



# AMOUNT B

INTERNATIONAL TAX FORUM

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## Amount B – Mandate

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*The application of the arm's length principle to **in-country baseline marketing and distribution** activities will be **simplified and streamlined**, with a particular **focus on the needs of low capacity countries***

- AIM: Reduce and prevent disputes on pricing of common marketing and distribution arrangements



# Goals and intended benefits

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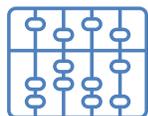
- **Distribution arrangements constitute an area of concern** for tax administrations and taxpayers alike and are a frequent focus of transfer pricing controversy and are often the subject of dispute and require settlement under the MAP.
- Many governments and businesses view improvements in this area as a **key deliverable of Pillar One**.
- Amount B aims to **standardise the remuneration of related party distributors** that perform baseline distribution activities in a manner that is aligned with the arm's length principle;
- Amount B is being designed to:
  - **simplify the administration** of transfer pricing rules for Tax Admins and reduce compliance costs for Taxpayers;
  - **enhance tax certainty** and reduce controversy between Tax admins and Taxpayers;
  - **assist low-capacity jurisdictions** that often face difficulties given a lack of local market comparables.



# Overview of the work



Amount B guidance was **approved and published** by the Inclusive Framework (140+ members) in February 2024 and **incorporated into the OECD Transfer Pricing Guidelines**.



A **pricing matrix** is established to price in-scope baseline distribution transactions **with adjustments in specific cases**.



Available to jurisdictions as an **optional framework** from January 2025, coupled with binding IF political commitment for covered jurisdictions.

The definition of **covered jurisdictions** was published in June 2024, thereby concluding the work on **Phase 1**

A **model competent authority agreement (MCAA)** was approved by the IF in September 2024.



# Political commitment on implementation

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**Political commitment** by IF members to respect the outcome determined under the simplified and streamlined approach (Amount B) to in-scope transactions where applied by a covered jurisdiction

- and to relieve potential double taxation that may arise where there is a bilateral tax treaty in effect
  
- **Covered jurisdictions:**
  - Low- and middle-income IF jurisdictions using the World Bank Group country classifications by income level, excluding EU, OECD, and G20 member countries.
  - Extend to low- and middle-income IF jurisdictions that are OECD and G20 member countries that otherwise satisfy the first criterion and that expressed to the Inclusive Framework a willingness to apply Amount B by March 2024\*
    - Argentina, Brazil, Costa Rica, Mexico and South Africa have expressed that willingness
  - Any non-IF member that meets the first criterion and expresses to the Inclusive Framework a willingness to apply Amount B will be added to the list of covered jurisdictions (upon request and approval by the IF)

\* Some jurisdictions have indicated they may review their political commitment as it relates to the extension to low and middle-income OECD and G20 member countries at the 5-year review point before agreeing to re-extend that element of the political commitment, or if such countries are not signatories of the Amount A MLC by the end of 2025.



# Overview of Amount B

## Scope applies to wholesale distributors

- Including buy/sell entities, commissionaires, sales agents
- Should not own unique and valuable intangibles nor assume economically significant risks
- Segmentation and de minimis retail sales permitted
- Excludes distribution of services, commodities & digital goods
- OPEX/sales quantitative filter

## Priced using a pricing matrix

- Takes account of industry, operating asset intensity (OAS) and operating expense intensity (OES)
- Pricing is adjusted in cases of very low & high functionality
- Includes a geographic adjustment mechanism to address specific country risk differences

## Implementation

- Amount B is now incorporated into OECD TPG as an optional approach
- Adopting jurisdictions can choose to apply Amount B as a rule or taxpayer safe harbour
- While non-binding on counterparty jurisdictions, specific measures & guidance provide tax certainty



SCOPE



# Scope



## KEY FEATURES

### Applies to wholesale distributors including, buy/sell, commissionaires and sales agents

- No unique and valuable intangibles
- No assumption of economically significant risks
- No distribution of commodities or services or digital goods
- No retail above de minimis (20%)
- No non-distribution activities unless segmentable
- **Can be reliably priced using a one-sided method, with the distributor as the tested party**
- No below-baseline activities, measured quantitatively as  $\text{OpEx/sales} < 3\%$
- No distributors with  $\text{OpEx/sales} > [20\% - 30\%]$  (set by implementing jurisdiction)



