



Transfer Pricing Workshop
Transfer Pricing Documentation, Risk Assessment and Safe
Harbours

Jeju Island - Korea
26 – 30 October 2015

7& 8. Case Study on Transfer Pricing Documentation and
Country-by-Country Reporting

COUNTRY-BY-COUNTRY REPORT

Table 1 - Overview of allocation of income, taxes and business activities by tax jurisdiction



Name of the MNE Group: The Cosmos Group
 Fiscal Year Concerned: Year T
 Currency used: million Dollari



Tax Jurisdiction	Revenues			Profit (Loss) Before Income Tax	Income Tax Paid (on cash basis)	Income Tax Accrued – Current Year	Stated capital	Accumulated earnings	Number of Employees	Tangible Assets other than Cash and Cash Equivalents
	Unrelated Party	Related Party	Total							
Blackholands		2683	2683	2600	582.4	483.7	619	5475.4	15	19
Marzistan		1965	1965	40	6	6	53	34	85	320
Neptunia		3185	3185	55	18.7	18.7	176	36.3	3300	1239
Saturnia	10633		10633	232	58	58	100	174	250	1205
Urania		4258	4258	98	29.4	29.4	197	68.6	3400	1370
Venus Islands	745	823	1568	549	71.5	71.5	109	681.5	60	515
Terraland	744	0	744	34	6.9	6.9	100	2234	50	495
Thalassa	744	0	744	-24	0	0	100	0	40	490



The Cosmos Group – It's in the Sky!

COUNTRY-BY-COUNTRY REPORT

Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction



Name of the MNE group: The Cosmos Group

Fiscal year concerned: Year T

Tax Jurisdiction	Constituent Entities resident in the Tax Jurisdiction	Tax Jurisdiction of organisation or incorporation if different from Tax Jurisdiction of Residence	Main business activity(ies)												
			Research and Development	Holding or Managing IP	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of Services to unrelated parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding shares or other equity instruments	Dormant	Other
Blackholands	1. Cosmos Holding Ltd												X		
	2. Cosmos financing and Legal ltd			X					X		X				
Neptunia	1. WeathSat Ltd		X			X									
Urania	1. Comsat Ltd		X			X									
Saturnia	1. SellSat						X								
Venus Islands	1. Cosmos Integrated Services Ltd							X							
	2. Tracksat Ltd - Terraland PE									X					
Marzistan	1. Cosmos Procurement				X										
Terraland	1. Tracksat Ltd									X					
Kingdom of Thalassa	1. Tracksat Ltd - Terraland PE									X					



The Cosmos Group – It's in the Sky!

COUNTRY-BY-COUNTRY REPORT

Table 3. Additional information



Name of the MNE Group: The Cosmos Group
Fiscal Year Concerned: Year T



Please include any further brief information or explanation you consider necessary or that would facilitate the understanding of the compulsory information provided in the Country-by-Country Report.

The Cosmos Group is active in the development and sale of weather and telecom satellites. The Cosmos Group has separated the development and production of weather satellites and telecom satellites for reasons of pragmatism and efficiency. Weather satellites are being developed and produced at WeathSat Ltd situated in Neptunia and telecom satellites are being developed and produced at ComSat Ltd in Urania. After the satellites have been launched, the customer may opt that the polar orbiting or the geostationary orbit above the equator is tracked by the services of TrackSat Ltd who has tracking stations all along the equator (Terraland (head office) and PEs in Venus Islands and the Kingdom of Thalassa). The Cosmos groups makes use of a subsidiary (SellSat in Saturnia) to scan the markets for tenders and make the appropriate bid for the production and sale of the satellite. The policy of the Cosmos Group warrants that the three entities that are directly engaged in the production and selling of the satellites are not confronted with administrative issues but can focus on the technical specificities. A specialised legal and financing division (Cosmos Financing and Legal Ltd situated in Blackholands) takes the full responsibility with regard to all legal and financial issues. Cosmos Financing and Legal Ltd is also the owner of the IP and as such fulfils the full range of activities with regard to IP asset management (registration and protection, infringement procedures ...). As IP development is crucial in the Satellite industry it is of utmost importance that the IP is managed and protected centrally. Finally, Cosmos Integrated Services Ltd at the Venus Islands is responsible for the full range of other services (human resources, accounting, fleet management ...) other than legal and financing that the Cosmos Group enterprises need. Some of the materials that are used in the production of a satellite can be very rare, very expensive, or both at the same time (for example gold). Retrieving and acquiring the materials for use within the group under the best circumstances is the role of Cosmos Procurement Ltd in Marzistan. Because of the capital intensive nature of the satellite manufacturing industry and in light of the Group's philosophy of promoting speciality knowledge, the Cosmos Group finances all activities from the Cosmos Financing and Legal subsidiary. The data used in the CbC report is based upon the statutory financial statements of each separate entity. The amounts have been translated to Blackholands Dollari at the following rates: average exchange rates for year T:

