



# Selecting and Applying Transfer Pricing Methods

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## Agenda

- Introduction/ Context
- Understanding TP Methods and its application
- TP Adjustments
- Practical Application/ Case studies
- Q&A Session

# Indian Transfer Pricing (TP) Regulations

Sections	Provisions	Relevant Rules	Description
92	Computation of income having regard to ALP		
92A	Meaning of Associated Enterprise		
92B	Meaning of International transaction		
92BA	Meaning of specified domestic transactions		
92C	Computation of ALP	Rule 10A, 10AB, 10B, 10C, 10CA	Definition, Other method, Determination of ALP, MAM, ALP Computation/ Range working
92CA	Reference to Transfer Pricing Officer (TPO)		
92CB	Safe harbor rules	Rule 10TA – 10TH; Rule 10THA - 10THD	
92CC	Advance Pricing agreement	Rule 10F – 10T; 10MA; 10RA	
92CD	Effect of advance pricing agreement		
92CE	Secondary Adjustment in certain cases	Rule 10CB	Computation of interest
92D	TP documentation & Master File	Rule 10D, 10DA	List of information for TPD and MF
92E	Accountant's Report in Form 3CEB	Rule 10E	
92F	Definitions	Rule 10A	Meaning of expressions for Rules 10AB to 10E
286	Country by Country reporting/ Intimations	Rule 10DB	

# Setting the context

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In transfer pricing, it is useful to distinguish among:

## Business Model

- Defines how the company will **manage and measure** the business
- Determines the **functions, assets, and risks** of each legal entity

## TP Policy

- It is the internal statement of the business, with respect to the:
  - **Pricing** and
  - **Cost allocations**for intercompany transactions

## TP Method

- Also, known as TP analysis method
- Used to **analyze a company's transfer pricing**, particularly to test compliance with tax TP rules
- The method must take into account the **functions, assets, and risks** as determined by the business model

# Case Study 1

XYZ and PQR are foreign companies. Both have wholly owned subsidiaries in India, XYZ India and PQR India.

## Case I

- XYZ owns IP for eye care product say 'Fresh Drops'
- XYZ avails services from XYZ India for marketing and promoting and selling product 'Fresh Drops' in India
- XYZ India is responsible for developing marketing strategy, budgets, promotion material, on behalf of XYZ

Characterization of XYZ India??

## Case II

- PQR owns IP for cancer product say 'Kill Cancer'
- PQR avails services from PQR India for marketing and selling product 'Kill Cancer' in India
- PQR develops strategy for penetrating in the market. Therefore, it would be responsible for strategic decision making for its product
- PQR India executes strategy for marketing & selling the product 'Kill Cancer'

Characterization of PQR India??



# Key aspects in TP analysis

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## Broad based analysis

- Review of Controlled transaction
- Company Overview
- Group Overview
- Industry Overview

## Principles in Comparability

- FAR Analysis
- Characterization
- ***Transfer Pricing Methods***
- ***Tested Party***
- ***Profit Level Indicators***
- Contemporaneous Data

## Comparability - Approach

- Identification of databases
- Selection of potential comparables
- ***Comparability Adjustments***
- Price testing

# Section 92C : Computation of Arm's Length Price

**How to compute ALP for international transaction or SDT??**

**Select the MOST APPROPRIATE METHOD (MAM) out of the methods prescribed in Rule 10B**

**Apply the MAM as per Rule 10C; 10CA**

**AO may also calculate ALP** when he is of the opinion that:

- a) Price charged is **not at ALP**
- b) Information and **document not maintained** as per Section 92D
- c) **Information used is not reliable** or correct
- d) Assessee **fails to furnish TP documentation** within prescribed time

**Effect of ALP determined by AO:**

- a) **No deduction allowed** under section 10A/ 10AA/ 10B/ Chapter VI-A
- b) **Income of AE** (on which tax is deducted/ deductible) **shall not be recomputed** pursuant to determination of ALP by AO

# Transfer Pricing Methods

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**01**

Comparable  
Uncontrolled Price  
Method (CUP)

**02**

Resale Price Method  
(RPM)

**03**

Cost Plus Method  
(CPM)

**04**

Profit Split Method  
(PSM)

**05**

Transactional Net  
Margin Method (TNMM)

