Global Outlook on Transfer Pricing

Understanding the rules, the latest country changes, and the emerging trends shaping cross-border taxation across the Globe

The Global Transfer Pricing Landscape at a Glance

Transfer pricing is no longer just a compliance exercise; it is a strategic business priority. As tax authorities worldwide intensify scrutiny of cross-border transactions, multinational enterprises must navigate an increasingly complex landscape of evolving regulations, enhanced documentation standards, and data-driven audits.

This guide distils the most significant transfer pricing developments across major jurisdictions into practical, business-focused insights, helping you understand not just what has changed, but also why it matters.

Navigating the Evolving Transfer Pricing Landscape through this guide

- **Understand the impact** – See how legislative, regulatory, and judicial changes affect multinational businesses.
- **Spot emerging risks** – Identify areas attracting greater scrutiny, from financing and IP to intra-group services and business restructurings.
- **Strengthen compliance** – Keep pace with evolving documentation, reporting, and audit expectations.
- **Learn from landmark cases** – Understand how recent court decisions are shaping transfer pricing practice.
- **Turn insight into action** – Gain practical considerations to review policies, strengthen governance, and reduce controversy risk.

Inside This Guide

- Global updates on transfer pricing developments in recent years
- Country-by-country insights into key legislative and administrative reforms
- Documentation and compliance trends shaping multinational businesses
- Recent landmark decisions and their practical implications
- Key takeaways to help businesses prepare for the evolving transfer pricing landscape

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Transfer Pricing: Industry Trends & Development

The transfer pricing landscape is being shaped by two significant global developments: the implementation of the OECD's **Pillar Two global minimum tax regime** and the **OECD's revised guidelines on the pricing of Intra-Group Services (IGS).**

Together, these initiatives reflect a broader shift towards greater transparency, consistency, and substance in multinational tax reporting. As a result, businesses are increasingly expected to maintain robust documentation, support transfer pricing positions with reliable data, and proactively address compliance requirements rather than responding only during audits or tax authority reviews.

Pillar Two: a global minimum tax

Pillar Two represents more than a new tax calculation, it fundamentally changes how multinational enterprises manage their global tax affairs. Organisations that continue to view transfer pricing, financial reporting and Pillar Two compliance as separate workstreams may face higher compliance costs, increased audit exposure and unexpected tax liabilities.

The businesses that will navigate this transition most effectively are those that adopt an integrated approach, aligning commercial operations, transfer pricing, financial reporting and global tax governance into a single, coherent framework. In the evolving international tax landscape, proactive planning and data consistency will be just as important as technical compliance.

What is Pillar Two?

- Pillar Two is the second limb of the OECD/G20 two-pillar solution developed under the BEPS project to address the tax challenges of a globalised, digitalised economy.
- At its core sit the Global Anti-Base Erosion (GloBE) Rules, a coordinated system designed to ensure that large multinational groups pay a minimum level of tax, set at 15%, on the income they earn in every jurisdiction where they operate.
- Where the tax actually borne in a jurisdiction falls short of that floor, a top-up tax makes up the difference.
- The rules are written as a legislative template that each jurisdiction adopts into its own domestic law, which is why the compliance landscape keeps shifting as more countries bring them into force.

Who is affected?

- MNE groups with annual consolidated revenue of at least €750 million in at least two of the four preceding fiscal years.
- Scope depends on size, not on where profit sits a group can be in scope even where no top-up tax is owed, with reporting obligations still applying.
- Groups near the threshold, or reshaping revenue through acquisitions or disposals, should monitor the number to know when they cross into scope.

How the effective tax rate is calculated

- The effective tax rate is worked out jurisdiction by jurisdiction, aggregating the GloBE income and covered taxes of all group entities in that country.
- Where a jurisdiction's blended ETR is below 15%, top-up tax applies to the excess profit.
- A substance-based income exclusion carves out a routine return linked to tangible assets and payroll, so the top-up bites only on profit above that substance amount.
- Top-up tax is collected three ways:
    - Income Inclusion Rule (IIR): Charged at the parent entity level.
    - Undertaxed Profits Rule (UTPR): A backstop reallocating any top-up the IIR does not capture.
    - Qualified Domestic Minimum Top-up Tax (QDMTT): Lets the low-tax jurisdiction collect the shortfall locally, keeping revenue at home.
- The calculation combines financial-accounting figures with tax data plus GloBE-specific adjustments, it only works where those systems genuinely reconcile. Treating it as a year-end spreadsheet exercise exposes data gaps.

Compliance and reporting

- In-scope groups file a GloBE Information Return (GIR) which is a jurisdiction-by-jurisdiction account of income, taxes, and required adjustments.
- Filed with the ultimate parent's tax authority and shared with other jurisdictions under the OECD's exchange framework.
- The real challenge is data: the GIR runs to well over a hundred fields, many not captured by current systems.
- Readiness means rethinking how tax data is collected, stored, and carried forward year to year and not just completing a form once.

Where countries stand

Adoption is well underway, but the details vary from country to country. The table below summarises where some of the jurisdictions stand.

Country	How and when adopted	How and when adopted	Filing and key points
United Kingdom	Via the Finance (No. 2) Act 2023, with a Multinational Top-up Tax (IIR) and QDMTT for years beginning on or after 31 December 2023. A UTPR was added by Finance Act 2025 for years from 31 December 2024.	QDMTT – 2024 IIR – 2024 UTPR – 2025	Groups with a UK presence must register with HMRC even with no liability, and file annual returns, generally within 15 months of the period end (18 months for the first year).
Singapore	From 1 January 2025, via the Multinational Enterprise (Minimum Tax) Act and the Income Tax (Amendment) Act. Introduces an MNE Top-up Tax (IIR) and a Domestic Top-up Tax; a UTPR is being considered.	QDMTT – 2025 IIR – 2025 UTPR – Not implemented yet.	Groups must register with IRAS, notify it of the filing entity, and submit a GIR and top-up tax return, generally within 15 months of the year-end (18 months for the first year). Tax due is payable within one month of filing.
Germany	EU Minimum Tax Directive transposed into national law in December 2023, introducing the IIR, UTPR, and a QDMTT for a 15% minimum on German entities, with ongoing updates to align with OECD guidance.	QDMTT – 2024 IIR – 2024 UTPR – 2025	Groups must register, file a GIR, and submit a top-up tax return. The GIR is generally due within 15 months of the year-end (18 months for the first year).

Country	How and when adopted	Year of implementation	Filing and key points
United states	The United States has not implemented the OECD Pillar Two (GloBE) rules. Instead, the OECD's Side-by-Side (SbS) Safe Harbor, released on January 5, 2026, recognizes the U.S. tax regime as achieving similar policy objectives, thereby shielding qualifying U.S. multinational groups from certain foreign IIR and UTPR top-up taxes.	QDMTT – Not implemented IIR – Not implemented UTPR – Not implemented	NA
Australia	Australia implemented the OECD Pillar Two rules through legislation enacted on 10 December 2024, with the rules applying retrospectively from 1 January 2024. The regime applies to MNE groups with annual consolidated revenue of at least EUR 750 million.	QDMTT – 2024 IIR – 2024 UTPR –2025	In-scope groups must comply with Pillar Two filing requirements, including the GloBE Information Return (GIR) and any applicable Domestic Minimum Tax (DMT) obligations, while also considering the related financial reporting requirements.
United Arab Emirates	The UAE introduced a Domestic Minimum Top-Up Tax (DMTT) from 1 January 2025, aligned with the OECD Pillar Two rules. It applies a 15% minimum tax rate to large multinational groups and does not include the IIR or UTPR.	QDMTT – 2025 IIR – Not implemented yet. UTPR – Not implemented yet.	In-scope entities must register with the FTA, file a top-up tax return, and certain entities must also submit a Pillar Two information return. There is no separate notification requirement, and the treatment of free zone incentives remains unclear.

[1] The table is not intended to provide an exhaustive list of countries where Pillar Two has been implemented. It includes selected jurisdictions solely for illustrative purposes, to demonstrate that the adoption and implementation of Pillar Two may vary from country to country.

Country	How and when adopted	Year of implementation	Filing and key points
France	Via the Finance Law 2024, effective 1 January 2024, introducing the IIR, UTPR, and a QDMTT for a 15% minimum on French entities. Further updates proposed in the 2025 and 2026 Finance Bills.	QDMTT – 2024 IIR – 2024 UTPR – 2025	In-scope groups must notify the authorities of group membership, file a GIR, and submit a statement of any top-up tax. The GIR is filed electronically within 15 months of the year-end (18 months for the first year).
Malaysia	Via the Finance (No. 2) Act 2023, effective 1 January 2025. Includes an IIR (the Multinational Top-Up Tax) and a Domestic Minimum Top-Up Tax, but no UTPR.	QDMTT – 2025 IIR – 2025 UTPR – Not implemented yet.	Groups must disclose their Pillar Two status, file a GIR, and submit a top-up tax return, generally within 15 months of the year-end (18 months for the first year).

Challenges & Opportunties

While Pillar Two introduces significant new compliance requirements, it also provides businesses with an opportunity to reassess and strengthen their tax and governance frameworks. The impact is therefore not limited to increased compliance costs; it also creates opportunities for greater efficiency, transparency, and strategic alignment.

Challenges

- **Significantly higher data and reporting requirements:**

  Pillar Two calculations require large volumes of detailed financial and tax data across multiple jurisdictions. Businesses may need to enhance existing systems, improve data quality, and establish stronger reporting processes to meet these requirements effectively.

- **Increased compliance and operational costs:**

  Meeting the new rules is likely to require investments in technology, processes, and specialist resources. Multinational groups should therefore anticipate additional compliance costs and allocate sufficient resources to manage ongoing obligations.