1 Marzistan Dinero = 0.9033 Blackholands Dollari
1 Neptunia Florino = 1.3789 Blackholands Dollari
1 Saturnia Franca = 0.9373 Blackholands Dollari
1 Urania Pesato = 0.7183 Blackholands Dollari
1 Venus Islands Krano = 0.0763 Blackholands Dollari
1 Thalassa Kingi = 0.0075 Blackholands Dollari
1 Terraland Lira = 0.6826 Blackholands Dollari

Questions:

- 1. What are your first thoughts?**
- 2. What elements attract your attention in the Country-by-Country Report?**
- 3. What would be your biggest concerns identified through the Country-by-Country Report?**

MASTER FILE

Organisational structure of the Cosmos Group

The Chart illustrating the MNE's legal and ownership structure and geographical location of operating entities can be found under annex 1.

Description of the Business of the Cosmos Group

The cosmos group is active in the development, production, sale and marketing of weather and communication satellites.

The main drivers of the profitability of the group are the production of outstanding maintenance -free weather and telecom satellites together with constantly updated software for running the satellites. The lifespan of the maintenance free satellites is about 20 years. Another asset of the Cosmos satellites is the use of the high capacity solar voltaic cells technology which helps reducing the weight of the satellites by almost half. This means that the launching costs of the satellites can be reduced significantly. Below is a simplified overview of the worldwide satellite industry.





The simplified value chain of the Cosmos Group is reproduced under Annex 2.

The Cosmos Group has separated the development and production of weather satellites and telecom satellites for reasons of pragmatism and efficiency. Weather satellites are being developed and produced at WeathSat Ltd situated in Neptunia and telecom satellites are being developed and produced at ComSat Ltd in Urania. Although the concept of a satellite seems the same, the internal functioning of the satellites is completely different. After the satellites have been launched, the customer may opt that the polar orbiting or the geostationary orbit above the equator is tracked by the services of TrackSat Ltd who has tracking stations all along the equator.

The policy of the Cosmos group is that speciality leads to creativity and success. Therefore, the Cosmos groups makes use of a subsidiary (SellSat in Saturnia) to scan the markets for tenders and make the appropriate bid for the production and sale of the satellite. The policy of the Cosmos Group warrants that the three entities that are directly engaged in the production and selling of the satellites are not confronted with administrative issues but can focus on the technical specificities. A specialised legal and financing division (Cosmos Financing and Legal Ltd – Blackholands) takes the full responsibility with regard to all legal and financial issues. Cosmos Financing and Legal Ltd is also the owner of the IP and as such fulfils the full range of activities with regard to IP asset management (registration and protection, infringement procedures ...). IP development is crucial in the Satellite industry. It is therefore of utmost importance that the IP is managed and protected centrally. Finally, Cosmos Integrated Services Ltd at the Venus Islands is responsible for the full range of other services (human resources, accounting, fleet management ...) other than legal and financing that the Cosmos Group enterprises need.

Some of the materials that are used in the production of a satellite can be very rare, very expensive, or both at the same time (for example gold). The specialist team of Cosmos Procurement Ltd in Marzistan is able to procure the needed materials under the best circumstances.

Because of the capital intensive nature of the satellite manufacturing industry and in light of the Group's philosophy of promoting speciality knowledge, the Cosmos Group finances all activities from Cosmos Financing and Legal Ltd.