# PRICING FRAMEWORK



# Pricing overview

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- The Amount B pricing model is based on arm's length returns observed in an underlying global set of comparable independent companies drawn from publicly available information.
- Same principles as comparing independent companies on a case-by-case basis in the traditional transfer pricing approach to these transactions.
- Reduces resources needed in each case given the analysis has been done in advance to cover all companies in scope and is valid in all adopting jurisdictions
- More advance certainty and less disputes



# Pricing approach



## KEY FEATURES

### Simplified and streamlined approach to pricing

- Supersedes most other TP methods - only internal CUPs can supersede Amount B pricing
- Application of common benchmarking search criteria and use of global data to inform the determination of arm's length ranges
- Designed as a pricing matrix which takes account of operating assets, operating expenses and industry as relevant profit driving factors
- Use of return on sales as the applicable net profit indicator
- Includes adjustments to address: (i) distortive returns on OPEX, (ii) country risk in higher risk markets
- Subject to periodic updates



# Pricing matrix

**Table 5.1. Pricing Matrix (return on sales %) derived from the global dataset**

<b>Industry Grouping</b>	<b>Industry Grouping 1</b>	<b>Industry Grouping 2</b>	<b>Industry Grouping 3</b>
<b>Factor Intensity</b>			
(A) OAS 45% or more, any level of OES	<b>3.50%</b>	<b>5.00%</b>	<b>5.50%</b>
(B) OAS 30% to 44.99%, any level of OES	<b>3.00%</b>	<b>3.75%</b>	<b>4.50%</b>
(C) OAS 15% to 29.99%, any level of OES	<b>2.50%</b>	<b>3.00%</b>	<b>4.50%</b>
(D) OAS less than 15%, OES 10% or more	<b>1.75%</b>	<b>2.00%</b>	<b>3.00%</b>
(E) OAS less than 15%, OES less than 10%	<b>1.50%</b>	<b>1.75%</b>	<b>2.25%</b>



## 5.2: Operating expense cross-check

Applies to all in-scope transactions

1. Use ROS calculated under the pricing matrix and compute equivalent Return on OpEx
2. Determine the relevant cap-and-collar range (Table 5.2)
3. Compare results from Step 1 against results from Step 2
4. Make an adjustment to the nearest bound of Step 2 if necessary

**Table 5.2. Operating expense cap-and-collar range**

Factor intensity	Operating expense cap-and-collar range		
	Default cap rates	Alternative cap rates for qualifying jurisdictions	Collar rate
High OAS (A)	70%	80%	10%
Medium OAS (B+C)	60%	70%	
Low OAS (D+E)	40%	45%	



## 5.3: Data availability mechanism for qualifying jurisdictions

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- Where there is no or insufficient data in the global dataset for a particular tested party jurisdiction and that jurisdiction is a qualifying jurisdiction,
- Make an adjustment to the 5.1 (and 5.2) return by **adding**:  
Net Risk Adjustment % for the qualifying jurisdiction (Table 5.3)  
**multiplied by** OAS of the taxpayer (limited to max 85%)



# Application

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- Where a jurisdiction has chosen to allow the application of Amount B
  - Taxpayers will apply and test the actual outcome of in-scope transactions on an *ex post* basis, typically at year-end
  - If Amount B is applied as a safe harbour in the jurisdiction and a taxpayer chooses to apply it, they must consent to having the Amount B approach applied for a minimum of 3 years (unless transactions are no longer in scope, or there is a significant change in the business)



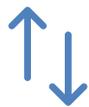
# IMPLEMENTATION



# Implementation



Incorporated into OECD TP Guidelines as an optional framework. Jurisdictions can choose to adopt Amount B from January 2025.



Adopting jurisdictions can apply Amount B domestically as a rule or as a taxpayer safe harbour.



Non-binding on counter-party jurisdictions, except in case of covered jurisdictions. IF political commitment to respect Amount B when applied by a covered jurisdiction.



Amount B can also be used to resolve MAP disputes where both Competent Authorities agree to do so.



# Follow up implementation work

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- **Administrative pricing guidance**

- WP6/FTA MAP Forum are considering whether additional pricing guidance should be developed to ensure consistent application of Amount B among jurisdictions
- Secretariat will gather inputs from stakeholders to identify issues and inform upcoming discussions.

- **Information gathering framework**

- IF will gather information on the practical application of the simplified and streamlined approach once it has been in operation for a period of time.
- The framework to gather such information will be developed in 2024.

- **Pricing Automation Tool**

- A Pricing Automation Tool has been developed to automatically compute the return with minimal data inputs, and it will be published in the OECD website in October



THANK YOU  
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