**06**

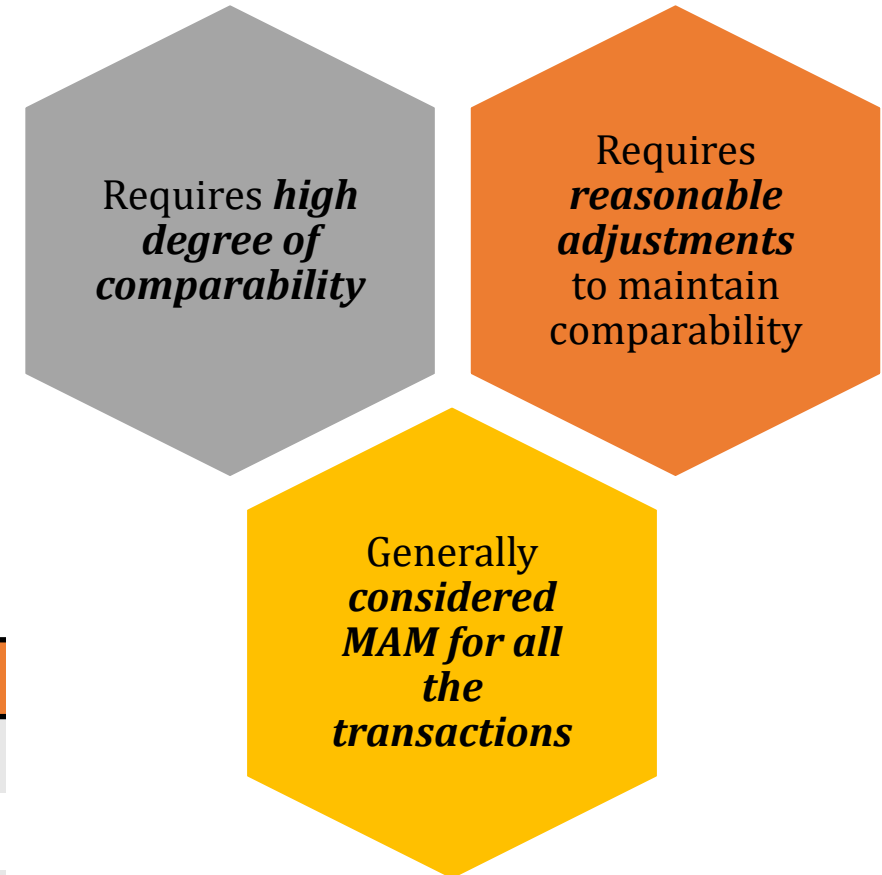
Any Other Method





# Comparable Uncontrolled Price Method (CUP) - Rule 10B(1)(a)

- ✓ CUP method *compares the price charged in a controlled transaction* with the price in an *uncontrolled transaction under similar circumstances*
- ✓ *Where to apply?*
  - Transfer of products/ provision of services where similar or very close products/ services could be identified
  - Benchmarking of royalty for exploitation of intangibles
  - Financial transaction such as interest on loan, corporate guarantee etc.



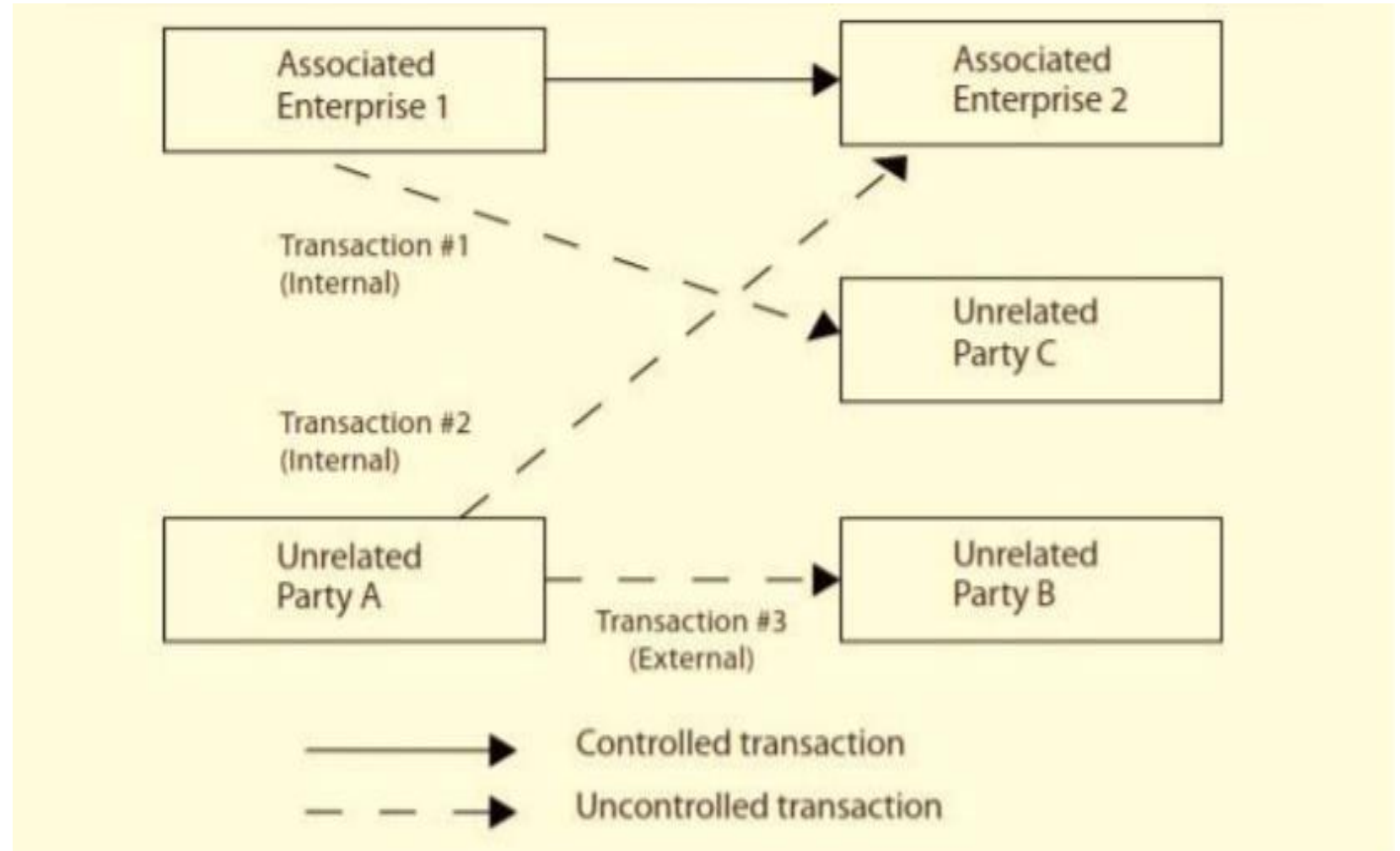
## Calculation of ALP under CUP

Price charged/paid in comparable un-controlled transaction	XXX
<b>Add/Less:</b> Adj for functional/other differences	XXX
<b>Arm's Length Price</b>	<b>XXX</b>