Transfer Pricing Policy

Because of the limited number of players in the satellite manufacturing industry, the pricing in the market is very transparent and all competitors are well aware of the profit margins that others make. In line with the market, considering the guidance of the OECD transfer pricing guidelines, and based upon a comparability analysis including a functional analysis (see annex 3), the most appropriate transfer pricing method to the circumstances of the case for WeathSat, Comsat, TrackSat and Cosmos Procurement is a TNMM with costs as a profit level indicator. The range of the mark- up is determined at 7 – 9% percent.

Based upon a comparability analysis including a functional analysis, the most appropriate transfer pricing method to the circumstances of the case for SellSat is a sales-based TNMM. The range of the margin is determined at 3.5 – 4.5%. Upon completion of the satellite, SellSat is taking legal title of the satellite. As SellSat has concluded the contract with the operator of the satellite, the actual sale and transfer of the satellite is performed by SellSat.

The rendering of intra-group services is compensated as follows:



The Cosmos Group – It's in the Sky!



- WeathSat Ltd, ComSat Ltd, TrackSat Ltd and Cosmos Procurement Ltd pay 2.5% of turnover to Cosmos Financing and Legal Ltd (for legal advice and financing services) and Cosmos Services (general services) (total of 5 % of turnover).
- In light of the greater need for services, in particular legal services, SellSat pays a fee of 5% of turnover to Cosmos Fin and Cosmos Services (total of 10 pct of turnover). These margins are in line with what third party services providers charge for the same or similar services.

The intangibles of the Cosmos Group

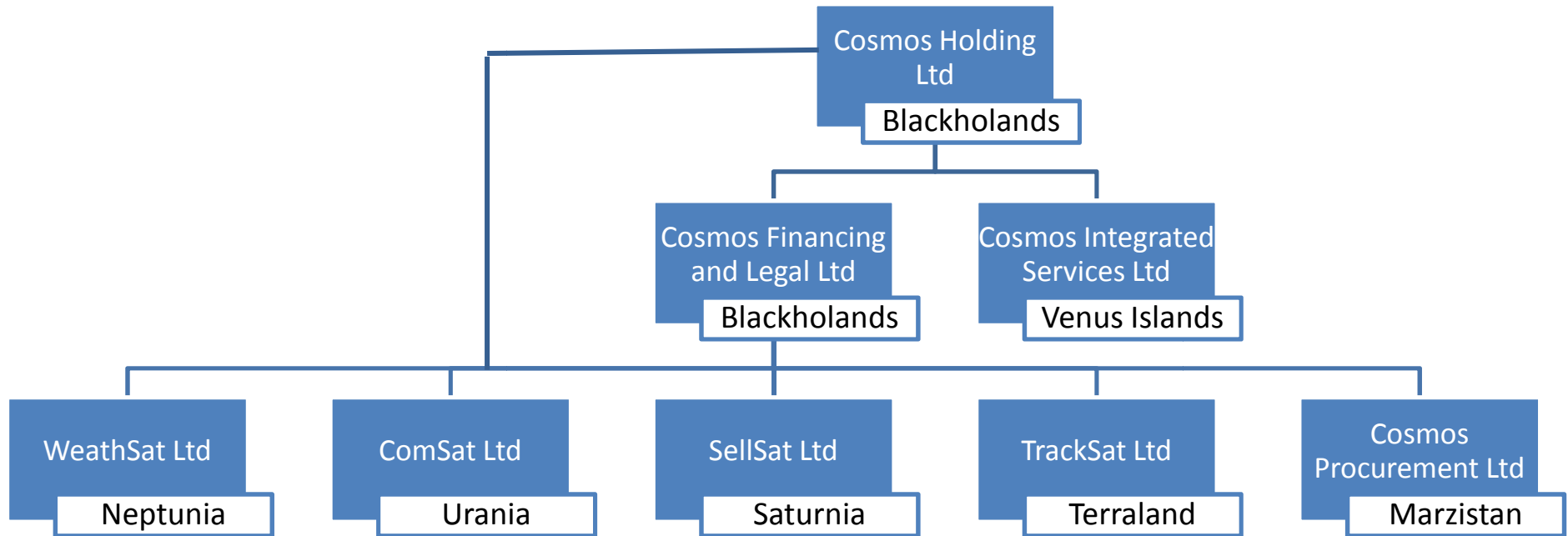
Currently, the Cosmos Group is owner of over 25.000 patents and this number is on a continuing rise. As indicated, all IP is centralised with Cosmos Financing and Legal Ltd. All research and development is financed through Cosmos Financing and Legal Ltd who takes legal title to any intangible. The agreement between the different group members is available under the local file.

