

## What is Transfer Pricing?

Transfer pricing refers to the mechanism by which cross-border intra-group transactions (“transfers”) are priced. In itself, it is a normal incident of the operation of Multinational Enterprises (MNEs) allowing them to evaluate which parts of the group are profit or loss-making, for example. However, if the method used to determine the price of such transactions does not, for whatever reason, reflect their true value (i.e., there is “transfer mis-pricing”), profits might effectively be shifted to low-tax or no-tax jurisdictions and losses and deductions to high-tax jurisdictions. This is unfairly deprives a country of tax revenue, reducing the amount of resources available for funding its development objectives. Because of the highly technical nature of much transfer pricing analysis, and the resource and skills deficits in this area that many developing countries struggle with, such countries are especially susceptible to transfer mis-pricing.

Apart from such tax base erosion, which is a matter of concern for botcit0 0 12 -2( t)-12(i)24(t)5w 1uelo91>>BDC6n, whi Tw9275nd s(o)16(fo)17(r m)-9(i.)18(e)ie

The Manual addresses the difficulties faced, especially by developing countries, in applying some of the OECD Transfer Pricing Guidelines and the need for clear and practical guidance for those countries on the policy and administrative aspects of applying transfer pricing analysis to some of the transactions of MNEs. While consistent with the OECD Transfer Pricing Guidelines the Manual effectively provides a novel and needs-based approach to explaining what the arm's length approach means for developing countries, and addresses how it can be applied in practice in a way that reflects their realities.

The Manual is not intended to be prescriptive. It is left to each country to choose a tax policy most appropriate to its stage of economic development. It rather intends to offer developing countries a basis for an informed debate at a practical level about transfer pricing.

As an extension of this approach, the Manual has a unique feature that has attracted a great deal of inter

The Subcommittee is also mandated to update the United Nations Practical Manual on Transfer Pricing for Developing Countries. It will, in particular, consider comments and proposals for amendments to the Manual and provide draft additional chapters on intra-group services and management fees as well as intangibles. It will also develop a text on available technical assistance and capacity building resources that may assist developing countries.

It is hoped that in the next version of the Manual more examples of practice from countries at various stages of their transfer pricing, including smaller developing countries, will be included.

