
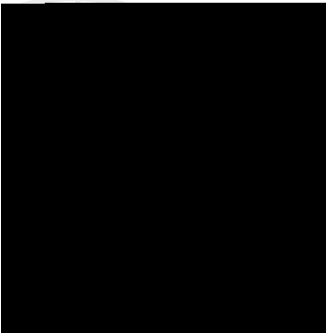

UN-ATAF Workshop on Transfer Pricing
Administrative Aspects and Recent Developments



IS THE FOLLOWING A CCA?

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SCENARIO 4: INITIAL DISCUSSION POINTS

Company A, B and C participate in a CC. Company A would be the controlling party in the arrangement (considered a participating party)

What issues might arise from the joint ownership of shares?

What complexities could arise if, as an alternative, Company A, B and C decided to, for separate reasons, set up a CC and then provide services to each other?

B

UNPACKING THE CCA DEFINITION

! CC! is





WHAT CONTRIBUTIONS MAY BE MADE BY
PARTICIPANTS IN SCENARIOS 4 & ?

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CONTRIBUTIONS AND GOVERNMENT SUBSIDIES

The Manual (B.6.5.B) notes alternative approaches, when a participant (entity) & government enter into incentives or subsidies in respect of its activities (relative to JD activities).

Approach A is to value the participant's contribution and disregard the subsidy.

The alternative approach B is to reduce the contribution (net of the subsidy) to the subsidy.

What are the consequences of the different approaches?

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CONTRIBUTIONS AND GOVERNMENT SUBSIDIES

Consider a CC, where participants are expected to share equally in the total cost and the total contribution is JD activities (valued at 6); each. One participant receives a government subsidy equal to 4; the other JD costs.

Under approach A there is no effect on the subsidy in the CC and the participant retains full contribution to the subsidy.

Under approach B the total costs of the CC activities are reduced and (both participants) contribute. But in addition, although the total costs have reduced to 6; the participant net contribution is 4; while the other contribution is 6; as before. The participant (entity) the subsidy amount, have a balance of 2.1415595 () 1.07422 () 1.07422 () 2.15595 ()

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CHANGES IN EXPECTED BENEFITS

Expected Development Entitlements, Technical & Financial
 Assume that Company A and Company B enter into a CC in Year 6 to develop
 new technology. At the inception of the CC it is projected that the development
 process will take five years and that once the new technology is commercialised in
 Year 6 Company A will receive >4 of the benefits and Company B will receive
 34 of the benefits. Total development costs are 6; each year.

In Years 6, 3 and 1 Company A pays >4 in CC related costs and Company B pays
 34 in CC related costs. At the end of Year 1 revaluation changes take place in the
 expected amount for the new technology in Company A's territory. As a result of
 these changes it is projected in Year 5 and thereafter that Company A will derive
 4 of the total benefits and Company B will also derive 4 of the projected
 benefits over the useful life of the technology (including development). As a result of the
 changes in total projected benefits Company B should also receive a/ (including
 payments to Company A) equal to >4 (the difference between 34 and 4) of the
 costs incurred in Years 6, 3 and 1. This (including payments) should be made in
 Year 5. It is in Year 5 and Year 4 (based on the new benefit ratio calculation)
 Company A and Company B should each pay 4 of the current annual CC related
 costs.

3B

CHANGES IN EXPECTED BENEFITS

Thus at the end of the development period (Year 5) Company A and Company B would have paid 4 of the CC development costs and each would anticipate receiving 4 of the benefits. It is possible to take a different view?

Year 6	Year 3	Year 1	Balance & Cash	Year 5	Year 5	Year 4	Total
>4	>4	>4	(>4)	4	4	4	34
34	34	34	>4	4	4	4	34

Do you agree with this analysis? Is it possible to take a different view?

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CHANGES TO PARTICIPANTS IN A CCA

When an associated enterprise joins a CC and participants are added, the CC is re-evaluated.

When an associated enterprise joins a CC that CC is re-evaluated.

SUMMARY OF CCA REQUIREMENTS

- a) The participants, should include all enterprises expected to derive mutual and profitable (benefits from) the CC! activities itself (and not just from) participation in that activity).
- (b) The arrangement, should specify the nature and extent of each participant's interest in the results of the CC! activities as well as its expected respective share of (benefits).
- c) Notwithstanding the CC! contributions appropriate (allocations) of profits and (losses) in profits, should be made for the particular interest rights in intangible assets or services obtained through the CC!.
- d) The value of participants' contributions, should be determined in accordance with the OECD Guidelines and, where necessary, (allocations) of profits should be made to ensure the proportionate shares of contributions, with the proportionate shares of expected (benefits from) the arrangement.
- e) The arrangement should specify provisions for (allocations) of profits and changes in the allocation of contributions respectively after a reasonable period of time to reflect material changes in proportionate shares of expected (benefits) and the participants.
- (f) Disputes, should be addressed as necessary (including the possibility of (uniform) and (uniform) contributions) upon the entrance, withdrawal, or a participant and upon termination of the CC!.
- (B.6.A.3 and A.4.)

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DOCUMENTATION

Documentation standards apply to CC!s and in particular should include information on the participants, the associated enterprises, which will be involved in the activities of the CC!, the duration of the CC!, the measures of the participants' shares of expected (benefits) of contributions of each participant, the consequences of a participant entering and leaving the CC! (termination) of the CC! and (allocations) of profits and adjustments to the CC! to reflect changes in economic circumstances of the participants.

In addition the OECD Transfer Pricing Guidelines encourage participants to monitor the operation of a CC! and record changes to the arrangement and compare the results with expected (benefits) with realised (benefits) and record the annual expenditure of the participants to the CC! the (cost) of cash contributions and the valuation methods used and the consistent application of accounting principles to the participants.

(B.6.A.1 and A.43)

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CCAs: SUMMARY

CCAs are useful for (businesses since they can replace a separate intra-company services, with streamlined net profit) entities (associated entities) and associated costs associated with the services.

-i) A CC! for sharing in intangible development) can be in a

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