



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

An Introduction to Transfer Pricing

14th November 2016

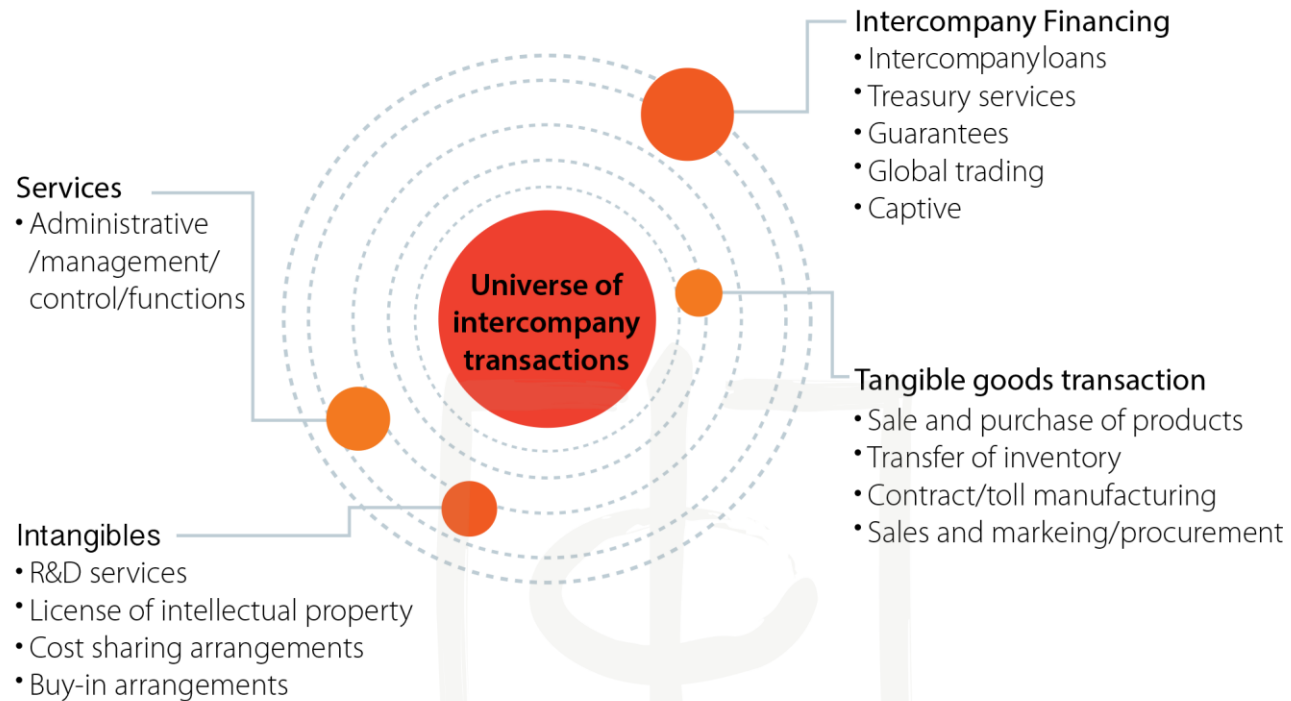
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Section One

What is Transfer Pricing?





A closer look at the Chinese Transfer Pricing Regulations specifically provides guidance on each of these categories of transactions.

Definition & History

Pricing for transactions incurred between related parties

Early 20th Century:

- Often used for tax avoidance
- Slow and gradual development
- Governments quite tolerant

1980s:

- Globalization
- MNCs started to use it to remit profits
- Problems and concerns

Section Two

Recent Changes in Transfer Pricing Regulations



Recent Changes in Legislation

- **Mid-1980s:** Call for tightening of TP regulations
- **Solution in recent years:** Introduction of the BEPS action plan

BEPS = Base Erosion and Profit Shifting

BEPS Development

**G20 Finance
Minister and
Central Bank
Governor Meeting**

➤ **June 2012**

**OECD and G20
countries adopted
a 15-point Action
Plan**

➤ **September 2013**

Final Reports

➤ **October 2015**

Action Plan

Action 5: Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance

Action 6: Preventing the Granting of Treaty Benefits in Inappropriate Circumstances

Action 13: Transfer Pricing Documentation and Country-by-Country Reporting

Action 14: Making Dispute Resolution Mechanisms More Effective

Action 2: Neutralizing the Effects of Hybrid Mismatch Arrangements

Action 3: Designing Effective Controlled Foreign Company Rules

Action 4: Limiting Base Erosion Involving Interest Deductions and Other Financial Payments

Action 12: Mandatory Disclosure Rules

Action 7: Preventing the Artificial Avoidance of Permanent Establishment Status

Action 8~10: Aligning Transfer Pricing Outcomes with Value Creation

15
Actions

Action 1: Addressing the Tax Challenges of Digital Economy

Action 11: Measuring and Monitoring BEPS

Action 15: Developing a Multilateral Instrument to Modify Bilateral Tax Treaties

Key Focus Points of Action Plan

- Introducing coherence in the domestic rules that affect cross-border activities
- Reinforcing substance requirements in the existing international standards
- Improving transparency as well as certainty

Section Three

How Transfer Pricing Works?