- **Jurisdictional differences in implementation:**

  Although Pillar Two is based on a common OECD framework, countries are adopting the rules at different times and with varying local nuances. This can create additional complexity for multinational groups, requiring careful monitoring of country-specific requirements and compliance obligations.

Opportunties

- **Greater alignment of tax policy and business objectives:**

  Measures such as the Qualified Domestic Minimum Top-up Tax (QDMTT) enable countries to collect additional tax domestically, reducing exposure to top-up taxes in other jurisdictions. This can simplify tax administration and provide greater certainty over tax outcomes.

- **An opportunity to optimise operating models:**

  The introduction of Pillar Two encourages businesses to reassess existing structures, supply chains, and tax strategies. In many cases, this review can help simplify operations, improve efficiency, and better align legal structures with commercial realities.

- **Stronger governance and decision-making:**

  The enhanced transparency and reporting requirements can provide management with better visibility into global operations and tax positions. As a result, businesses can strengthen governance frameworks, improve risk management, and make more informed strategic decisions.

Strategic Priorities for CXOs/Tax Professionals in the Pillar Two Era

> The challenge is no longer understanding the rules: - it is managing business impact of Pillar 2

As jurisdictions across the globe continue implementing the OECD's Pillar Two framework, multinational enterprises (MNEs) are entering a new phase of global tax compliance. The focus is no longer on whether an organisation understands the Global Minimum Tax rules, but on how those rules affect existing business structures, transfer pricing policies, data governance and overall tax strategy.
While Pillar Two introduces a global minimum effective tax rate of 15%, its practical implications extend far beyond the possibility of paying additional tax. It requires businesses to rethink how profits are allocated, how tax data is managed and how different reporting frameworks interact with one another.

Transfer Pricing can no longer operate in isolation

Historically, transfer pricing focused on ensuring that intercompany transactions complied with the arm's length principle. Under Pillar Two, however, transfer pricing decisions have a direct impact on jurisdictional effective tax rates (ETRs) and, consequently, potential top-up tax liabilities.

A transfer pricing policy may remain technically compliant while still producing a low ETR in a particular jurisdiction, triggering additional tax under the GloBE Rules. As a result, businesses must evaluate transfer pricing policies not only from a compliance perspective but also through the lens of Pillar Two outcomes.

Structures deserve a fresh review

Many multinational groups continue to operate structures that were designed years ago to support commercial expansion or tax efficiency. Principal structures may still satisfy transfer pricing requirements, but they could now create unintended Pillar Two exposure.

Rather than assuming these structures remain optimal, businesses should reassess whether the location of profits, functions and economic substance continues to be sustainable in a post-Pillar Two environment.

Structures that concentrate significant profits in low-tax jurisdictions are likely to face increased scrutiny and higher top-up tax exposure.

Data consistency is becoming a strategic priority

One of the most significant operational challenges under Pillar Two is ensuring consistency across multiple reporting frameworks. Transfer pricing documentation, Country-by-Country Reports (CbCR), financial statements and GloBE calculations are no longer independent compliance exercises, they are interconnected datasets that tax authorities are increasingly reviewing together. Any inconsistency across these reports may not only affect the computation of the jurisdictional ETR but could also increase audit risk and undermine a group's overall tax governance framework. Robust data management and cross-functional coordination between tax, finance and accounting teams are therefore becoming essential rather than optional.

Tax governance is becoming more integrated

Pillar Two requires a level of collaboration that many organisations have not previously needed. Tax, finance, accounting, legal and technology functions must work together to ensure consistent data, reliable calculations and timely reporting across jurisdictions. Businesses are increasingly investing in integrated ERP systems, automated tax reporting solutions and stronger governance frameworks to manage this growing complexity and remain audit-ready.

The OECD’s Multilateral Convention (MLC)

> “Waiting for implementation is no longer a strategy.
>
> Businesses that proactively strengthen their data, assess tax impacts, and align their global operating models will be better positioned to navigate the new international tax landscape.”

The OECD has emphasized the importance of the Multilateral Convention (MLC) as the legal instrument necessary to implement Amount A, reaffirming its objective of reallocating taxing rights to market jurisdictions while replacing unilateral digital taxes with a coordinated global framework.

Although the MLC is yet to enter into force, multinational enterprises (MNEs) should closely monitor these developments, as the framework has the potential to fundamentally reshape where profits are taxed.

What is the Multilateral Convention (MLC)?

The MLC is the treaty-based mechanism developed by the OECD Inclusive Framework to implement Amount A of Pillar One. Rather than modifying thousands of bilateral tax treaties individually, the Convention establishes a single multilateral framework through which participating jurisdictions can collectively implement the new taxing rights.

The Convention is designed around three primary objectives:

- Reallocate a portion of residual profits of the world's largest and most profitable MNEs to market jurisdictions.
- Eliminate double taxation arising from such reallocation.
- Require participating jurisdictions to withdraw Digital Services Taxes (DSTs) and refrain from introducing similar unilateral measures.

Which Businesses Will Be Affected?

Amount A targets only the largest multinational groups. Broadly, the rules apply to MNEs that:

- Generate global revenues exceeding EUR 20 billion;
- Earn profitability exceeding 10% of global revenue; and
- Do not fall within specific excluded sectors such as extractive industries, regulated financial services, defence, and certain domestic businesses.

Where these thresholds are met, 25% of profits exceeding the 10% profitability threshold (commonly referred to as residual or excess profits) will be allocated to market jurisdictions based on where customers or users are located.

How will the system Operate?

1. Determine whether the group falls within scope.
2. Identify eligible market jurisdiction based on revenue sourcing rules.
3. Calculate and allocate a share of residual profits.
4. Eliminate double taxation in relieving jurisdictions.
5. File a single return through a lead tax administrative while obtaining access to a multilateral tax certainty process.

Tax Certainty – One of the most significant features

Recognising that reallocating profits across multiple jurisdictions could substantially increase disputes. The OECD has embedded a comprehensive Tax certainty framework within the MLC.

The framework provides:

- Scope certainty, confirming whether an MNE falls within Amount A;
- Advance certainty on the application of specific methodologies; and
- Comprehensive certainty covering the overall application of Amount A across participating jurisdictions.

Current Status

The MLC has not yet entered into force. For implementation, the Convention requires ratification by at least 30 jurisdictions, including jurisdictions representing 60% of the multinational groups expected to fall within Amount A. Only after these thresholds are satisfied can participating jurisdictions determine the date on which the Convention becomes effective. Accordingly, while implementation remains contingent upon political agreement, the technical architecture of Amount A has already been extensively developed.

Future-Proofing the Business: A CXO's Checklist

Even though implementation remains pending, businesses should not treat pillar one as a dormant initiative. From a practical standpoint, multinational groups should begin assessing:

- Whether they are likely to meet the revenue and profitability thresholds.
- Whether existing systems can accurately source revenues by customer jurisdictions
- The potential impact on effective tax rates and global profit allocation
- Interaction with existing transfer pricing policies and disputes resolution strategies.

The OECD Rethinks Intra-Group Services

> The OECD's latest proposal reinforce a simple principle: intra-group service charges must reflect genuine business value, supported by robust evidence and sound transfer pricing methodologies

The OECD has proposed revisions to Chapter VII of its Transfer Pricing Guidelines on intra-group services, with public comments invited until 22 July 2026. The thrust is clear: businesses should demonstrate the business purpose, economic benefit, and value created by a service not just point to a contract and an invoice. This reflects how groups increasingly work, through shared service centres, centralised management, digital platforms, and integrated operating models. Going forward, expect tax authorities to focus more on economic substance, commercial rationale, and value creation.

The key proposed changes are:

Here's a clean before/after comparison across all 7 proposed changes:

S. No.	Area	Before (existing position)	After (OECD proposal)
1	**Substance over paperwork**	Contracts and invoices largely accepted as proof a service was provided.	Paperwork isn't enough, the company must show actual functions performed, assets used, risks taken, and value created.
2	**Benefit test**	Focus on whether a real benefit was actually received; poor outcomes could undermine the charge.	A reasonable expectation of benefit at the time is enough, even if results didn't follow. Losses don't auto-invalidate a charge.
3	**Shareholder activities**	Ownership-driven activities non-chargeable, with little room to charge where the parent also benefits.	Ownership-only activities stay non-chargeable, but parent activities giving genuine commercial value to subsidiaries can be charged even if the parent benefits too.
4	**Duplicative work**	Activities that looked duplicative were often challenged and treated as non-chargeable.	Fact-based view: a second opinion or a regulatory-driven activity may still add value and be chargeable.
5	**Method selection**	Practical presumption that Cost Plus / TNMM is the right method for services.	No presumption, pick the method that fits the economics (intangibles, risks), not a default.

5	**Method selection**	Practical presumption that Cost Plus / TNMM is the right method for services.	No presumption, pick the method that fits the economics (intangibles, risks), not a default.
6	**Pass-through costs**	Limited, inconsistent guidance on when to add a mark-up.	Pure intermediary costs recharged without mark-up; mark-up only where the entity genuinely adds value.
7	**Low value-adding services**	Simplified LVAS regime existed, but scope of what qualified was less clearly defined.	Regime retained but scope clarified now, accounting, HR, routine IT keep simplified treatment, while R&D, marketing, financial transactions, manufacturing support, and senior management stay excluded.

A New Era of substance driven Transfer Pricing

Collectively, these proposed changes indicate a clear OECD shift towards substance-driven analysis, stronger evidence requirements, and greater flexibility in selecting transfer pricing methods for intra-group services. Multinational groups may need to revisit their service arrangements, allocation methodologies, documentation frameworks, and transfer pricing policies to align with the evolving guidance

Country-by-Country Reporting: Why CbCR Is No Longer Just a Compliance Exercise

> "As tax authorities become increasingly data-driven, CbCR has evolved from a compliance obligation into a strategic risk indicator.
>
> The greatest risk is no longer late filing, it is inconsistent reporting across the global tax ecosystem."