# Comparable Uncontrolled Price Method (CUP) - Rule 10B(1)(a)

## Types of CUP

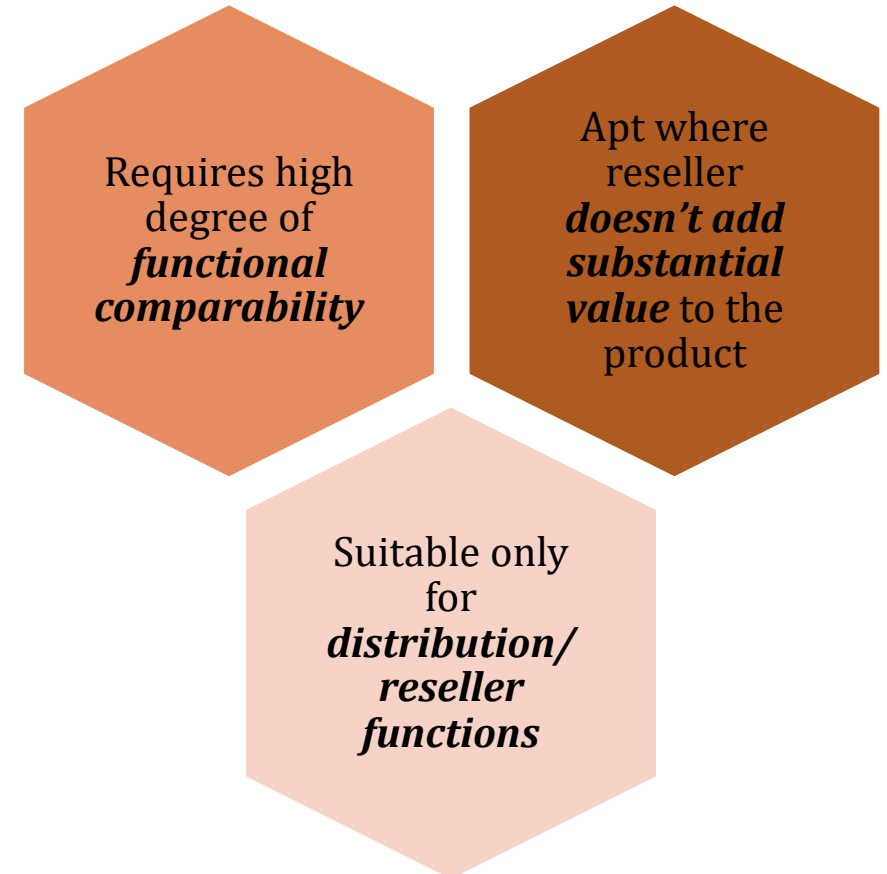
- Internal CUP
- External CUP



# Resale Price Method (RPM) - Rule 10B(1)(b)

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- ✓ RPM compares the *resale gross margin earned* with the *resale gross margin earned by comparable* independent distributors
- ✓ An arms' length *gross margin should be sufficient* for a reseller *to cover its operating expenses*
- ✓ *Practical issues:*
  - ✓ Difficult to obtain accurate data disclosing gross margin,
  - ✓ difference in accounting policies,
  - ✓ determination of costs categorization of expenses, etc.
- ✓ Typically upheld as MAM for distributor/ trader without any value addition



# Resale Price Method (RPM) - Rule 10B(1)(b)

## Illustration:



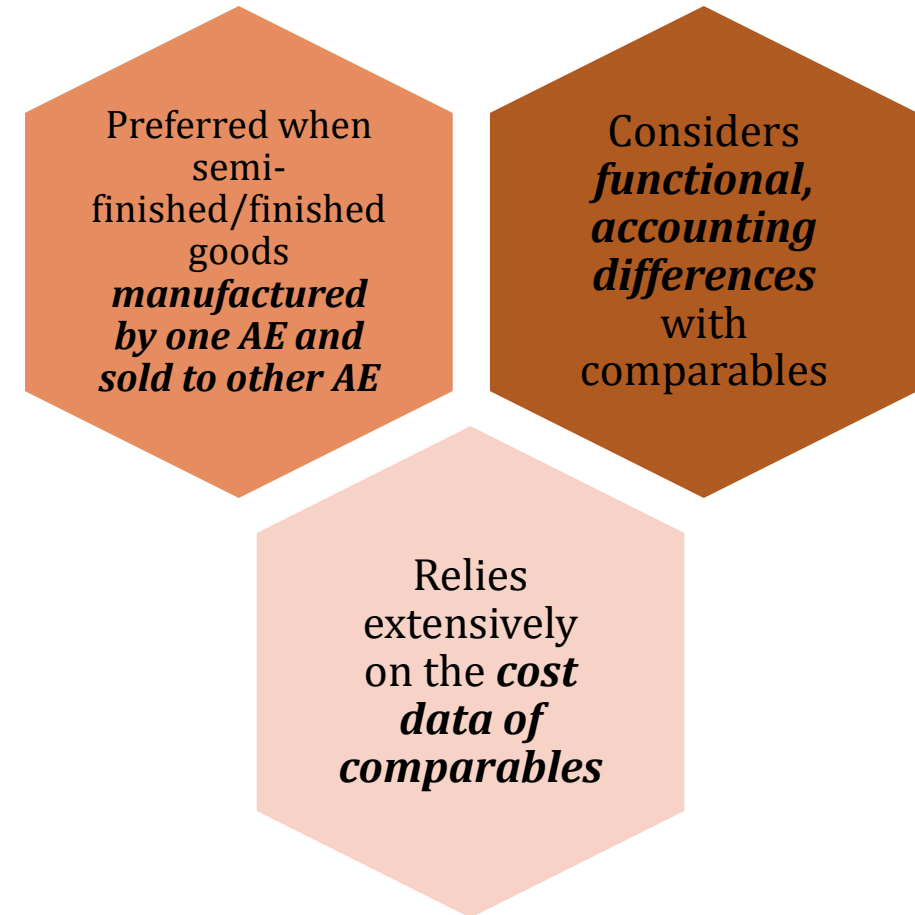
### Calculation of ALP under RPM

Actual resale price earned by Indian distributor from sale of group company products to unrelated enterprises (A)	100
Less: Comparable gross profit (GP ratio 15%) (B)	(15)
<b>Cost of Sales C= (A-B)</b>	<b>85</b>
Less: Expenses related to the purchase from group companies (D)	(8)
<b>ALP for products procured from group companies during the year (C+D-E)</b>	<b>77</b>

# Cost Plus Method Rule 10B(1)(c)

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- Compares the *gross profit charged on costs incurred in a controlled transactions* with the *GP charged on costs incurred in an uncontrolled transaction*
- CPM calls for *consistency in cost base between controlled and uncontrolled transactions*
- Practical issue:
  - *Classification between direct and indirect costs* of tested party as well as comparables,
  - *availability of cost data* of comparables;
  - Internal comparable more reliable
- CPM upheld for contract manufacturers, export of services etc.



