



UN Primer on Transfer Pricing
Lusaka, Zambia, 17-18 June 2015

BACKGROUND NOTE

Introduction

Advances in technology, transportation and communication have given rise to a large number of multinational enterprises (MNEs), which have the flexibility to place their companies and activities anywhere in the world. A significant volume of global trade nowadays consists of international transfers of goods and services, capital and intangibles (such as intellectual property) within an MNE group. Such transfers are called "intra-group transactions". There is evidence that intra-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

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Transfer pricing is particularly important for developing countries as MNEs often operate in their economies. The difficulty is in applying the arm's length principle in practice, especially as many MNEs have unique and hard to value intangibles or engage in complex transactions involving many different elements that would not be replicated in any market. Addressing these practical complexities relies heavily on the availability of data and expert skills, often posing special difficulties for developing countries, with the relevant data often being not available, too expensive, and requiring special skills to be adjusted or otherwise properly interpreted.

UN Practical Manual on Transfer Pricing for Developing Countries

In response to the above-mentioned challenges faced by developing countries, the United Nations Committee of Experts on International Cooperation in Tax Matters (the Committee) included the practical issues in transfer pricing as one of its main areas of work. This resulted in a major output, namely the *United Nations Practical Manual on Transfer Pricing for Developing Countries* (the UN TP Manual), which was adopted by the Committee during its 2012 annual session (Geneva, 15-19 October 2012) and launched during a special meeting of the United Nations Economic and Social Council (ECOSOC) on "International cooperation in tax matters" (New York, 29 May 2013).

This hands-on tool addresses the difficulties faced, especially by developing countries, in applying the arm's length principle and some of the *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, as well as the need for clear and practical guidance for these countries on the policy and administrative aspects of applying transfer pricing analysis to some of the transactions of MNEs.

UN Capacity Development Programme in International Tax Cooperation

In order to disseminate and operationalize the UN TP Manual as a practical tool to support developing countries in dealing with transfer pricing issues, the United Nations capacity development work in the area of international tax cooperation focuses on implementing activities aimed at strengthening the capacity of national tax authorities in these countries to apply the arm's length principle, which is reflected in both the UN and OECD Models, drawing on the Manual. This contributes also to a broader objective, which is to strengthen the capacity of these countries to develop more effective and efficient tax systems, which support the desired levels of public and private investment, and to combat tax evasion.

In several resolutions, ECOSOC has recognized the work and progress made by the Financing for Development Office (FfDO) in developing, within its mandate, a capacity development programme in international tax cooperation. Lately, in its resolution 2014/12, ECOSOC requested FfDO, in partnership with other stakeholders, to continue its work in this area and further develop its activities.

To this end, FfDO focuses on cooperation with regional organisations of tax administrations. Due to their network and knowledge of tax systems and tax administrations in their respective regions, they are uniquely positioned to best identify the demand for capacity development activities,