Example of How Transfer Pricing Works



Overseas Related Party

220



250

Overseas Non-related Party



Legal Entity A



200



Legal Entity B

200



Third Party

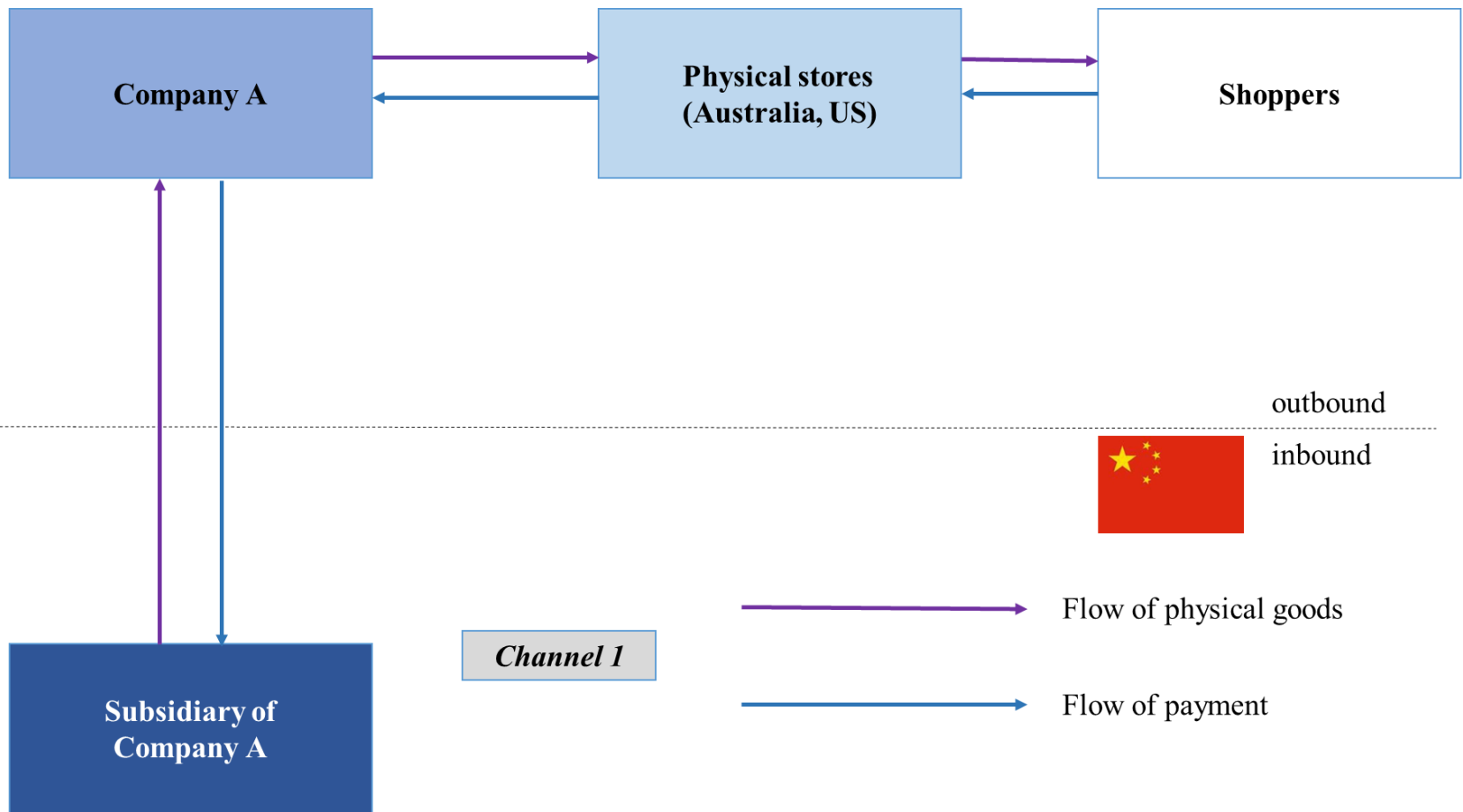


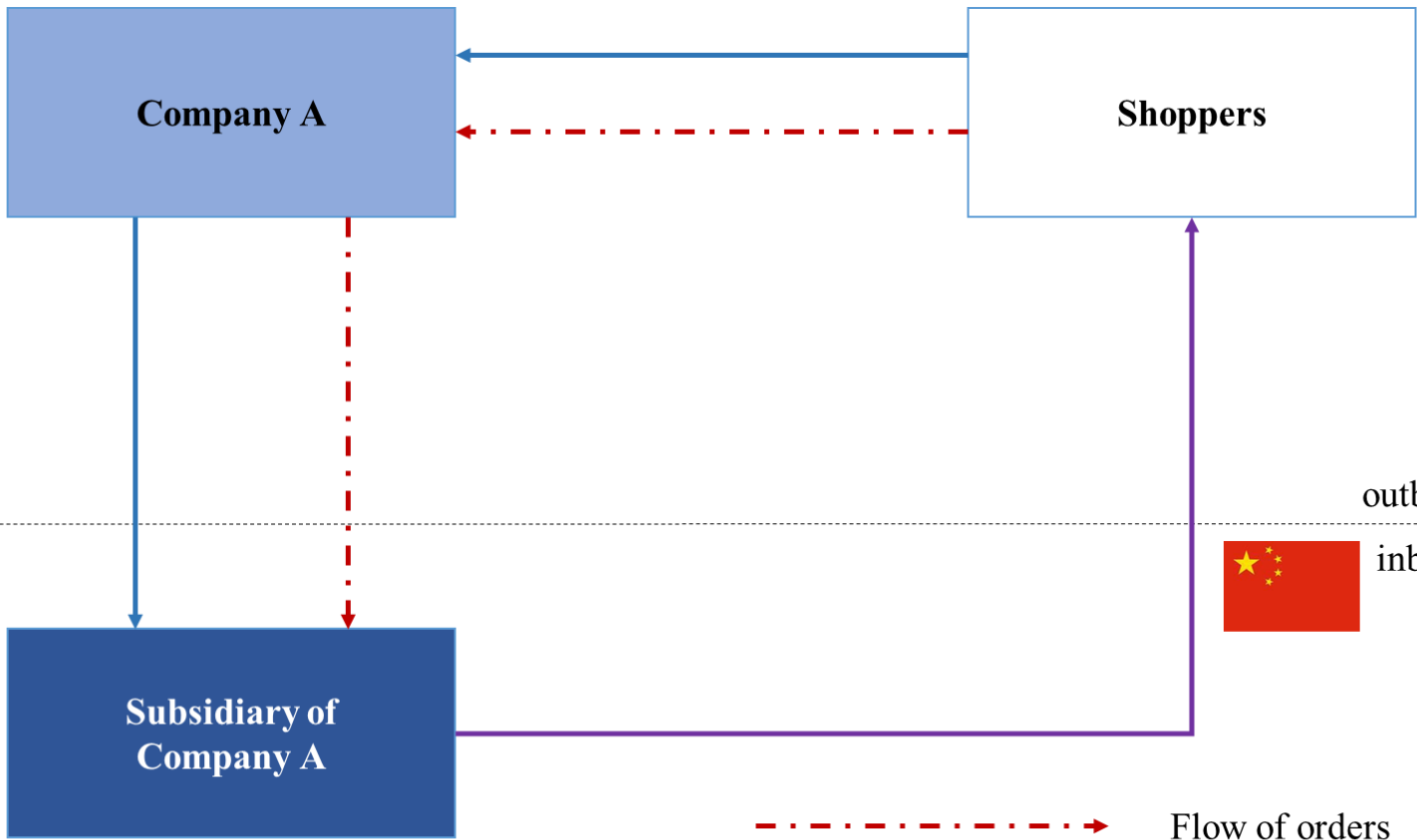
Third Party

Transfer Pricing Methods

Traditional transaction methods	Comparable uncontrolled price method (CUP)
	Resale price method (RPM)
	Cost plus method (CPM)
Transactional profit method	Transactional net margin method (TNM)
	Transactional profit split method (PSM)
Other methods	Global formulary apportionment
	Valuation techniques