# Cost Plus Method (CPM) - Rule 10B(1)(c)

## Illustration:



### Calculation of ALP under CPM

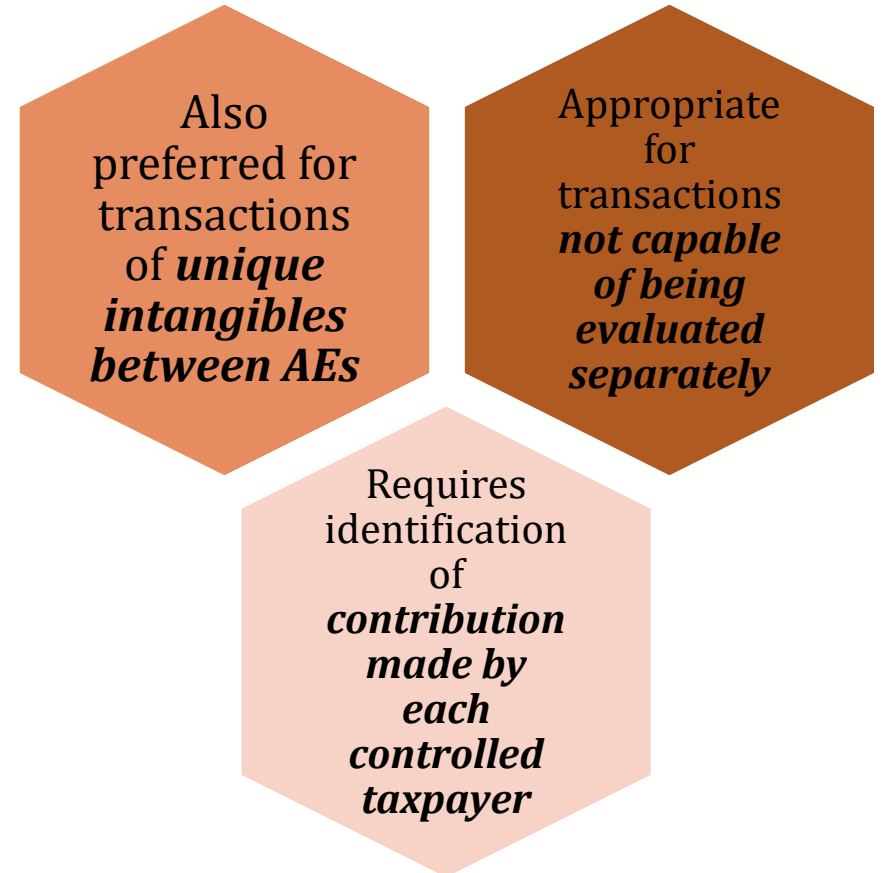
Direct + Indirect cost of production incurred by Indian Co. (A)	100
Add: Comparable gross profit margin, say, 20 % (B)	20
Add/less: Adjustment for difference between international transaction & comparable uncontrolled transaction (C)	<b>(15)</b>
<b>ALP for products sold to AE</b>	<b>105</b>

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# Profit Split Method (PSM) - Rule 10B(1)(d)

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- ✓ PSM determines ALP based on combined profits derived from related parties
- ✓ Applicable where *multiple international transactions* are
  - *Highly inter-related*
  - Cannot be evaluated separately
- ✓ Allocation is based on the *contribution made by each party*
- ✓ Contribution is identified *based on relevant business activity*, e.g., functions performed, manpower employed, risk taken, etc.
- ✓ Commonly applied in freight/ logistics industry. Also, applied and seen in software



# Profit Split Method (PSM) - Methods

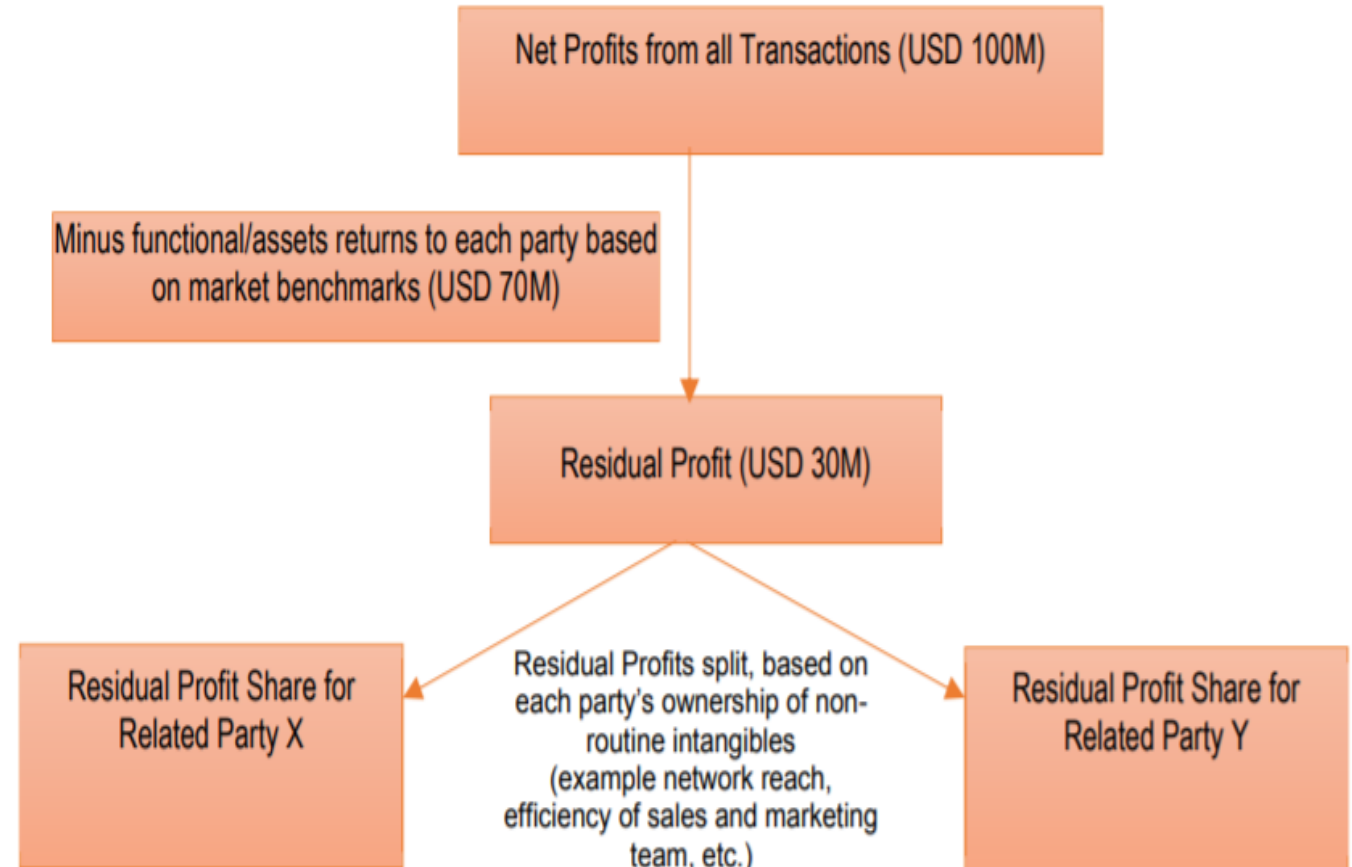
✓ PSM works with two methods:

