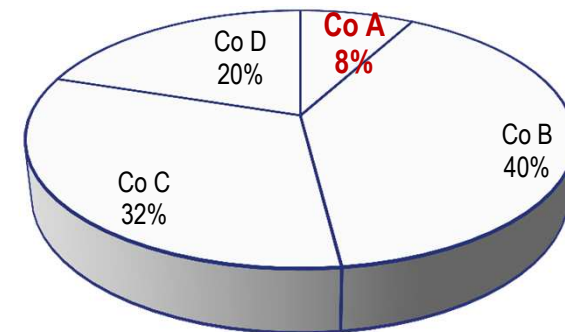
- Centralized
- Remuneration of TNMM
- One sided benchmark
- Has contractual control

→ Payment flow

Country OM to Group OM



Significant People



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