Type of Transaction	Methods that may be suitable	Commonly used method
Provision of manufacturing services/Provision of R&D services/Provision of strategic management and administrative services	CUP/CPM/TNMM/PSM	TNMM
Distribution of product	CUP/RPM/TNMM/PSM	TNMM
License of royalty/patent/known-how	CUP/PSM	CUP
Integrated business operation involving intangibles on both parties	PSM	PSM
Intercompany Financing	CUP	CUP








outbound
inbound



Channel 2

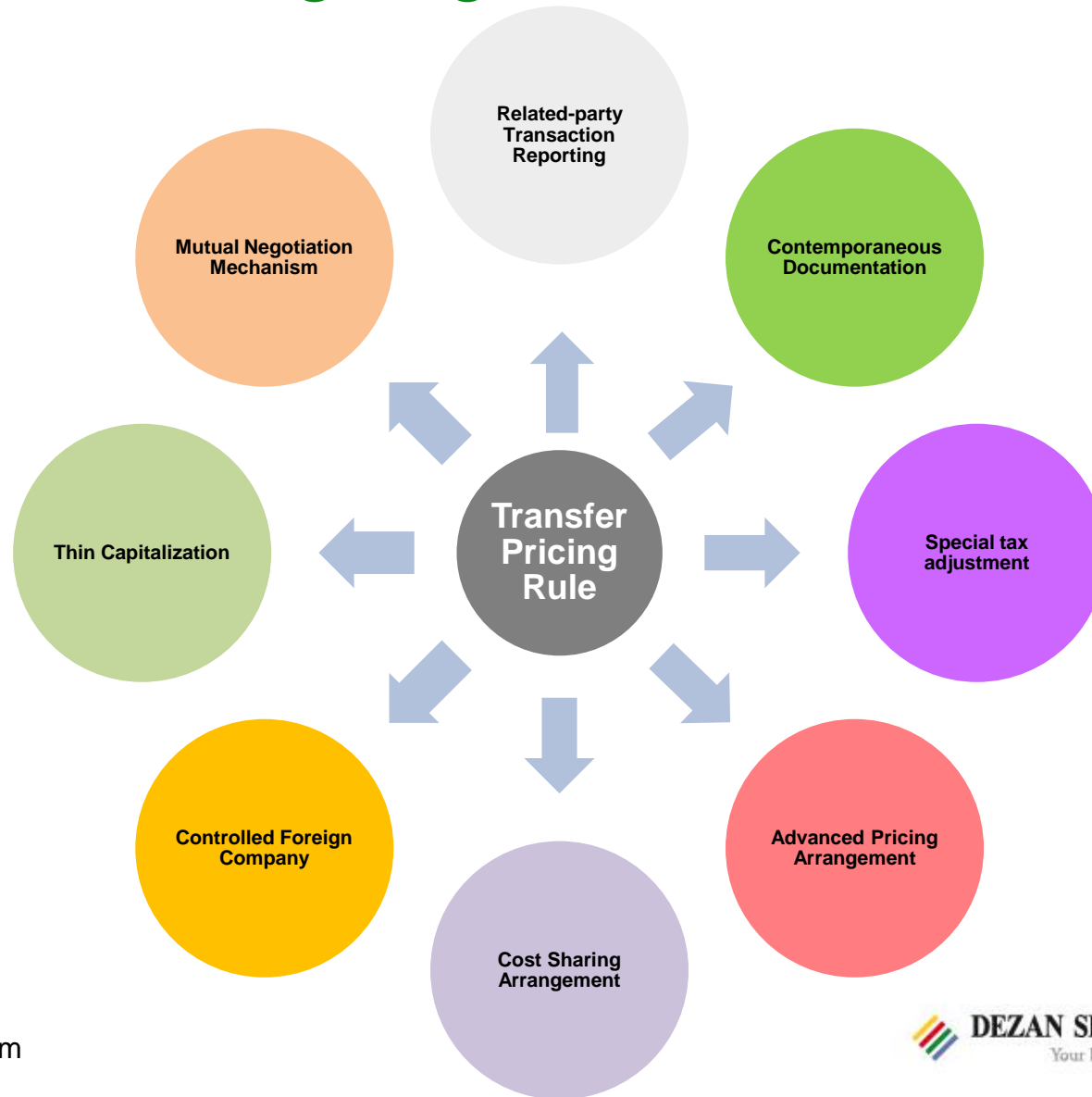
-  Flow of orders
-  Flow of physical goods
-  Payment flow

Section Four

Transfer Pricing in China



Transfer Pricing Legislation



Transfer Pricing Documentation

Related-party Transaction Reporting	Country-by-country Report (CbC)
Transfer Pricing Contemporaneous Documentation	Master File
	Local File
Advanced Pricing Arrangement	APA Procedure Update
	Value Chain Analysis
	Location Specific Analysis

Some Tips

- Carry out a self-check to see if conditions of new rule apply
- Get started as early as possible
- Opt for a more experienced consultant





**Licensor
(Related party)**



**Competent tax
authority**



Licensing

**Licensing agreement
registration and filing**



Licensee

Royalty payment

Section Five

Practical Transfer Pricing Tips



Frequently Asked Questions

- What is China's Transfer Pricing policy?
- What do we need to do to comply?
- When do we need to prepare a Transfer Pricing study?
- How should we make intragroup outbound payments?