**a) Contribution profit split:** Combined profit is allocated % wise, based on relevant business activity  
[\(Illustration 1\)](#)

**b) Residual profit split:** Two-step process –

Step 1: Allocate income to routine contributions;

Step 2: Allocate residual profits



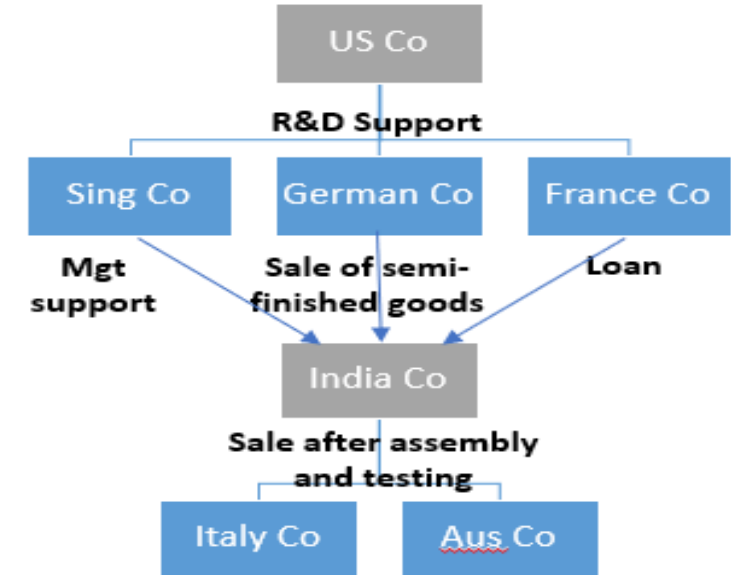
***Illustration 2***



# Profit Split Method (PSM) - Rule 10B(1)(d)

## Illustration 1

- ✓ All entities in the diagram are associated
- ✓ All items in the profit and loss account of Ind Co will be controlled
- ✓ The first step would be to arrive at combined net profit
- ✓ The profit is split amongst the entities in proportion of their relative contribution (based on functions and risks assumed)



Suppose in the *illustration 2*, specific contribution made by X and Y is 40% and 60% respectively. Then, total profit for related party X:

Income for specific contribution (40% of USD 70M (A))	USD 28M
Income as residual profits (say, 50:50, allocated considering various factors) (B)	USD 15M
<b>Total Arm's length profit of related party X (A+B)</b>	<b>USD 43M</b>

# PSM – Strengths and Weaknesses

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## Strengths

- Less reliability on comparables
- Assists in sharing profits for unique intangibles contributed
- Provides solutions for combined operations which is not provided in unilateral methods
- All parties to the transaction are evaluated, thus there are less chances for a single party to have high profits

## Weaknesses

- Difficulty in practical application
  - Difficulty in allocation of costs
  - Reluctance of tax authorities to accept this method
  - Voluminous data
  - Necessitates application of similar accounting policies and standards
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# Transactional Net Margin Method-Rule 10B(1)(e)

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- ✓ TNMM compares NP margin of the tested party with NP margin earned under uncontrolled transactions or by other players in the same industry under same or similar conditions
  - ✓ Internal TNMM
  - ✓ External TNMM
- ✓ This NP margin is calculated in relation to an appropriate base (e.g., costs, turnover, etc.)
- ✓ Tolerant to product/ functional differences
  - ✓ Broad level of product comparability and functional comparability
- ✓ Selection of appropriate PLI must be made
- ✓ Appropriate economic adjustment to profit margin of the comparables for improving the comparability

Applicable for  
*any type of  
transactions*

Most widely  
*used method in  
India* due to  
*non-availability  
of data* required  
for *other  
methods*

Also  
*supplements  
analysis*  
under other  
methods

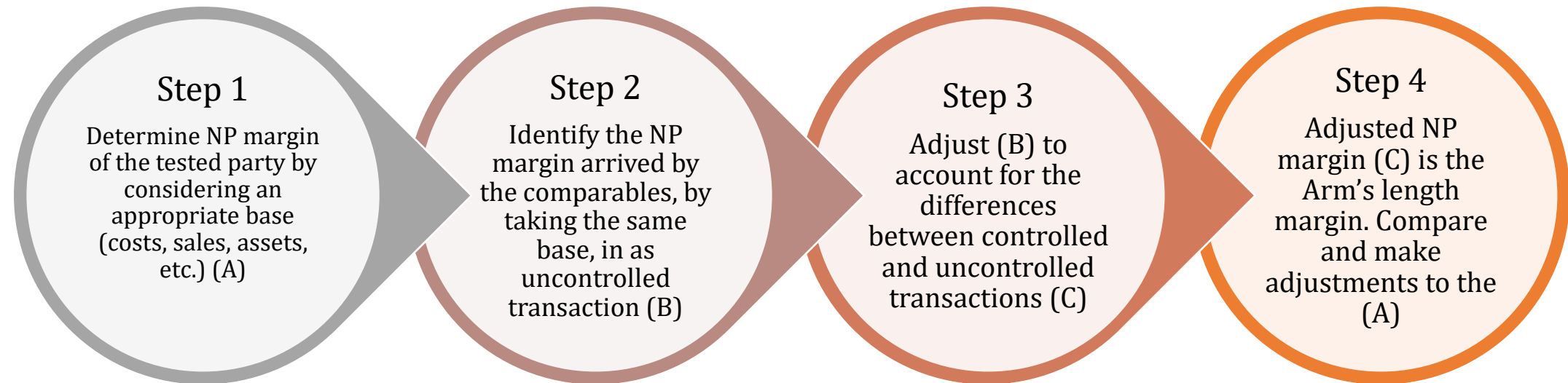
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# Transactional Net Margin Method-Rule 10B(1)(e)