Country-by-Country Reporting (CbCR), originally introduced under the OECD's BEPS Action 13 framework as a transfer pricing risk assessment mechanism, is rapidly evolving into one of the most closely monitored international tax reporting obligations. What began as an information-sharing framework has now become a strategic data source for tax authorities, supporting transfer pricing reviews, Pillar Two implementation and increasingly sophisticated taxpayer risk profiling.

Recent developments across multiple jurisdictions indicate a clear global trend that tax authorities are no longer merely collecting CbCR data; they are actively using it to identify audit targets, monitor compliance and enhance tax transparency.

CbCR data is increasingly driving tax authority risk assessments

Tax administrations are investing heavily in technology and data analytics to convert CbCR information into actionable intelligence. The tax authorities are integrating CbCR data into taxpayer risk-rating models, enabling them to classify multinational groups into high, medium and low-risk categories. Combined with other sources of information, these models are expected to drive more targeted transfer pricing reviews and audits in the coming years.

This signals a significant shift from filing CbCR to being assessed based on what the report reveals.

Public CbCR implementation continues to expand across Europe

Europe continues to lead the move towards greater tax transparency through Public Country-by-Country Reporting (CbCR). Most EU Member States have now implemented the Public CbCR Directive, with reporting obligations becoming effective for financial years beginning on or after 22 June 2024. Although the Directive establishes a common framework, several jurisdictions have introduced country-specific variations relating to publication requirements, penalties, exemptions and additional disclosure obligations, making jurisdiction-specific compliance increasingly important for multinational groups.

Tax authorities are actively encouraging and enforcing CbCR compliance

Another notable development is the increasing focus on proactive compliance initiatives. Romanian tax authorities recently launched a dedicated awareness campaign reminding multinational groups of their CbCR and Public CbCR obligations, while simultaneously warning that non-compliance may result in significant penalties and an elevated tax risk profile that could trigger further examinations.

This reflects a broader global shift where tax administrations are encouraging voluntary compliance while clearly signalling stricter enforcement for non-compliant taxpayers.

CbCR in the Age of Data-Driven Tax Administration

The evolving CbCR landscape demonstrates that the report is no longer viewed as a standalone compliance filing. Instead, it has become a central component of tax authority risk assessment frameworks and international tax transparency initiatives. Multinational enterprises should therefore move beyond ensuring timely filing and focus on the consistency, accuracy and defensibility of the information reported across transfer pricing documentation, Pillar Two calculations, statutory financial statements and public disclosures. As tax authorities become increasingly data-driven, discrepancies across these reporting frameworks are more likely to attract regulatory scrutiny and targeted audits.

Transfer Pricing: Around the World

United Kingdom • Singapore • Germany • United States • Australia

Transfer pricing rules are not standing still. Across major economies, tax authorities are asking for more detail, moving faster, and looking harder at the areas where profit is most easily shifted financing, intellectual property, and services. Here is what is changing in the jurisdictions that matter most to multinational groups:

United Kingdom

From 1 January 2026, new rules tighten the focus on related-party transactions, financing, intellectual property, and documentation.

1. A Wider Transfer Pricing Scope

- **A broader definition of related parties.** Companies may now be treated as related even without majority ownership if one entity has significant influence over another. As a result, businesses should reassess their group structures and commercial relationships to identify transactions that may now fall within the transfer pricing framework.
- **Simplified rules for domestic transactions.** A new exemption removes wholly domestic (UK company-to-UK company) transactions from TP scope where there is no risk of UK tax loss, therefore addressing a long-standing complaint that domestic TP compliance imposes cost without protecting any tax base. The exemption doesn't apply automatically; the no-loss condition needs to be checked transaction by transaction.

2. Areas of Increased HMRC Focus

- **Greater scrutiny of financing arrangements.** His Majesty's Revenue and Customs (HMRC) is expected to focus more closely on intercompany loans, guarantee fees, borrowing capacity, and treasury activities. This means taxpayers should be prepared to demonstrate that their financing arrangements reflect commercial reality and arm's length principles.
- **Increased focus on intellectual property (IP).** Cross-border transfers, licensing, and exploitation of software, brands, patents, and other intangibles are likely to attract greater attention. Cross-border transfers or grants of intangible fixed assets between related parties are, where they fall within TP scope, now valued strictly at arm's length price rather than by reference to market value, removing an inconsistency between the Intangible Fixed Assets rules and the TP regime. Businesses should therefore ensure that the economic ownership and pricing of IP arrangements are properly supported.
- **Historic analyses may no longer be sufficient.** Transfer pricing studies and supporting documentation should be periodically revisited to ensure alignment with the latest OECD guidance and market conditions. Reliance on outdated analyses may increase the risk of challenge during an audit.

3. Compliance Expectations Continue to Rise

- **Diverted Profits Tax Is Being Absorbed into TP.** DPT is replaced by a new charge which is Unassessed Transfer Pricing Profits (UTPP), brought within mainstream corporation tax rather than sitting as a separate regime. This is levied at six percentage points above the standard CT rate. The practical effect will be that the groups that previously ring-fenced DPT exposure as a distinct risk category should now assess it as part of their core TP risk profile, with the benefit of broader access to double tax relief mechanisms (including MAP) that weren't available under DPT.

- **Enhanced reporting obligations through International Controlled Transactions Schedule (ICTS).** A new transaction-level disclosure requirement, which is the ICTS, is expected to apply for accounting periods beginning on or after 1 January 2027. It will require disclosure of transaction type, counterparty, counterparty jurisdiction, quantum, and TP methodology (including profit level indicator, e.g., "cost plus 10%"), feeding HMRC's automated and manual risk-assessment processes. This is a materially more granular filing obligation than most groups have faced under CbCR alone.
  In relation to financing arrangements, taxpayers will be required to disclose details of intercompany loans, including debt capacity ratios, credit ratings, and the key terms and conditions of such arrangements.

  Additionally, taxpayers will need to report whether any business restructuring has occurred, whether there have been changes to their transfer pricing policies, or whether any transfer pricing adjustments have been made in the Corporation Tax (CT) return. These disclosures are expected to assist HMRC in identifying potential transfer pricing risk areas. It should be noted that the reporting form is currently in draft and remains subject to change.

4. Documentation Has Become a Compliance Requirement, Not Just Best Practice.

The UK Transfer Pricing Records Regulations 2023 introduce mandatory transfer pricing (TP) documentation requirements for UK entities that are part of multinational enterprise (MNE) groups meeting the €750 million Country-by-Country Reporting (CbCR) threshold. The rules apply to corporation tax accounting periods beginning on or after 1 April 2023 and to income tax from 2024-25. The regulations require in-scope entities to maintain OECD-compliant Master File and Local File documentation, prepared contemporaneously and available to HMRC within 30 days of request.

HMRC also expects TP documentation to be reviewed and updated annually, with benchmarking studies refreshed as appropriate.

Proper documentation is now a statutory record for in-scope taxpayers and supports accurate tax reporting. Failure to maintain adequate TP documentation can result in penalties of up to £3,000 per failure and may increase exposure to additional penalties if transfer pricing adjustments are later made.

For companies subject to the Senior Accounting Officer (SAO) regime, inadequate TP documentation may indicate that appropriate tax accounting arrangements are not in place, potentially exposing the SAO to separate SAO penalties.

5. Transitional Relief for Pillar Two Compliance

HMRC has introduced transitional relief for the first Pillar Two reporting period by waiving late filing penalties for the Global Information Return (GIR), UK self-assessment return and overseas return notification (ORN) if they are filed by 1 August 2026. The UK has also adopted the OECD's approach by not enforcing local GIR filing requirements where a timely ORN is submitted. These measures provide practical flexibility, particularly where overseas jurisdictions face delays in launching their filing systems, and are intended to ease the initial compliance burden for multinational groups.

CASE STUDY

United Kingdom

Lifeplus Europe Ltd vs HMRC [2026] UKFTT 00797 (TC)

Background

Lifeplus Europe Ltd is a UK-based distributor of nutritional supplements and personal care products and is wholly owned by Eurark LLC, its US parent company. HMRC opened a transfer pricing enquiry after noticing that, despite substantial growth in sales, the company's profit margins had fallen significantly following the introduction of a transfer pricing policy governing transactions between the UK subsidiary and its parent company.

What Happened

As part of its enquiry, HMRC issued an information notice requiring Lifeplus Europe to provide Eurark LLC's consolidated group accounts and entity-level financial statements. HMRC argued that these documents were needed to verify the transfer pricing methodology and assess whether the UK company's taxable profits had been understated. Lifeplus Europe challenged the notice, contending that the documents were not necessary for HMRC's enquiry and that it neither possessed the documents nor had the power to obtain them from its US parent.

Tribunal Decision

The First-tier Tribunal allowed the appeal. It concluded that HMRC had failed to demonstrate that the parent company's financial statements were reasonably required to check Lifeplus Europe's tax position and also accepted that the documents were not within the UK subsidiary's possession or power. As a result, the Tribunal set aside the relevant parts of HMRC's information notice.

Singapore

In the later half of 2025, the Inland Revenue Authority of Singapore (IRAS) released the eighth edition of its Transfer Pricing Guidelines, raising expectations on documentation, economic substance, and alignment with OECD guidance. The biggest updates cover intragroup financing, simpler documentation, pass-through costs, and dispute resolution and a new scheme aims to cut disputes on lower-risk transactions. The takeaway for businesses: review your policies, documentation, and evidence to meet Singapore's increasingly rigorous standards.

1. Stronger rules on related-party financing.

For related-party loans entered into on or after 1 January 2025 where neither party is in the business of lending or borrowing, IRAS has confirmed it will not raise a TP adjustment; taxpayers may apply either IRAS's indicative margin or price the loan under the arm's-length principle. Existing loans (predating 1 January 2025) fall outside this relief and should continue to be reviewed periodically for arm's-length pricing as borrower creditworthiness, collateral, or market conditions shift.

