



International Cooperation in Transfer Pricing

A joint initiative by the OECD, the WB/IFC and the EU

Lee Corrick, OECD
Rich Stern, World Bank/IFC
Inmaculada Montero, European Commission

Transfer Pricing Sub-group Meeting
Paris, March 8th, 2013



Transfer Pricing in the Spotlight

Increased international awareness of **Transfer Pricing** as a development issue:

G20: identified TP as a central element of domestic resource mobilization urging OECD Task Force on Tax and Development, the World Bank and other IOs to:

“help developing countries’ tax MNEs through effective transfer pricing”. (June 2011)

IOs: UN, OECD, World Bank, IMF, EU - technical and policy support, capacity building, practical manuals and toolkits

ROs: ATAF (Pan-African TP programme underway), CIAT

NGOs: Christian Aid, Action Aid, Revenue Watch, PWYP -campaigns echoing global concerns on tax fairness and inequality; large corporations’ tax avoidance and profits shifting

Donors: GIZ, SECO

... reflecting a globalised economy, dominated by multinational enterprises



Formation of OECD Task Force on Tax and Development (2011)

+ EU study on "Transfer Pricing and Developing Countries"

Under Tax and Development auspices
OECD-EU-WB/IFC Joint Initiative on Transfer Pricing



OECD Tax and Development Programme

- ❑ **Joint initiative** of the OECD Committee on Fiscal Affairs (CFA) and Development Assistance Committee (DAC)
- ❑ **Four pillars of the programme:** Transfer pricing; State-building, taxation and aid; Transparency and exchange of information; Transparency in the reporting by MNEs of financial data
- ❑ **Transfer Pricing pillar:**
 - ❑ **Objective:** address cross-border profit-shifting and/or capacity constraints in developing countries
 - ❑ Relies on **international co-operation** through a partnership with the EU and World Bank
 - ❑ Is integrated with **existing country tax reform initiatives** – working with donor agencies on the ground
 - ❑ Also provides **assistance to regional organisations** (e.g. ATAF) in delivering their work programmes on transfer pricing and the development of new guidance and tools
 - ❑ Tests the applicability and relevance of **OECD guidance** on transfer pricing to the developing country context





The European Union Domestic Revenue Mobilization Agenda



- ❑ **Grounded in the Commission's Communications** on “Taxation and Development”, “Agenda for Change” and “Budget Support”
- ❑ **Shift traditional PFM focus** on mostly expenditure side to a more comprehensive view that seeks to:
 - ❑ help improve tax systems within developing countries
 - ❑ work towards a transparent, cooperative and fair international tax environment
- ❑ **Transfer pricing:**
 - ❑ EU study: “**Transfer Pricing and Developing Countries**”
 - ❑ highlighted the favourable impact of adoption of (sensible) TP rules on DRM and investment climate
 - ❑ ...and the major challenges faced by developing countries: building up expertise and capacity; availability of comparable data, effective dispute resolution, etc.
 - ❑ **UN Practical Manual** on Transfer Pricing
 - ❑ **Implementation**
 - ❑ part of the **EU strategy** for promoting good tax governance
 - ❑ embedded efforts into **PFM reforms**, support for **regional initiatives** (ATAF, ECOWAS) and **EU Budget Support**
 - ❑ mindful of balance between **business climate** and **government revenue** needs
 - ❑ joined forces with the **OECD and World Bank**



World Bank/IFC Investment Climate Perspective



- ❑ Investment Climate Global Tax Programme's objectives:
 - ❑ **Investment and competitiveness**- enhance country competitiveness, investment potential through fostering a transparent and predictable tax system that is equally applied to all (**workstreams: Transfer Pricing, Incentives, VAT Reform**)
 - ❑ **Inclusion**- widen participation in the tax system at all levels but with particular focus on micro, small, and medium sized enterprises (**SME taxation**)
 - ❑ **Domestic resource mobilization**- enhance the ability to raise revenues in the long run through more effective tax administration and widening the tax base (**Compliance Management, Transfer Pricing, VAT**)
 - ❑ **Governance**- promote good governance through transparent systems and procedures and effective audit (**Tax Transparency, Incentives, Compliance Management**)
 - ❑ **Global standards and norms**- provide support to achieve internationally-accepted standards and norms especially on tax transparency (**Tax Transparency**)
- ❑ The Programme provides **both technical assistance** on the ground and **operational research** through toolkits, notes, regional practitioners' workshops, and other peer-to-peer events
- ❑ **Transfer Pricing**: implementation of TP frameworks (legal, regulatory, guidance), assessment tools to identify tax evasion risk, simplified approaches to ease compliance burdens (safe harbors); sector-specific capacity building in tax administrations



Joint Initiative on Transfer Pricing

- ❑ **Huge demand** from developing countries for assistance in the TP area
- ❑ **International cooperation is vital** to ensure that inputs of respective IOs comprise a coherent and sustainable country-level programmes
- ❑ **Country-tailored assistance and capacity building** in the areas of: transfer pricing legal drafting (including procedures and guidelines), organizational issues, risk assessment mechanism, thin capitalisation, intangibles, secondary adjustments, simplifications measures (e.g. safe harbours), APA, MAP
- ❑ **Medium- to long-term** comprehensive country support vs. **short-term** engagement on a demand-led basis
- ❑ Adoption of a **needs assessment approach** to diagnose country TP risk
- ❑ Development of **tools and training materials** to support TP capacity building
- ❑ Use of framework for **measuring impact** of countries' programmes
- ❑ **On-going pilot country programmes:** Ghana, Kenya, Rwanda, Vietnam, Colombia, Honduras
- ❑ **Programmes in the pipeline:** Zambia, Ethiopia, Thailand, EAC, ECOWAS