A list of the most important intangibles is reproduced under Annex 4.

Cosmos Financial transactions

All financial services are centralised at Cosmos Financing and Legal ltd. As the satellite industry is very capital demanding, the Cosmos Group's policy has developed a centralised financing system in order that the funding is put to the most efficient use.

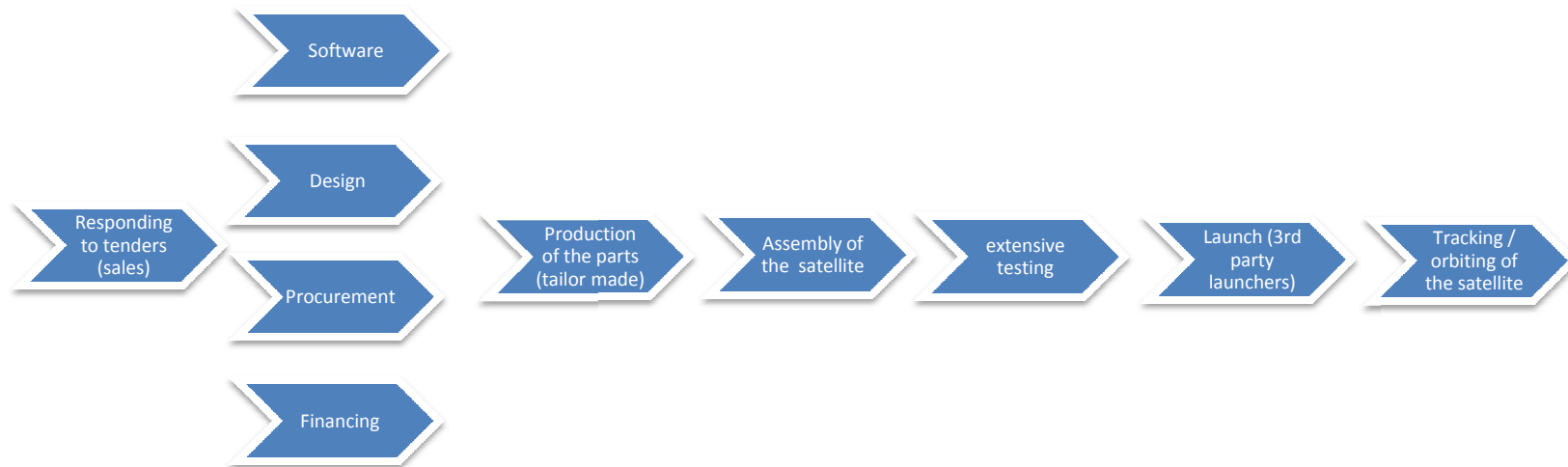
Annex 1 – Group structure



Cosmos Financing and Legal Ltd and Cosmos Integrated Services Ltd are 100% subsidiaries of Cosmos Holding Ltd

Cosmos Holding Ltd owns directly 90 % of the capital stock of WeathSat Ltd, ComSat Ltd, SellSat Ltd and Cosmos Procurement. The remaining 10% is directly owned by Cosmos Financing and Legal Ltd

Annex 2 – Simplified supply chain



Annex 3 - Limited Functional Analysis

This limited functional analysis only indicates the major elements of the operations of the Cosmos Group. A more detailed analysis and breakdown of each of the functions performed, assets used and risks assumed, can be delivered upon requests from the tax administration of the state of which the relevant taxpayer is a resident.