IRAS has also clarified treatment of interest-free loans (IFLs): no TP adjustment will be imputed on outbound IFLs (since no interest is remitted into Singapore under its remittance basis of taxation), and IRAS will not impute interest income on inbound IFLs to Singapore borrowers. Interest expense incurred to fund an outbound IFL treated as a passive source will, however, be disallowed as not incurred in the production of income. Therefore, businesses should keep reviewing loan terms, borrower creditworthiness, and commercial rationale.

2. Simplifying Low-Risk Transactions - A new safe harbour for routine distribution (pilot SSA).

A simplified and streamlined approach, Singapore's version of the OECD's "Amount B" framework for baseline marketing and distribution activities, running as a three-year pilot from 1 January 2026 to 31 December 2028, which is a year later than the OECD's recommended 1 January 2025 start, consistent with Singapore's typically deliberate implementation pace. Under the SSA, a prescribed return on sales (determined via a two-step pricing matrix and expense-ratio check), replaces full benchmarking analysis for qualifying transactions. Three conditions must be met: the transaction must fall within the qualifying list, be reliably priced under a one-sided method, and the tested party's annual operating expenses must fall between 3% and 30% of net revenue.

The SSA is elective, not mandatory, and works best where the Singapore counterparty's treaty partner has also adopted Amount B, several jurisdictions (including Australia, New Zealand, Norway, and Turkey) have opted out, which limits the SSA's practical reach for cross-border structures involving those countries.

3. Rising Compliance Expectations

- **Tougher documentation and pass-through cost rules.** The simplified documentation route allowing taxpayers to roll forward "qualifying past TP documentation" (QPTPD) remains available, but the Eighth Edition hardens the conditions: a taxpayer must include an explicit declaration confirming the QPTPD still meets STPG criteria and that no material changes have occurred. Therefore, reusing last year's documentation is no longer enough on its own; i.e., businesses must meet stricter conditions, including a formal declaration confirming no material changes to the transaction.
- **Strict Pass-Through Costs.** IRAS has narrowed what counts as evidence for strict pass-through treatment. An invoice from the group service provider is explicitly stated not to constitute a "written agreement" for this purpose. Taxpayers need a separate written agreement (email correspondence is acceptable) under which the benefiting related party explicitly assumes liability, and must be able to demonstrate that no value-adding activity was performed on the cost being passed through.

- **Singapore clarifies transfer pricing treatment of share-based compensation.** Singapore's updated Transfer Pricing Guidelines now explicitly state that share-based compensation (SBC) – employee remuneration provided in the form of shares, stock options, or other equity-based awards – should generally be included in the cost base of intra-group service providers operating under a cost-plus model. This could increase the cost pool on which transfer pricing mark-ups are applied, requiring multinational groups to reassess their recharge mechanisms and supporting documentation. The update also signals a broader shift towards greater scrutiny of how transfer pricing policies are implemented in practice, with tax authorities focusing on whether all relevant costs are consistently captured and applied.

4. **Documentation has become Central to Compliance.**

Singapore requires taxpayers to maintain contemporaneous transfer pricing (TP) documentation to demonstrate that related-party transactions comply with the arm's-length principle. Since 2019, eligible taxpayers must prepare TP documentation by the tax return filing deadline and provide it to IRAS within 30 days upon request.

Strong TP documentation is essential as it supports transfer pricing positions during audits, helps prevent transfer pricing adjustments and double taxation, and ensures compliance. Failure to prepare or maintain adequate documentation can result in penalties of up to $10,000 and increased tax risk

5. **Clearer paths for resolving disputes.**

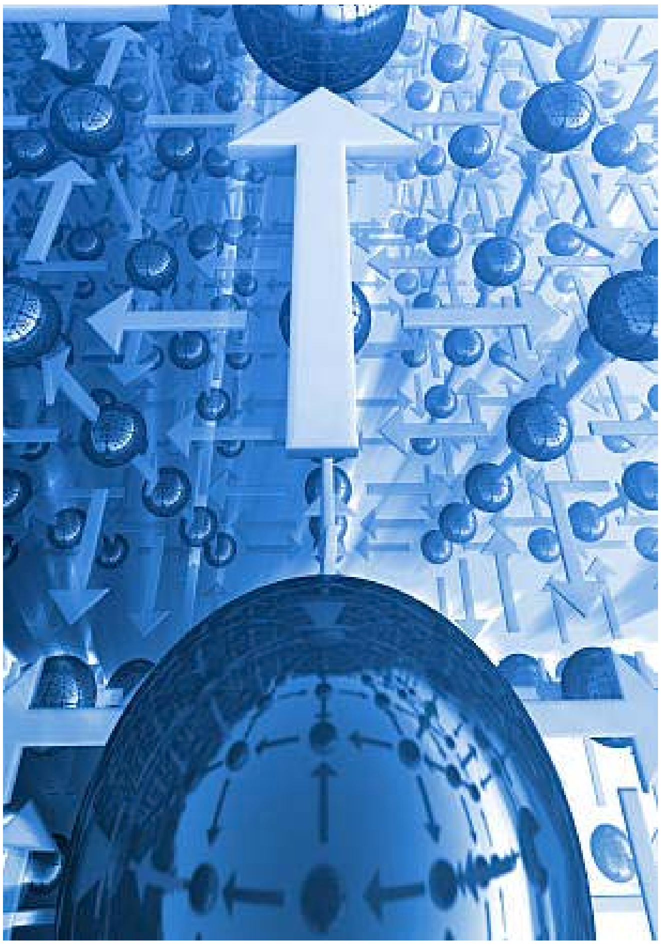
The guidance strengthens the Mutual Agreement Procedure (MAP), with clearer rules on protective filings, timelines, information needs, and how MAP interacts with domestic appeals. Taxpayers pursuing a domestic objection are now more clearly directed to consider filing a protective MAP request within the relevant time limit to preserve treaty relief, rather than waiting for the domestic process to conclude.

6. **Surcharge Recalculation**

Under the Seventh Edition, the 5% TP surcharge was imposed immediately on assessment regardless of taxpayer disagreement. The Eighth Edition ties the surcharge to the final quantum of the underlying TP adjustment; if that adjustment is later increased, reduced, or annulled (through objection, appeal, or MAP), the surcharge is recalculated accordingly, with any excess refunded.

7. **Other Noteworthy Amendments.**

The reforms also introduce targeted changes relating to capital transactions, withholding taxes, dispute resolution mechanisms, and the attribution of profits to permanent establishments. While these changes are largely technical in nature, they collectively demonstrate IRAS's continued focus on enhancing consistency, improving the accuracy of transfer pricing outcomes, and strengthening overall compliance expectations for taxpayers.



Germany

Germany is entering a new phase of transfer pricing compliance with the introduction of the Transaction Matrix, a requirement by the German Federal Ministry of Finance, reflecting a broader move towards greater transparency, standardisation, and data-driven tax administration. The new requirements go beyond a simple documentation update and signal higher expectations around how multinational groups identify, document, and report their intercompany transactions.

From 1 January 2025, the rules mandate the Transaction Matrix to be a part of TP documentation, and taxpayers must submit the Transaction Matrix, along with the Master File and documentation for extraordinary transactions, within 30 days of receiving a tax audit order.

The new rules make timely and contemporaneous TP documentation more important, enabling taxpayers to demonstrate compliance, respond quickly to tax authority requests, and reduce audit risks. Failure to comply can result in penalties of up to €5,000, making proactive preparation of TP documentation essential for effective tax risk management.

Accordingly, businesses operating in Germany should reassess their documentation processes and data governance frameworks to ensure they can meet these enhanced standards, which are giving a new shape to the entire TP landscape in Germany.

1. **A new era of standardised documentation.**

   The Transaction Matrix introduces a more structured and standardised approach to reporting intercompany transactions, giving tax authorities a clearer view of a group's arrangements. This increased transparency is likely to make inconsistencies easier to identify, meaning businesses should ensure that transaction flows, contractual arrangements, and transfer pricing outcomes are aligned and well-supported.

2. **Greater Audit Readiness and Compliance Expectations**
   - **More focused and efficient audits.** Tax authorities will be able to compare information contained in the transaction matrix with local files, master files, financial statements, and other disclosures more easily. As a result, discrepancies are likely to be identified more quickly, increasing the importance of maintaining consistency across all transfer pricing documentation and reporting.
   - **Growing number of transfer pricing audits.** Transfer pricing audits are becoming increasingly frequent, especially in relation to high-volume business relationships. But audit scrutiny is no longer limited to high-volume supply transactions. Tax authorities are also focusing on intra-group service charges, royalty and licensing arrangements, the transfers of intangible assets, business restructurings and changes in functional and risk profiles.
   - **A shift from documentation to audit readiness and tightening of procedural law**. The shift includes an amendment to the obligation to submit a transfer pricing documentation, the need for prompt documentation of extraordinary business transactions and reporting obligations for international tax arrangements (DAC6). The audit readiness is required by the introduction of a 30-day submission deadline for the transfer pricing documentation and Transaction Matrix after an audit announcement from FY2025 onwards. While the Transaction Matrix is a documentation requirement, its broader objective is to improve transparency and facilitate more effective audits. Businesses should therefore view it as an opportunity to strengthen transaction data, enhance governance frameworks, and ensure consistency between operational activities, financial reporting, and transfer pricing positions. Doing so will help reduce audit risks and support a more defensible transfer pricing framework.

Procedural aspects are gaining importance during tax audits, with taxpayers increasingly facing greater procedural hurdles, making timely and well-prepared audit support essential.

