

BENEFIT TEST ISSUE FOR INTRA-GROUP SERVICES

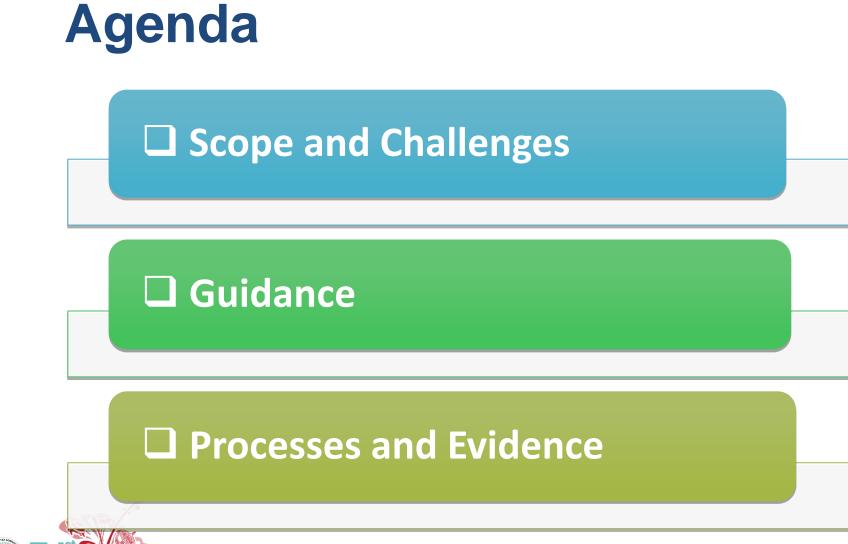
51st SGATAR ANNUAL MEETING

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Scope and Challenges

- □ Intra-group Services
 - Types of controlled transactions related to rendering of services are stipulated in TP Regulations
 - The common types of intra-group services in our experience are R&D, management, marketing, IT services and guarantees



Scope and Challenges

□ Main Challenges in Evaluating Intra-group Services

Whether the intra-group services has been rendered

- The exact scope of intra-group services
- Benefit test



Scope and Challenges

□ Main Challenges in Evaluating Intra-group Services

- Determining an arm's length charge
 - Hard to quantify and calculate the benefit
 - Whether the allocation key makes sense and is capable of producing charges that are commensurate with the actual or reasonably expected benefits to the recipient of the service



Guidance

□ The Benefit Test in Our Jurisdiction

- No specific guidance and flowchart related to benefit test
- Concept of benefit test applied in practice
- No transfer pricing audit case brought to court regarding benefit test



Guidance

□ The Benefit Test in Our Jurisdiction

- Not introducing the simplified approach for low value-adding intra-group services
- There's a safe harbor which has a similar goal as the simplified approach



Processes and Evidence

D Existence of A Chargeable Transaction

- Three-tiered structure in our TP Regulations
- Preparation of transfer pricing documentation regarding intra-group services
 - A description of the intra-group services provided
 - A description of the benefits of the intra-group services and the identity of the beneficiaries



 Documentation and calculations showing the determination of arm's length charges

Processes and Evidence

Price

TNMM method most adopted for general services

CUP method most adopted for guarantee type services



THANK YOU