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## Steps to derive at ALP under TNMM



# TNMM – Strengths and Weaknesses

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## Strengths

- As opposed to CUP method, NP indicators are less affected by transactional differences than is the case with price
- NP indicators are also more tolerant to some functional differences than GP indicators
- Applicable for any type of transaction. Hence, most widely used
- Accepted by the tax authorities

## Weaknesses

- Difficulty in determining appropriate corresponding adjustment
  - Information on uncontrolled transactions may not be available at the time of the controlled transactions
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# Other Method - Rule 10AB

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- ✓ The *other method allows the use of any method* which takes into account:
    - (i) The price which has been *charged or paid*
    - (ii) *Would have been charged or paid* for the same or similar *uncontrolled transactions with or between non-AEs, under similar circumstances*
  - ✓ Here, *data to be used for comparison might include* 3<sup>rd</sup> party quotations, valuation reports, tender/ bid documents, documents relating to the negotiations, standard rate cards, commercial & economic business models, etc.
  - ✓ *Offers flexibility in the case of complex transaction* where internal or external comparable uncontrolled transactions is not available
  - ✓ *Where adopted:* Transaction such as commodity products, valuation of shares, purchase/ sale of fixed assets, reimbursement, Hard to Value Intangibles (HTVI) etc.
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# Some points for consideration

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- Difference in approach to planning vs. compliance vs. defense
- No correct or wrong method – should be best suited to facts and circumstances
- Alternative/ secondary method analysis in the report could have additional weightage
  - Rejection of method vs. not considered for a particular limitation
- International principles provides good guidance (OECD TPG, UN TP)
- Judicial decisions have limited precedence due to fact sensitivity
- Conclusion in judicial decisions on MAM applicability upheld due to various factors
  - TPO did not provide an alternate approach/ methodology ; arbitrary adjustment
  - Was accepted in earlier or subsequent years
  - Matter remanded back for verification

# Most Appropriate Method [Rule 10C]

MAM shall be the method

***Best suited to the facts and circumstances*** of each transaction

Provides ***reliable measure*** of ALP

In selecting the MAM, the following factors shall be considered:

***Nature and class*** of international transaction

***Class of AEs*** and their ***FAR***

***Availability, coverage and reliability of data***

Degree of ***comparability***

Reliability of ***comparability adjustments***, if any

Nature, extent and reliability of ***assumptions*** required

***No hierarchy or preference of methods prescribed under the Act***



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# Determination of ALP [Rule 10B] - Framework

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Description of application of each of the methods

Guidance to undertake comparability analysis

Specific ***characteristic of property*** transferred

***FAR*** of respective parties

***Contractual terms***

***Conditions prevailing in the market*** (geographic location, Govt. laws, labour cost, capital cost, competition, economic development, wholesale/ retail market)

Manner of treating differences

Whether ***materially affect the price*** or cost charged?

Reasonably accurate ***adjustment to eliminate the material effects*** of such difference

Guidance on data to be used for comparability analysis

***Current year data***

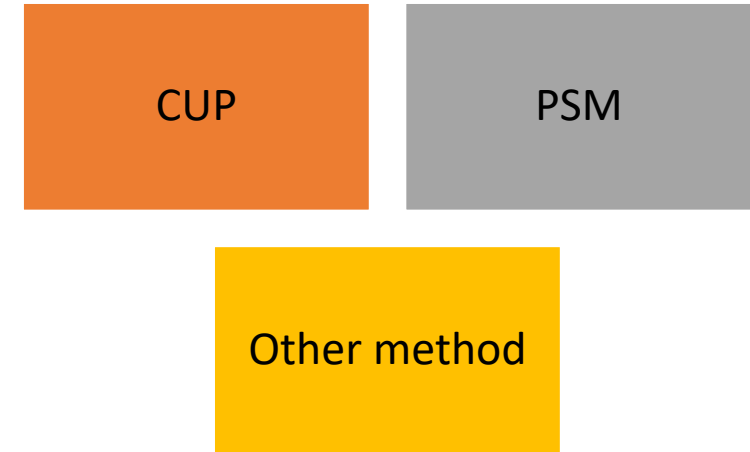
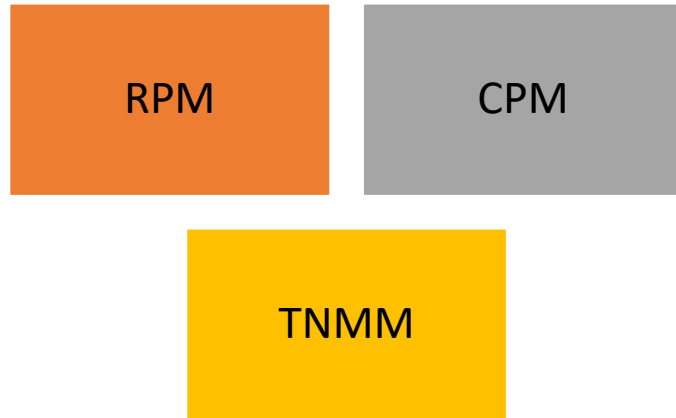
***Prior year data***

Timing of ***data availability***

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# Data to be used for comparability analysis

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- Data relating to current year;
- If not available, data relating to immediately preceding year

Data relating to current year subsequently available during the course of assessment proceedings shall be used irrespective of the fact that it was not available during the compliance

- Data relating to current year
  - Royalty and interest analysis?