3. **Data Governance Has Become Central to Compliance.**
   - **Data quality becomes critical.** The new framework places significant emphasis on the accuracy, consistency, and accessibility of transfer pricing data. Businesses will need to demonstrate that transactions have been correctly identified, appropriate methodologies have been applied, and documentation reflects the actual conduct of the parties. For groups operating across multiple jurisdictions, this will require stronger data management processes and greater coordination across systems and functions.
   - **Data-driven compliance is the new normal.** Compliance is increasingly dependent on reliable data, standardised processes, and collaboration between tax, finance, legal, and technology teams. Businesses that continue to rely heavily on manual processes may face greater compliance challenges going forward.
   - **Stricter regulations for intra-group financing.** With the shift in the interest rate environment and the tightening of financing regulations, the relevance of intra-group financing rules increases. Application of the arm's length principle for intra-group financing transactions requires financing conditions to be based more strongly on the group credit rating rather than stand-alone ratings of individual entities. It is required to demonstrate a clear business purpose for intra-group loans and a stricter debt capacity analysis.
   - **Increasing focus on intra-group services.** The current audit trend on whether intra-group services provide value to the recipient (benefit test) remains to be seen, which will impact the revision of Chapter VII of the OECD GL. Companies should be prepared to provide extensive documentation on the benefit test.

4. **Increasing importance of APAs and MAPs**
   - **Advance Pricing Agreements (APAs) and Mutual Agreement Procedures (MAPs) are becoming increasingly important in Germany.** Companies seek greater tax certainty and effective dispute resolution. In light of increasing transfer pricing audits and a growing number of cross-border adjustments, taxpayers are increasingly using APAs to obtain upfront certainty on their transfer pricing models, while MAPs have become an essential instrument to eliminate double taxation arising from transfer pricing adjustments. Early consideration of these mechanisms is becoming a key element of an effective transfer pricing risk management strategy.

CASE STUDY

Germany

Germany vs “Timber GmbH & Co. KG”, May 2025, Case No. 2 BvR 172/24

Background

The complainants were companies within a timber trading group. One company planned and built a sawmill for a sister partnership. Construction problems allegedly caused losses of over €4 million, and in 2008 the company paid €4 million to the sister partnership as compensation.

What Happened

The company deducted the €4 million payment as a business expense. After an audit, the tax authorities denied the deduction because there were no written agreements documenting the arrangement between the affiliated companies. The Thuringian Finance Court agreed and held that unrelated parties would have entered into written contracts for transactions of that size.

What the Court Held:

The Federal Constitutional Court held that the Finance Court acted arbitrarily by treating the lack of a written contract as decisive. Under the arm's-length principle, courts must consider all relevant facts and circumstances, not just whether an agreement was in writing. The judgment was set aside and the case was sent back to the Finance Court for a new decision.

United States

The United States remains an important transfer pricing jurisdiction in 2026. Taxpayers are managing renewed IRS attention on intangible-property structures, customs and tariff considerations and increasing pressure to align documented transfer pricing policies with actual business conduct. In addition, recent developments in landmark court cases underscore that transfer pricing controversy remains a significant risk area for multinational enterprises.

1. **Continued scrutiny of intellectual property and intangible-related transactions.**

The IRS continues to devote substantial resources to transfer pricing cases involving intellectual property, including licensing arrangements and cost-sharing structures with platform contribution transactions and outbound migrations of valuable intangibles. The ongoing Coca-Cola litigation demonstrates the IRS's willingness to challenge longstanding transfer pricing methodologies and seek significant reallocations of income under the commensurate-with-income standard. Large multinationals with valuable technology, pharmaceutical, software, and consumer-brand intangibles remain a priority examination target.

2. **Operational transfer pricing is increasingly important.**

IRS examinations continue to focus on whether taxpayers actually implement transfer pricing policies as documented. Increasingly available technology allows comparisons of ERP data, actual profit outcomes, intercompany agreements, and management decision-making to determine whether the documented allocation of functions, assets, and risks reflects commercial reality. Taxpayers relying heavily on year-end true-ups or manual adjustments should ensure robust governance and support for those adjustments.

3. **APAs remain valuable but continue to face capacity constraints.**

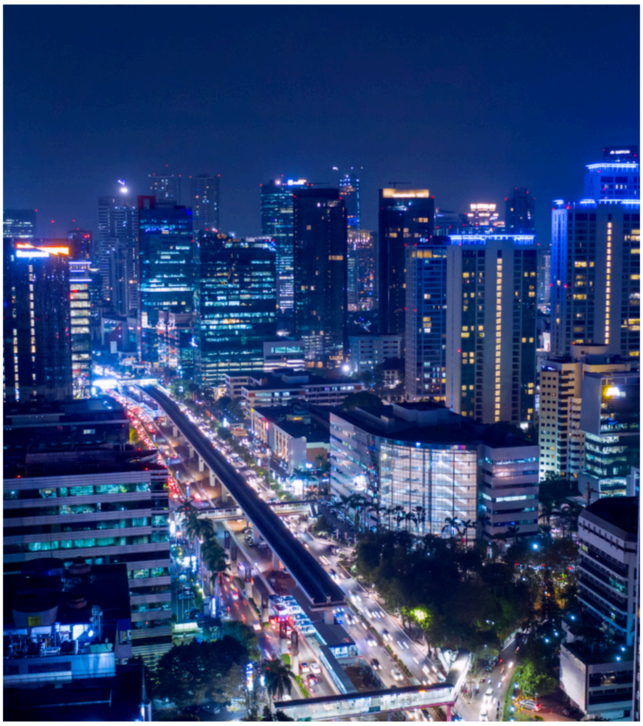
Advance Pricing Agreements remain the only mechanism for obtaining transfer pricing certainty. However, APMA inventory continues to grow, and processing times remain lengthy.

Taxpayers contemplating APAs should begin planning discussions earlier and consider whether APAs or MAP procedures provide the most efficient path for dispute resolution.

4. **Documentation Remains the First Line of Defence**

Under the U.S. Internal Revenue Code (IRC), taxpayers may face penalties for significant transfer pricing misstatements. One important penalty, the net adjustment penalty, applies when transfer pricing adjustments exceed specified monetary thresholds.
A taxpayer can generally avoid this penalty only by maintaining contemporaneous transfer pricing documentation that complies with the IRC. The documentation must exist when the tax return is filed and must be provided to the IRS within 30 days of a request during an audit.

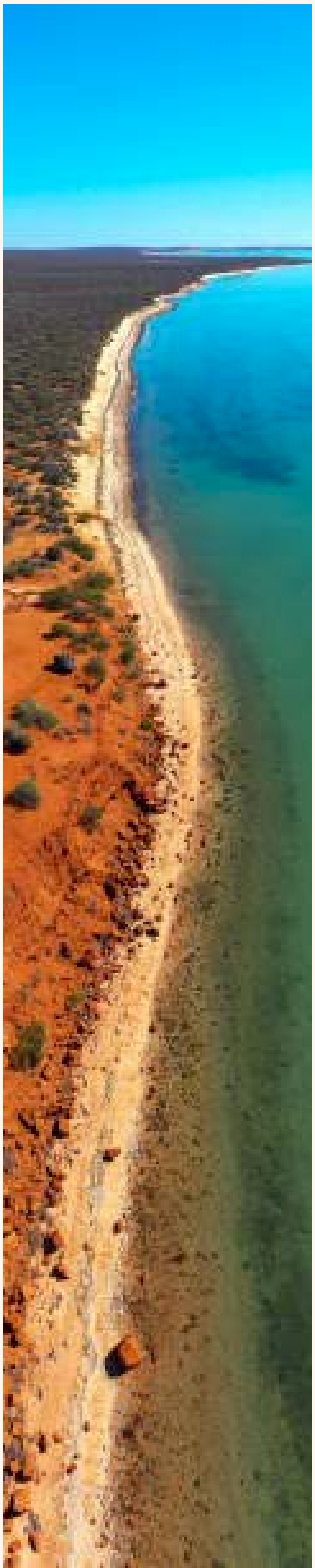
The documentation should explain why the taxpayer selected the best transfer pricing method, how it was applied, and why it provides the most reliable arm's length result. However, simply maintaining documentation is not enough. It must be complete, accurate, and reasonable. Documentation based on unreliable data, incorrect assumptions, or an inappropriate pricing method may still fail to protect the taxpayer from penalties.



CASE STUDY - 1

United States

Coca-Cola Co. v. Commissioner (Eleventh Circuit Appeal, 2026)



Background

The Coca-Cola case involves one of the largest transfer pricing disputes in U.S. history. The controversy centers on the allocation of profits between The Coca-Cola Company and its foreign manufacturing affiliates that used Coca-Cola's trademarks, formulas, and other valuable intangible property. The IRS argued that the foreign affiliates retained excessive profits and that a larger share should have been allocated to the U.S. parent under Section 482.

Why It Matters in 2026

Following Tax Court decisions largely favouring the IRS, Coca-Cola appealed to the Eleventh Circuit in 2026. The case has become a major test of IRS authority to reallocate income derived from intangible assets and to depart from transfer pricing methodologies that were accepted in prior audit settlements. The potential exposure exceeds $20 billion when subsequent years are considered.

Key Transfer Pricing Issues

- Allocation of residual profits attributable to intellectual property.
- Reliance on historical transfer pricing settlements and administrative practice.
- Application of the arm's-length standard to foreign-licensed manufacturers.
- Treatment of "blocked income" and foreign legal restrictions on royalty payments.

Key Takeaway

The Coca-Cola litigation reinforces that multinational enterprises cannot assume a historical IRS settlement or audit position will protect future years. Companies with significant IP licensing arrangements should continually reassess whether transfer pricing outcomes remain supportable under current facts and economics.

CASE STUDY - 2

United States

Facebook, Us Tax Court, May 2025, T.C. Opinion No. 164, T.C. No. 9, Docket No. 21959-16

Background

In 2010, Facebook entered into a cost-sharing arrangement (CSA) with its Irish affiliate, Facebook Ireland. Under the arrangement, Facebook Ireland obtained rights to exploit Facebook's technology and related intangibles outside the United States and Canada in exchange for making platform contribution payments and sharing future development costs. The dispute centred on how much Facebook Ireland should have paid for those rights.