	WeathSat Neptunia	ComSat Urania	SellSat Saturnia	Cosmos Procurement Marzistan	TrackSat Ltd Terraland	Cosmos Integrated Services Venus Islands	Cosmos Financing and legal Blackholands	Cosmos Holding Blackholands
Functions¹								
Market research and tender			X					
Software development for use in Sat	X	X						
Design and development of physical features of Sat	X	X						
Tracking and Or biting software					X			
Procurement of necessary materials				X				
IP Asset Management							X	
Supply chain management	(X)	(X)		X				
Production of the tailor made	X	X						

¹ The functions listed include all the relevant underlying functions



	WeathSat Neptunia	ComSat Urania	SellSat Saturnia	Cosmos Procurement Marzistan	TrackSat Ltd Terraland	Cosmos Integrated Services Venus Islands	Cosmos Financing and legal Blackholands	Cosmos Holding Blackholands
parts								
Assembly of the satellite	X	X						
Testing of Satellite as per tender	X	X	X					
Financing activities							X	
Legal Advice							X	
Management and other Services						X		
Holding Cy activities								X
Bringing the satellite in working orbit					X			
Tracking the course of the satellite					X			
All functionalities related to the orbit and tracking of the satellite					X			
...								



	WeathSat Neptunia	ComSat Urania	SellSat Saturnia	Cosmos Procurement Marzistan	TrackSat Ltd Terraland	Cosmos Integrated Services Venus Islands	Cosmos Financing and legal Blackholands	Cosmos Holding Blackholands
Assets²								
IP related to - tender submission - sales function - software development - Sat design - break-through discoveries - tracking and orbiting software - ...						X		
Production and manufacturing facilities	X	X						
Procurement facilities				X				
Testing Facilities	X	X	X					
Ground Stations and communications equipment					X			

² The assets include all the relevant underlying assets



	WeathSat Neptunia	ComSat Urania	SellSat Saturnia	Cosmos Procurement Marzistan	TrackSat Ltd Terraland	Cosmos Integrated Services Venus Islands	Cosmos Financing and legal Blackholands	Cosmos Holding Blackholands
Administrative buildings and other fixed assets	X	X	X	X	X	X	X	X
...								
Risks³								
Research and development	X	X					X	
Non operation of the Sat	X	X						
Legal							X	
Financing							X	
Risks related to the tender			X				X	
Risks related to procurement				X				
Risks related to production and assembly	X	X						
Non-functioning satellite	X	X	X				X	
Satellite falling out of orbit					X			
Lost satellite					X			
...								

³ The risks listed include all the relevant underlying risks



Annex 4 – List of intangibles in the Cosmos Group

All intangibles are legally and economically owned by Cosmos Financing and Legal Ltd

Intangibles that are linked to satellites in general

- Solar voltaic cells

.....

- Deployment mechanisms of the solar voltaic cells

....

....

- Gyroscopes

- Software

- ...

Intangibles related to weather satellites

- Weather Cameras (visual – infrared - ...)

...

- Doppler and other radars

...

- - weather satellites related software

Intangibles related to Communication satellites

- Antennas and dishes

...

- Relay stations and modems

- Communicationsatellites related software

...

Additional information with regard to the case study

The nominal corporate tax rate of Blackholands is 10%. Blackholands tax legislation provides for a tax exemption for income related to the ownership of IP.

The nominal corporate tax rate of Venus Islands is 12.5%.

The nominal tax rates of the different other countries are Neptunia: 15%, Urania: 25%, Saturnia: 30%; and Marzistan 34%.

The head office of TrackSat Ltd is situated in Terraland (tax rate of 20 pct); it has two permanent establishments (other tracking stations located on the equator) located in Venus Islands and the Kingdom of Thalassa (tax rate 20%).

Assume that each country levies a withholding tax of 5% on interest. Furthermore, Assume a 10% withholding tax on dividends, but Blackholands does not levy withholding tax on intra-group dividends. Assume that the totality of the profit is distributed as dividends to the shareholder. There is no withholding tax on the payments of royalties.

(Assume that the dividend distribution is equal to the profit generated in the year)

A tracking station holds 40 staff members per tracking station for the actual tracking of the satellites.

Questions:

4. What are your first thoughts?

5. What elements attract your attention now?

6. What would be your biggest concerns identified through the Country-by-Country Report and the Master File?

7. Would you select the taxpayer for audit based upon the information provided if you were the tax inspector of:

a) WeathSat Ltd, ComSat Ltd or SellSat Ltd

b) Cosmos procurement Ltd

c) TrackSat Ltd

d) Any other company?

8. If so, why?