

BENEFIT TEST ISSUE FOR INTRA-GROUP SERVICES

51st SGATAR ANNUAL MEETING

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Agenda

Scope and Challenges

Guidance

Processes and Evidence

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

- ❑ 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