What Happened

The IRS argued that Facebook significantly undervalued the intellectual property and other contributions transferred to Facebook Ireland. In its notice of deficiency, the IRS increased the value of the platform contribution transaction from roughly $6.3 billion to as much as $21.15 billion, resulting in additional U.S. taxable income. Facebook challenged the adjustment, arguing that the IRS's valuation methodology and assumptions overstated the value of the transferred rights.

What the Court Held:

The Tax Court held that the income method under the 2009 cost-sharing regulations was the appropriate method for valuing the transaction, but it found that the IRS's valuation inputs were flawed and produced an unreasonable result. The court rejected parts of both parties' expert analyses, adopted its own adjustments to the projections and assumptions, and determined a value lower than the IRS's position. The court also upheld the validity of the 2009 cost-sharing regulations and rejected Facebook's broader legal challenges to those rules.

CASE STUDY - 3

United States

Perrigo Co. v. United States, the U.S. District Court for the Western District of Michigan

Background

Perrigo, a U.S.-based pharmaceutical company, transferred its supply and distribution agreement for a generic omeprazole product to its Israeli affiliate as part of a global business restructuring. The transaction was undertaken to expand Perrigo's international operations and was priced using transfer pricing principles. However, the IRS challenged the arrangement, alleging that it lacked economic substance and that the transfer price was not at arm's length.

What Happened

The IRS (U.S. tax authority) argued that the transfer was done mainly for tax benefits and did not have real business substance. It also claimed that the transfer price was not at arm's length and shifted the income earned by the Israeli company back to Perrigo's U.S. entity. As a result, Perrigo paid significant taxes, penalties, and interest and later filed a claim for a refund.

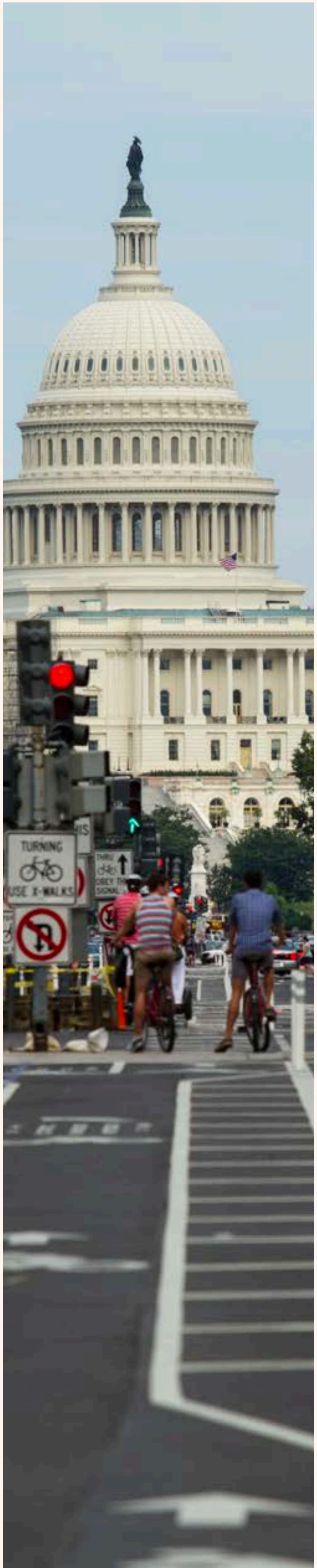
What the Court Held:

The U.S. District Court ruled in favour of Perrigo, holding that the transaction had genuine economic substance and was driven by legitimate commercial objectives rather than tax avoidance. The Court rejected the IRS's reliance on hindsight, emphasizing that arm's-length pricing must be evaluated using contemporaneous (ex-ante) projections rather than actual post-transaction results. It further upheld Perrigo's transfer pricing methodology with reasonable adjustments, rejected the IRS's penalties, and held that Perrigo was entitled to a refund of the taxes, penalties, and interest paid. The decision reinforces the importance of commercial substance, contemporaneous documentation, and ex ante valuation in transfer pricing disputes.

CASE STUDY - 4

United States

Medtronic, Inc. v. Commissioner (Eighth Circuit, 2025–2026)



Background

Medtronic's long-running dispute concerns the royalty rates paid by its Puerto Rican manufacturing subsidiary for the use of valuable medical device technology owned by the U.S. parent. The case focuses on determining the best transfer pricing method for highly valuable intangibles.

What Happened

In September 2025, the Eighth Circuit again vacated the Tax Court's decision and remanded the case for further analysis. The court rejected the Tax Court's application of an unspecified method and questioned the reliability of both the taxpayer's Comparable Uncontrolled Transaction (CUT) analysis and aspects of the IRS's Comparable Profits Method (CPM) approach.

Key Transfer Pricing Issues

- Selection of the "best method" under Section 482.
- Reliability of CUT analyses involving unique intangibles.
- Application of the CPM to high-value intellectual property.
- Allocation of returns between entrepreneurial IP owners and manufacturers.

Key Takeaway

Medtronic continues to demonstrate the difficulty of pricing unique intangibles using traditional transfer pricing methods. The case underscores the importance of robust comparability adjustments and clear support for method selection when significant IP profits are involved.

CASE STUDY - 5

United States

Microsemi Corp. v. Commissioner (Settlement, 2026)

Background

Microsemi faced IRS challenges to both the following:

1. Cost-sharing platform contribution transactions (PCTs); and
2. Intercompany sales of tangible products between the U.S. parent and an Irish affiliate.

The controversy arose from IRS examinations covering multiple tax years and involved substantial Section 482 adjustments and penalties.

What Happened

Rather than proceeding to trial, the parties settled in early 2026. The settlement addressed the valuation of platform contribution transactions, tangible goods transfer pricing, stock-based compensation issues, and associated penalties. The settlement is noteworthy because it followed closely behind the Facebook decision and reflects continued IRS focus on cost-sharing arrangements.

Key Transfer Pricing Issues

- Valuation of platform contribution transactions.
- Integration of acquired intangibles into existing cost-sharing arrangements.
- Transfer pricing for tangible goods sold to foreign affiliates.
- Application of substantial valuation misstatement penalties.

Key Takeaway

Although settled without a precedential court opinion, Microsemi illustrates that cost-sharing arrangements remain among the IRS's highest-risk transfer pricing areas and that valuation support for platform contributions continues to receive intense scrutiny.

Australia

Australia's transfer pricing reforms, introduced as part of the broader OECD BEPS agenda, signal a significant increase in compliance expectations for large multinational groups. The changes reflect the Australian Taxation Office's (ATO) continued focus on transparency and risk assessment, meaning businesses will need to devote greater resources to documentation, data management, and reporting.

1. **Enhanced Compliance and Reporting Requirements**
    - **Expanded Local File requirements.** The ATO now expects more comprehensive transfer pricing documentation, particularly in areas it considers high risk, such as intercompany financing, intangibles, and business restructurings. Importantly, certain entities may still be required to prepare and file an Australian Local File even where no related-party transactions exist. As a result, businesses should not assume that limited intercompany dealings translate into reduced compliance obligations and should be prepared for increased documentation requirements.
    - **Public country-by-country reporting.** Large multinational groups will now be required to publicly disclose jurisdiction-wise information relating to taxes paid, revenues, and profits. The first reports, covering financial years ending 30 June 2025, must be submitted by 30 June 2026 and will be published by the ATO. Since Australia's disclosure requirements extend beyond the OECD and EU frameworks, many groups may need to gather and validate additional data. Given the limited exemptions available and the significant penalties for non-compliance, businesses should begin assessing reporting readiness well in advance to ensure accurate and timely disclosures.
2. **Documentation Has Become Central to Compliance**

    Australia places significant importance on transfer pricing documentation as a key compliance tool. Taxpayers are expected to prepare contemporaneous documentation that demonstrates their related-party transactions comply with the arm's length principle.

Proper documentation reduces the risk of an Australian Taxation Office (ATO) audit and helps taxpayers defend their transfer pricing position.

Failure to maintain adequate documentation can result in several penalties. Taxpayers may face late-filing penalties if documentation or tax returns are not submitted on time, transfer pricing penalties of up to **50% of the tax avoided** where incorrect pricing leads to an adjustment, and administrative penalties for making false or misleading statements, taking positions that are not reasonably arguable, or failing to provide required documents. These penalties highlight the importance of maintaining accurate and timely transfer pricing documentation.

CASE STUDY - 1

Australia

PepsiCo, Inc. (Apex Court of Australia)

Background

The case concerned whether payments made under PepsiCo's Australian beverage bottling and distribution arrangements included a royalty component subject to Australian royalty withholding tax and, consequently, diverted profits tax. The dispute arose because the arrangements involved both the supply of concentrate and the use of PepsiCo's intellectual property.

What Happened

The Commissioner of Taxation argued that part of the payments for concentrate should be treated as royalties for the use of PepsiCo's intellectual property. PepsiCo contended that the payments were solely for the purchase of concentrate under arm's-length, integrated commercial arrangements and did not represent consideration for intellectual property rights.

What the Court Held:

The High Court of Australia ruled in favour of PepsiCo, holding that the payments were not royalties because they were not made "as consideration for" the use of intellectual property. The Court also held that PepsiCo had not derived the alleged royalty income, meaning neither royalty withholding tax nor diverted profits tax applied. The decision reinforces that cross-border payments must be characterised based on the commercial substance of the overall arrangement.

CASE STUDY- 2

Australia

S.N.A Group Pty Ltd
[2026], FCAFC 10
(Full Federal Court of
Australia, 2026)

Background

The Coronis real estate group separated its operating businesses from entities holding valuable assets such as trademarks, rent rolls, and goodwill. After earlier written agreements expired, the operating companies continued using those assets and claimed tax deductions for service fees paid to the asset-owning trust entities.