Q&A Session

*Please submit your questions and comments in
the question bar*



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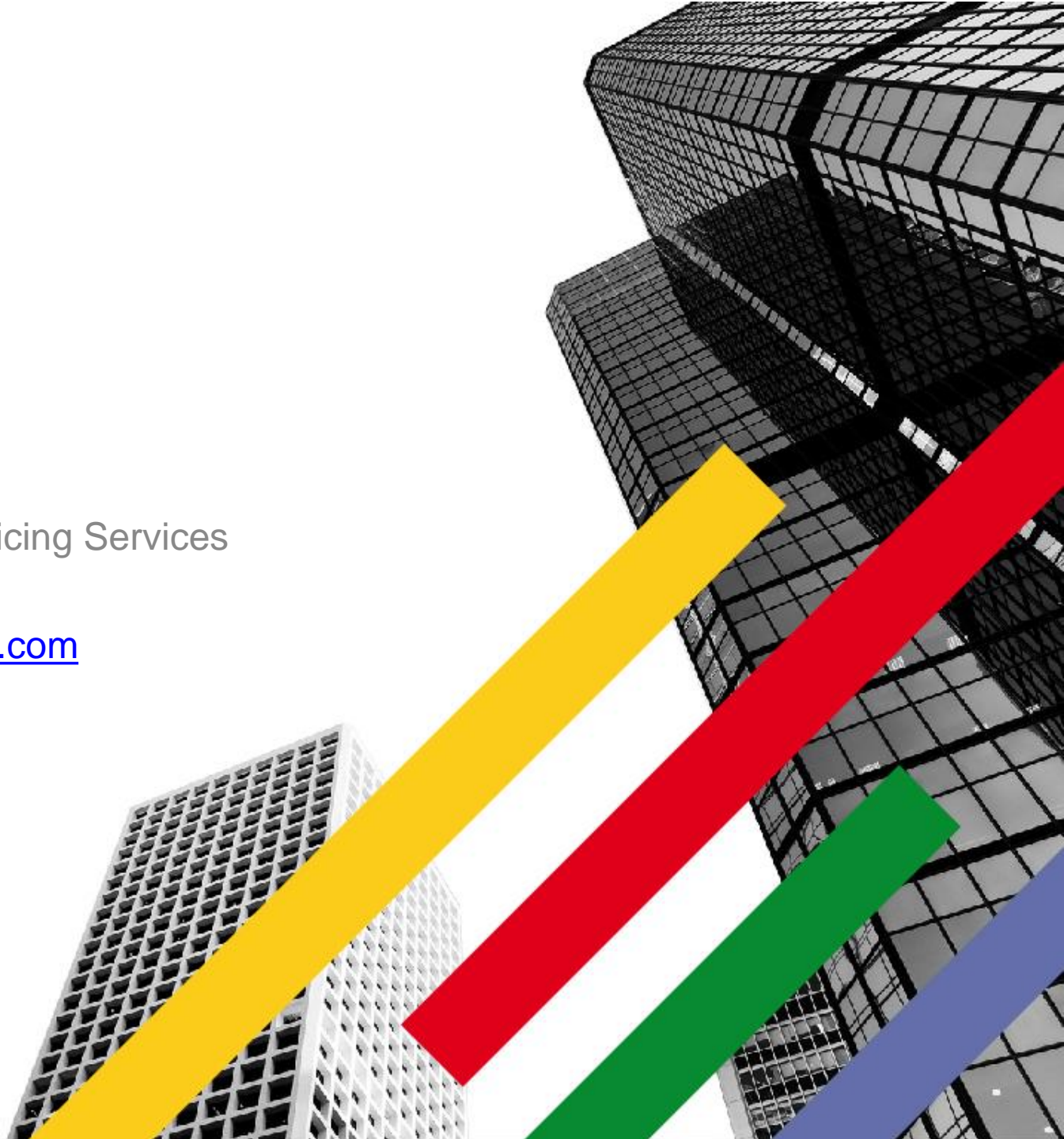
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