World Bank publishes Transfer Pricing Handbook for developing countries

Tax Alert

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The Handbook, which comprises eight chapters (outlined below), does not purport to be a substitute or an alternative to the existing OECD Guidelines and UN Manual. Rather, the Handbook draws on the practical lessons learned by the World Bank Group and other international organisations in working with governments around the globe to design and implement transfer pricing rules. In this regard, the Handbook provides technical guidance and country examples to assist policy makers and practitioners with the design, implementation and administration of transfer pricing rules based on international practices.

Importantly, in the current international tax environment, the Handbook recognises the need to balance revenue collection and investment climate objectives. In this context, the Handbook explores the key practical challenges faced and the solutions adopted by developing countries in implementing transfer pricing rules based on international practices, whilst highlighting the importance of providing access to mechanisms for avoiding and resolving transfer pricing disputes.

The eight chapters of the Handbook are as follows:

**Chapter 1: Transfer pricing, corporate strategy, and the investment climate**

This chapter discusses approaches to regulating transfer pricing, the costs and benefits thereof and the necessary pre-conditions for a country to successfully implement transfer pricing rules that appropriately balance revenue collection objectives and investment climate considerations. Importantly, for multinationals monitoring transfer pricing trends globally, this chapter concludes that “…for the majority of countries, developed or developing, the practical difficulties associated with the implementation of the arm’s-length principle will generally be significantly outweighed by the advantages of adopting the arm’s-length principle…”

**Chapter 2: The international legal framework**

This chapter explains the role of tax treaties and other international instruments and sources of guidance in shaping transfer pricing rules and practices. The important role of tax treaties in providing a mechanism for eliminating double taxation is highlighted, along with a discussion as to the differing role the OECD Guidelines can play in shaping and interpreting transfer pricing legislation, influencing practice and their consideration by the judiciary.
Chapter 3: Drafting transfer pricing legislation

This chapter provides practical guidance on drafting transfer pricing legislation based on the arm's length principle. The chapter begins by discussing the importance of formulating an appropriate policy, and then discusses how that policy can be implemented, drawing on numerous country examples.

Chapter 4: Applying the arm’s-length principle

This chapter provides practical guidance for application of the arm’s length principle. It draws on the OECD Guidelines, whilst at the same time using country specific examples to illustrate key concepts and different approaches.

Chapter 5: Selected issues in transfer pricing

This chapter contains high level overviews of selected issues in transfer pricing, such as; intra-group services, financial transactions, transfer pricing and customs valuation etc.. References are made throughout to useful publications, guidance and tools.

Chapter 6: Promoting taxpayer compliance through communication, disclosure requirements, transfer pricing documentation, and penalties

Transfer pricing documentation and disclosure requirements are proliferating globally. This chapter aims to provide guidance as to the different approaches that can be adopted by countries, along with explanations as to the advantages and disadvantages of each.

Chapter 7: Avoiding and resolving transfer pricing disputes

This chapter recognises that transfer pricing disputes can be costly and time consuming for all parties involved. The importance of clear and sufficiently detailed legislation and guidance in ensuring consistency and reducing uncertainty is highlighted, along with the role of safe harbours and advance pricing agreements as tools for avoiding transfer pricing disputes. Importantly, given the increased focus on transfer pricing globally and expectations of an increase in disputes in the wake of BEPS, the crucial role of MAP in helping avoid economic double taxation, not only as a dispute resolution mechanism but also “also as a form of quality control for transfer pricing administration” is highlighted.

Chapter 8: Developing a transfer pricing audit program

This chapter provides practical guidance to tax administrations on setting up a transfer pricing audit program. It covers institutional arrangements and the use of risk based assessment, amongst other things.

In the current international tax environment, the publication of this Handbook is a positive development for multinationals with operations, or looking to establish operations, in one or more developing countries. As an ever increasing number of countries look to implement or amend transfer pricing legislation, promoting them to do so in a manner that is consistent with international principles is paramount to ensuring certainty, avoiding widespread economic double taxation and avoiding unnecessarily high costs of doing business.

Read the full handbook.

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