What Happened

The taxpayers argued that, even after the written agreements ended, there was an implied or inferred contractual obligation to pay service fees for the use of the trust assets. The primary judge accepted this argument and held that contracts could be inferred from the parties' conduct, allowing the deductions. The Commissioner appealed, arguing that there was no evidence of any actual agreement or communication establishing such contractual liabilities.

What the Court Held:

The Full Federal Court allowed the Commissioner's appeal. It held that there was no objective evidence showing mutual assent between the operating companies and the trusts to enter into contracts requiring payment of the claimed service fees. The parties' subjective belief that fees should be paid was insufficient; contract law requires outward communication of agreement on identifiable terms. Because no inferred contracts existed, the taxpayers failed to establish the contractual liabilities underlying the deductions.

Transfer Pricing & Artificial Intellengence

Artificial intelligence is fundamentally changing how multinational enterprises create value, make decisions, and generate profits. Historically, business value was driven primarily by people, physical assets, and intellectual property. However, AI is increasingly performing tasks that once relied on human expertise, including data analysis, forecasting, decision-making, content creation, and customer interaction. As AI becomes more deeply integrated into business operations, the traditional drivers of value creation are evolving.

This shift presents important challenges for international tax and transfer pricing frameworks, many of which were designed around a human-led business environment. Transfer pricing rules are based on the arm's length principle, which assumes that transactions between related entities can be priced by reference to arrangements between independent parties. However, determining how value should be attributed when AI systems contribute significantly or even predominantly to business outcomes is far less straightforward. As a result, businesses and tax authorities are increasingly confronted with questions regarding the ownership of AI-driven value, the allocation of profits, and the continued suitability of existing transfer pricing principles in an AI-enabled economy.

If AI creates the value, then who should receive the profit it generates?

How AI is changing the business

Artificial intelligence is no longer limited to a few specialised functions, it is increasingly embedded across the entire business value chain. From research and development and product design to marketing, customer service, manufacturing, financial analysis, and supply chain management, AI is helping organisations automate processes, improve efficiency, and make faster, data-driven decisions.

Two forms of AI are driving much of this transformation. **Generative AI** can create new content, such as text, images, software code, reports, and product designs, by learning from vast amounts of data. At the same time, **AI agents** can perform tasks autonomously, including interacting with suppliers, managing inventory, supporting customers, monitoring transactions, and coordinating operational activities with minimal human intervention. In many respects, these systems function like digital employees that can operate continuously across multiple jurisdictions and time zones.

The growing use of AI is reshaping traditional business models and redefining how value is created within multinational groups. By enabling faster decision-making, reducing manual errors, and improving responsiveness to market conditions, AI is becoming an increasingly important source of competitive advantage. Consequently, **businesses that successfully integrate AI into their operations may achieve greater efficiency and profitability, while also raising new questions regarding the allocation of functions, risks, and value for transfer pricing purposes.**

Following the value: cost savings and extra profit

If AI is creating value for a multinational group, an important question arises: which countries should be entitled to the resulting benefits? A logical approach is to allocate the economic gains generated by AI – whether in the form of cost savings or increased profits – to the jurisdictions that contributed to developing, maintaining, and enhancing the AI system. This ensures that the rewards from AI are aligned with the locations where value is actually created.

Cost Savings Generated by AI

One of the most immediate benefits of AI is its ability to reduce operating costs by automating tasks, improving efficiency, and minimising errors. For example, assume a company's operating costs decrease from USD 10 million to USD 7 million after implementing AI, resulting in savings of USD 3 million.

If the AI were developed through contributions from multiple countries: 50% from the United States, 30% from India, and 20% from Singapore, then the resulting savings could be allocated in the same proportion:

Contributor	Share	Amount allocated (In USD)
United States	50%	1.5 million
India	30%	0.9 million
Singapore	20%	0.6 million

Under this approach, each jurisdiction is rewarded based on its contribution to the AI capability that generated the efficiency gains, creating a direct link between value creation and value allocation.

Additional Profits Generated by AI

AI can also increase revenues and profitability by improving productivity, enhancing customer experiences, accelerating innovation, and enabling better business decisions. Suppose a company's profit increases from USD 20 million to USD 35 million after adopting AI, generating an additional USD 15 million of profit. If Switzerland contributed 40% to the development of the AI system, India 35%, and Singapore 25%, the incremental profit could be allocated accordingly:

Contributor	Share	Amount allocated (In USD)
Switzerland	40%	6 million
India	35%	5.25 million
Singapore	25%	3.75 million

This ensures that the profits generated through AI are attributed to the jurisdictions that played a meaningful role in creating the underlying technology and capabilities.

In both scenarios, the underlying principle remains the same: economic benefits should follow value creation. Whether AI generates efficiencies through cost reductions or drives growth through increased profits, the resulting gains should be allocated in proportion to the contributions made by each jurisdiction. **Such an approach aligns with the broader objective of transfer pricing to ensure that profits are taxed where the underlying value is created and that all contributing entities are appropriately compensated.**

The DEMPE Framework: Following Where AI Value Is Created

Determining who should be entitled to the profits generated by AI is becoming increasingly complex as AI systems are often developed, improved, and used across multiple jurisdictions. To address this challenge, the OECD relies on the **DEMPE framework – Development,** Enhancement, Maintenance, Protection, and Exploitation – which helps identify the specific contributions made by different entities within a multinational group to the creation and use of intangible assets.

Under this approach, profits are not allocated solely based on legal ownership of the AI system. Instead, they are attributed to the entities that perform and control the key value-creating functions. For example, one country may develop the AI model, another may continuously improve and train it, a third may maintain and protect the underlying technology, while a fourth may commercially exploit it to generate revenue. The DEMPE framework seeks to ensure that each participant is rewarded in line with its actual contribution to the AI ecosystem. As a result, profit allocation becomes more closely aligned with economic substance and value creation rather than merely contractual arrangements or ownership rights.

Why Traditional Transfer Pricing Methods May Be Insufficient

Traditional transfer pricing methods, such as the Comparable Uncontrolled Price (CUP) Method, Cost Plus Method, and Transactional Net Margin Method (TNMM), are generally based on the assumption that comparable transactions between independent parties can be identified and used to benchmark related-party dealings. However, applying these methods to AI-related transactions presents significant practical challenges.

Unlike conventional products or services, AI systems are often highly customised, continuously evolving, and dependent on unique combinations of data, algorithms, computing infrastructure, and human expertise. Consequently, it is often difficult to find genuinely comparable third-party transactions. The challenge becomes even greater when multiple entities located in different countries contribute simultaneously to the development, enhancement, deployment, and commercialisation of a single AI system.

As AI becomes a more significant driver of business value, the limitations of traditional transfer pricing methods become increasingly apparent. Businesses and tax authorities may therefore need to place greater reliance on value-creation analyses, DEMPE assessments, and alternative profit-allocation approaches to ensure that transfer pricing outcomes accurately reflect the economic reality of AI-driven business models.

A More Suitable Approach: The Transactional Profit Split Method (TPSM)

The unique characteristics of AI-driven businesses often make it difficult to apply traditional transfer pricing methods, particularly where multiple entities across different jurisdictions contribute to the development, enhancement, and commercialisation of a single AI system. In such cases, many transfer pricing practitioners and policymakers view the Transactional Profit Split Method (TPSM) as a more appropriate approach because it focuses on how value is actually created rather than relying on external comparables that may not exist.

Under TPSM, the total profit generated from an activity is allocated among participating entities based on their relative contributions to the value-creation process. For example, if an AI system generates USD 100 million of profit and the contributions to its development and deployment are assessed at 40% for the United States, 35% for India, and 25% for Brazil, the profit could be allocated as follows:

Contributor	Share	Amount allocated (In USD)
United States	40%	40 million
India	35%	35 million
Brazil	25%	25 million

The key advantage of TPSM is that it recognises the collaborative nature of AI value creation. Rather than attributing profits solely to the legal owner of the technology or to a single jurisdiction, it considers the contributions made throughout the AI lifecycle, including development, training, enhancement, maintenance, and commercial exploitation. As a result, the method is often better suited to AI-driven business models where value is created collectively by multiple entities and where traditional benchmarking approaches may not adequately capture economic reality.

From a transfer pricing perspective, TPSM therefore provides a framework that more closely aligns profit allocation with actual value creation, making it increasingly relevant in an environment where AI plays a central role in generating business profits.

When AI Interacts with AI: A New Transfer Pricing Challenge

As AI becomes more sophisticated, businesses are increasingly deploying systems that can interact and make decisions with little or no human involvement. For example, an AI-powered procurement system in one country may automatically negotiate prices, place orders, and manage supplier relationships with an AI-driven supply chain system located in another jurisdiction. In such situations, the traditional concept of value creation becomes more difficult to assess because the transaction is being driven primarily by machines rather than people.

This raises important transfer pricing questions. If AI systems are creating value through autonomous interactions, tax authorities will need to determine which entities are responsible for developing, controlling, and managing those systems, who bears the associated risks, and which jurisdictions ultimately benefit from the outcomes generated. The answers to these questions will play a critical role in determining how profits should be allocated among group entities. Consequently, AI-to-AI transactions are likely to become an increasingly important area of focus for multinational enterprises and tax administrations alike.

Why the OECD Transfer Pricing Guidelines may need to evolve

The current OECD transfer pricing framework was developed largely with traditional business models in mind, where value creation is driven primarily by people, tangible assets, and conventional intangible property. While these principles remain relevant, the rapid adoption of AI is creating new business models and value-creation mechanisms that were not fully contemplated when the existing rules were designed.

As AI continues to transform how businesses operate, there may be a need for more specific guidance on issues such as AI ownership, DEMPE functions relating to AI systems, the allocation of AI-generated profits, and the treatment of machine-to-machine transactions.