Need to distinguish this from use of multiple year data. Rules separately provided under Rule 10CA

# Data to be used for comparability analysis

Uncontrolled Transaction/ comparable company	Current Year (T)	(T-1)	(T-2)	Accept/ Reject
Observation 1	C	C	C	Accept
Observation 2	C	C	NC	Accept (only C)
Observation 3	C	NC	C	Accept (only C)
Observation 4	NC	C	C	Reject
Observation 5	NA	C	C	Accept
Observation 6	NA	C	NC	Accept (only C)
Observation 7	NA	NC	C	Reject

## Remarks

- Option to select comparable based on earlier year data is not available in applying CUP, PSM and Other method. It should pertain to year in which transactions have been undertaken.
- Consequences of data becoming available subsequently – Observation 5 and 7?

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# Construction of data set (more than one price)

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- Dataset shall be constructed by placing prices in ascending order.
- Where for a comparable, multiple years are used for determining comparability and found to be comparable, weighted average of prices/ margins shall be taken while constructing the dataset.
  - RPM – Weighted average based on quantum of sales
  - CPM – Weighted average based on Cost
  - TNMM – Weighted average based on Cost, Sales, Assets or any other base
- ALP shall be computed as the range of 35<sup>th</sup> to 65<sup>th</sup> percentile of the constructed dataset if the following conditions are satisfied
  - Applicable method is CUP, RPM, CPM and TNMM
  - Dataset consists of 6 or more entries
- In other cases, ALP shall be arithmetical mean of all values included in the dataset.
  - Tolerance band of 1% (wholesale traders) / 3% (other cases) from transfer price is accepted

# Transfer Pricing Methods.. A comparison

Method	Measurement focus	Comparability Requirements	Indicative difference requiring adjustments
CUP	Price	<ul style="list-style-type: none"><li>• Similar products</li><li>• Similar conditions</li></ul>	<ul style="list-style-type: none"><li>• Product quality</li><li>• Contractual terms</li><li>• Level of market</li><li>• Intangible property</li><li>• Transaction date</li><li>• Foreign exchange</li></ul>
RPM	Gross Income	<ul style="list-style-type: none"><li>• Similar functions</li><li>• Similar product group</li><li>• Contractual terms</li><li>• Risk</li></ul>	<ul style="list-style-type: none"><li>• Inventory levels</li><li>• Operating expenses/ AMP/ SG&amp;A</li><li>• Foreign currency risks</li><li>• Accounting difference</li></ul>

# Transfer Pricing Methods.. A comparison

Method	Measurement focus	Comparability Requirements	Indicative difference requiring adjustments
CPM	Gross Income	<ul style="list-style-type: none"> <li>• Similar functions</li> <li>• Similar product group</li> <li>• Contractual terms</li> <li>• Risk</li> </ul>	<ul style="list-style-type: none"> <li>• Operating complexity</li> <li>• Operating expenses</li> <li>• Foreign currency risks</li> <li>• Accounting differences</li> </ul>
TNMM	Net Operating Income	<ul style="list-style-type: none"> <li>• Broad product group/ Industry</li> <li>• Functions (Trading/ Manufacturing/ services)</li> <li>• Assets (Capital intensive/ brand/ intangible)</li> <li>• Risks</li> </ul>	<ul style="list-style-type: none"> <li>• Economic risk adjustment</li> <li>• Foreign currency risks</li> <li>• Working capital</li> <li>• Capacity</li> <li>• Accounting differences</li> </ul>
PSM	Profit	<ul style="list-style-type: none"> <li>• Functions performed – routine and non-routine</li> <li>• Value drivers</li> <li>• Industry value indicators</li> <li>• Multiple transactions</li> </ul>	

# Case Study 2

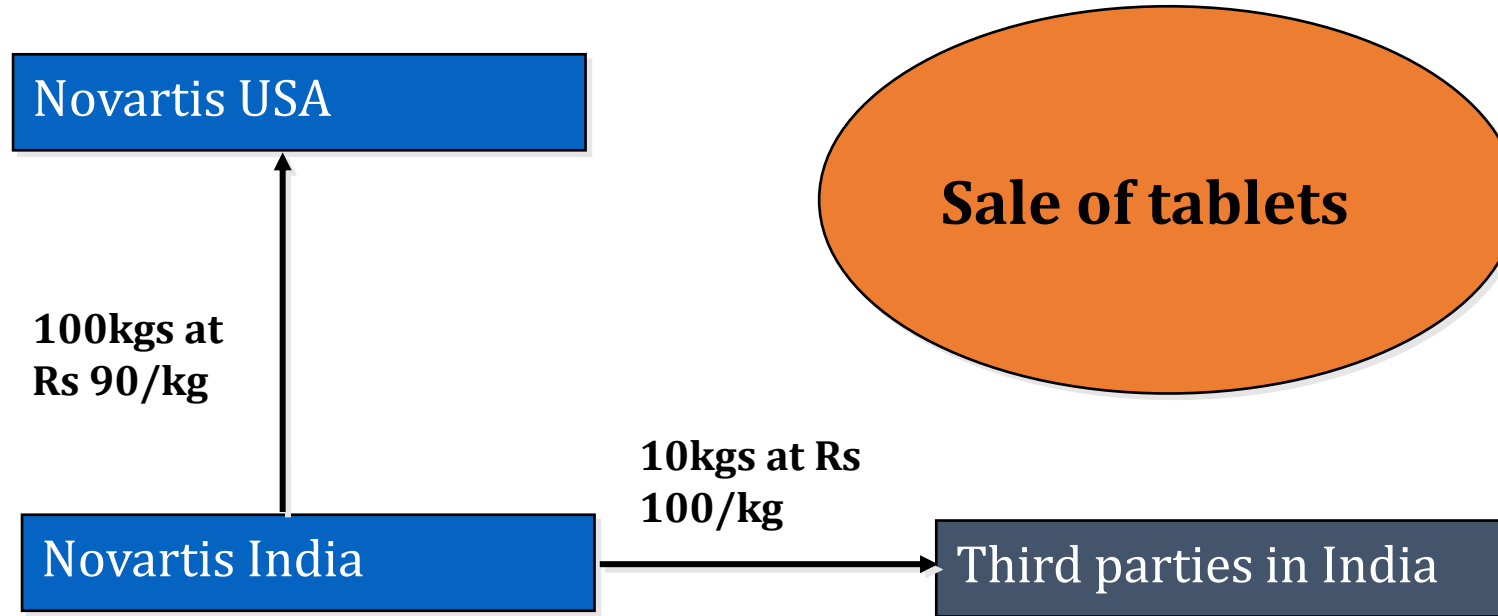
- A Ltd and B Inc are AEs
- A Ltd. supplies 10,000 printers to B Inc. at Rs. 20,000/unit (FOB); no warranty
- A Ltd. supplies 1,000 printers to C Ltd (unrelated party) at Rs. 30,000/unit (CIF); 1-year warranty
- F&I = Rs. 5,000/unit
- Warranty cost = Rs. 2,500/unit
- Bulk trade discount to B Inc. Rs 200/unit

