

**Workshop on UN Course on Transfer Pricing  
Panama City, Panama, 10-12 December 2014**

**BACKGROUND NOTE**

**Introduction**

Rapid advances in technology, transportation and communication have given rise to a large number of multinational enterprises (MNEs), which have the flexibility to place their enterprises and activities anywhere in the world. A significant volume of global trade nowadays consists of international transfers of goods and services, capital and intangibles -group -group trade is growing steadily and arguably accounts for more than 30 per cent of all international transactions. The structure of transactions within an MNE group is determined by a combination of the market and group-driven forces, which can differ from the open market conditions operating between independent entities. A large and growing number of international transactions are therefore no longer governed entirely by market forces, but driven by the common interests of the entities of a group.

Transfer pricing refers to the mechanism by which cross-border intra-group transactions are priced. In itself, it is a normal incident of multinational enterprises operations it allows MNEs to determine which parts of the group are profit- or loss-making, for example. However, if the method used to determine the price of such transactions, for whatever reason, does not reflect their true value, profits might effectively be shifted to low-tax or no-tax jurisdictions and losses and deductions to high-tax jurisdictions. This unfairly deprives a country of tax revenue, reducing the amount of resources available for funding its development objectives. Apart from tax base erosion, it can also lead to double taxation, which might undermine the investment climate, which is a critical factor for the promotion of foreign direct investment.

Both the *United Nations Model Double Taxation Convention between Developed and Developing Countries* (the UN Model) and the



## **UN Course on Transfer Pricing**

The UN TP Course is based on the Manual and it is intended to facilitate its reading. It provides an introduction to transfer pricing principles and methodologies and deals with the main practical issues faced by developing countries in applying these principles and methodologies. Topics covered include: the business framework and legal environment; the principle; comparability analysis; transfer pricing methods; documentation; audits and dispute resolution. The course includes several examples and comprehensive case studies to enable