Clearer guidance would help businesses apply transfer pricing principles more consistently while providing tax authorities with a framework for assessing AI-related arrangements.

The broader implication is that transfer pricing rules will need to evolve alongside technological developments. Governments, policymakers, and businesses will need to work collaboratively to ensure that international tax frameworks continue to allocate profits in a manner that reflects genuine value creation, promotes certainty for taxpayers, and ensures that jurisdictions receive an appropriate share of tax revenues in an increasingly digital and AI-driven economy.

In conclusion

AI is fundamentally changing how multinationals create value and earn profit. Transfer pricing systems built around human labour and physical assets are no longer enough for an AI-driven world. Because AI can independently perform valuable work and drive real business success, new approaches are needed to share profit fairly.

The DEMPE framework and the Transactional Profit Split Method offer practical answers. As AI keeps advancing, international tax and transfer pricing rules must advance with it, preserving fairness, transparency, and economic accuracy. Adapting transfer pricing to AI will help both businesses and tax authorities thrive in an increasingly digital and interconnected world.

Transfer Pricing: Key Litigation Themes

Arm's Length Principle • Methodologies • Intangibles • Documentation

Whenever two companies that belong to the same group buy from or sell to each other across borders, goods, services, the use of a brand, or a loan, someone has to decide what price to put on that transaction. That price is called the transfer price, and because the two sides are related, the price they choose can shift profit (and therefore tax) from one country to another. More than 60 countries now have transfer pricing rules, all built on this arm's length principle. Tax authorities can adjust a price if they believe it is not at arm's length even when no one set out to avoid tax. To stay on safe ground,companies must back up their prices with reliable data and an appropriate pricing method, such as comparing market prices directly, adding a margin to cost, working back from a resale price, or looking at profits. Over the years, these rules have moved steadily toward greater transparency and consistency, with the OECD Transfer Pricing Guidelines becoming the global benchmark that many countries, including several in Europe, now follow.

The Key rule

> "Transactions between companies in the same group should be priced as if the two sides were strangers negotiating at arm's length. This is known as the arm's length principle, and it is the foundation of transfer pricing rules worldwide."

How Do You Know a Price is Fair?

The test is comparison. Most rules ask you to line up a related-party transaction against a similar deal between independent parties. To judge whether two transactions are truly comparable, tax authorities weigh several factors: the terms of the deal; the functions each side performs and the risks it takes on (the "FAR" analysis); the nature of the goods or services; the economic conditions of the market; and the business strategies of the companies. Where meaningful differences exist that would affect the price, those differences should be adjusted for, so the comparison stays fair and reliable.

Matching Like with Like

Comparison works best when you are comparing identical products or services. When an exact match isn't available, sensible adjustments can bridge the gap. Gold is a simple example: an ounce of 10-carat gold is worth less than an ounce of 20-carat gold, so the price can be adjusted for purity. Adjustments like these keep the analysis accurate and fair.

Where and How a Deal Happens Matters

Prices can swing widely depending on where a transaction sits in the supply chain, the conditions of the market, and the geography involved. A producer selling to a wholesaler is not the same as a producer selling to a retailer, and prices differ between countries because of local economic conditions and demand. Market share and bargaining power play a part too. For a comparison to hold up, the benchmark transactions should take place at a similar market level and under comparable economic, geographic, and commercial conditions.

Putting prices to the test – complex transactions, Complex Questions

Tax authorities routinely check the prices charged between related parties to see whether they meet the arm's length standard, comparing them against prices in similar deals between independent parties. This review may happen during a tax audit, or taxpayers may be asked to carry out the analysis themselves before filing their returns. The structured process used to evaluate and compare prices is called a transfer pricing method.

Choosing the best method

Most systems follow a "best method" rule: use the method that gives the most reliable arm's length result for the data you have and the nature of the transaction. The Comparable Uncontrolled Price (CUP) method is usually preferred because it compares prices directly with similar deals between unrelated parties. Other common choices include the Cost Plus Method, the Resale Price Method, and profit-based approaches such as the Comparable Profits Method, the Transactional Net Margin Method (TNMM), and the Profit Split Method. **When using a profit-based method, companies pick the most appropriate "tested party" usually the side with simpler functions and lower risks and a suitable profitability measure, such as net profit or return on assets.**

Drawing on several years of reliable data can make the analysis even more accurate. The table below provides an overview of the commonly used transfer pricing methods, along with their typical applications and key considerations:

Transfer Pricing Method	Generally Suitable Where	Primary Focus	Practical Considerations
Comparable Uncontrolled Price (CUP)	Reliable comparable prices for similar products, services or financial transactions are available.	Direct comparison of prices charged in comparable uncontrolled transactions.	Often considered the most direct approach where a high degree of comparability exists, although reliable comparables may not always be readily available.
Resale Price Method (RPM)	A related-party distributor purchases goods and resells them to independent customers with limited value addition.	Gross resale margin earned by the reseller.	May be appropriate for routine distribution arrangements where the reseller performs relatively limited functions and comparable gross margins can be identified.
Cost Plus Method (CPM)	Manufacturing transactions where costs can be reliably identified.	Mark-up earned over costs incurred.	Commonly considered where one party performs routine manufacturing functions and an appropriate cost mark-up can be established.

Transactional Net Margin Method (TNMM)	Gross margin comparisons are less reliable, but overall profitability can be benchmarked.	Net profit margin relative to an appropriate base (e.g., costs, sales or assets).	Frequently applied where detailed product-level comparables are difficult to obtain. The outcome, however, depends significantly on the selection of the tested party, profit level indicator (PLI) and comparable companies.
Profit Split Method (PSM)	Multiple related parties make unique and interdependent contributions, making one-sided methods less reliable.	Allocation of combined profits based on each party's relative contribution.	May be considered where transactions are highly integrated or involve valuable intangibles, although identifying an appropriate profit allocation basis often requires significant judgment.

Intangibles: Patents, Brands and Know-How

Valuable intangible assets, patents, trademarks, and intellectual property are often one of a kind, which makes finding comparable transactions difficult. Their value may show up in the price of goods and services or in royalty payments for their use. Because comparable data is scarce, pricing intangibles is genuinely challenging. Where no comparison exists, methods such as the profit split method can be used to allocate the value the intangible creates.

Services within the Group

For services between related parties, two questions decide everything: were the services actually provided, and is the price reasonable? Tax authorities may reject a charge if the service brought no real benefit to the recipient, Especially “shareholder” or stewardship activities, which are done for the parent company rather than its subsidiaries. Where services are genuine, the charge must meet the arm's-length standard. Routine support such as accounting, legal, and IT is often priced on a cost basis, while services tied to the company's core business may need an appropriate profit margin built in.

Sharing the Cost of Building Something Together

Multinational groups often sign Cost Sharing Agreements (CSAs) or Cost Contribution Arrangements (CCAs) to pool the costs and benefits of developing or acquiring assets, frequently intangibles like intellectual property.Costs are split among the participants in line with the future benefits each expects, every participant can use the resulting asset without paying extra royalties. These arrangements must be properly documented in written contracts, with the split based on reasonable forecasts rather than hindsight. Tax authorities may also scrutinise contributions of existing assets, the costs included in the arrangement.

Defending the Price: The Role of Transfer Pricing Documentation

Transfer pricing documentation is the foundation of compliance for cross-border transactions between related parties. It enables multinational enterprises (MNEs) to demonstrate that their transfer prices comply with the **arm's length principle**, while allowing tax authorities to assess risks and verify compliance.

Under BEPS Action 13, most jurisdictions have adopted a three-tier documentation framework consisting of the Master File, Local File, and Country-by-Country (CbC) Report. However, disputes generally focus not on the existence of these documents, but on whether they were prepared contemporaneously, contain sufficient evidence, and adequately support the pricing adopted.

Transfer pricing disputes commonly arise in relation to loss-making contract manufacturers, intra-group services, related-party loans, and royalty or commodity transactions where pricing is difficult to justify. They are often driven by inadequate documentation, which may lead to estimated adjustments, shift the burden of proof to the taxpayer, and result in penalties even when no transfer pricing adjustment is ultimately made.

Accordingly, well-prepared and contemporaneous transfer pricing documentation is not only a statutory requirement but also a critical safeguard against audits, adjustments, and penalties.

Why Documentation Has Become the Centrepiece of Transfer Pricing Litigation

Three structural shifts explain why documentation now sits at the heart of transfer pricing disputes across jurisdictions. First, deadlines have compressed to the point that documentation must effectively be contemporaneous – prepared before or at filing and producible within a prescribed time limit.

Second, penalties have been re-engineered so that they bite on the documentation failure itself, independent of whether the pricing was ultimately arm's length. Third, and most consequentially, deficient documentation now shifts the burden of proof, exposing taxpayers to near-automatic adjustments.

Collectively, these developments mean that documentation is no longer simply a compliance requirement; it has become one of the primary drivers of transfer pricing litigation.

The following chapter provides a jurisdiction-wise overview of the transfer pricing documentation requirements applicable in each country covered in this guide.

Documentation and penalties

Many countries impose significant penalties for getting transfer pricing wrong, and those penalties can grow with the size of the adjustment. The best defence is preparation: taxpayers are generally expected to have their transfer pricing documentation ready before filing their returns. Miss the deadline and you may face additional penalties, with tax authorities free to disregard information handed over late. Some countries go further; in India, for instance, transfer pricing documentation must be certified by a chartered accountant before the return is filed.

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GLOBAL FIRM.

THAT UNLOCKS VALUE FOR

Global Business.

120+
Countires Served

12,000+
Professionals Globally

1,000+
Global Clients

What we do

- Global Tax & Compliance
- Global Transfer Pricing
- AI & Cyber Security
- Risk Advisory
- Accounting Outsourcing
- Advisory & Strategy
- Assurance & IT Audit
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