Particulars	Amount (in Rs)	Remarks
Sale price to C Ltd	30,000	Internal CUP; Similar products
Less: Differences to be adjusted		
Freight & Insurance	(5,000)	- Material difference found in the terms - Reliable data available to make adjustments - Adjustment made for contractual terms
Warranty cost	(2,500)	
Bulk order discount	(200)	
ALP	22,300	
Sale price to B Inc	20,000	Transfer price
Income adjustment	23,000,000	2,300*10,000

## Other relevant considerations

- Product difference (models/ features)
- Geographic market
- Foreign exchange
- Wholesale vs. retail

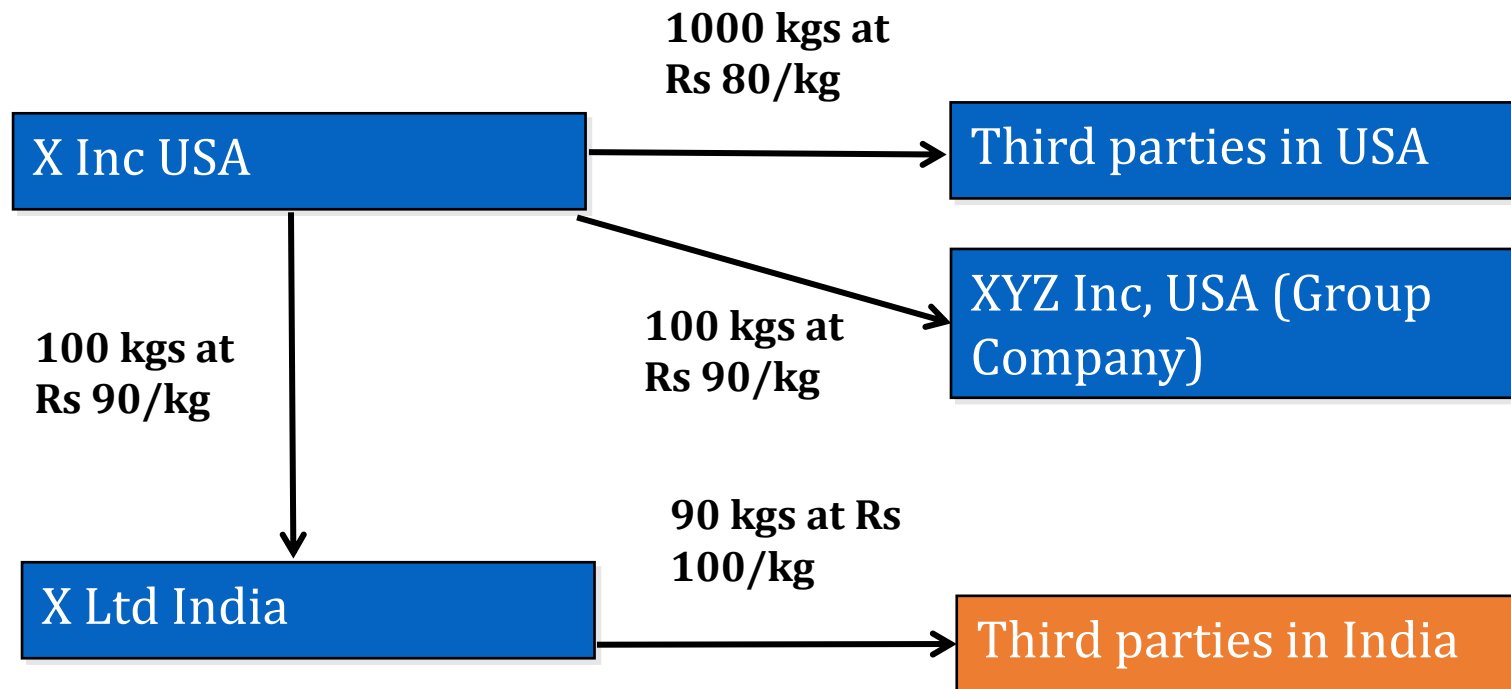
# Case Study 3



- Applicable method
  - Any adjustments?
  - Other relevant factors to be considered
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# Case Study 4



Which method can be applied to this transaction? How would you defend TP for X Ltd India

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# Choice of 'tested party'

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- Before identifying comparable companies, it is imperative to identify the 'tested party'
  - Every transaction would have two entities, and either of them can be treated as the 'tested party'
    - The 'tested party' is the one which has the least complex functions
    - If the functions of the AEs are complex (i.e., more risks assumed or intangibles owned), it is considered appropriate to treat the Indian entity as the 'tested party' and vice versa
    - This increases the likelihood of reliable comparables and leads to lesser economic adjustments
  - Principles derived from OECD TPG, UN TP Manual and US TP regs
  - Relevance of 'tested party' to CUP and other method?
    - Recent decision of Kolakata ITAT in Balarampur Chini Mills Ltd [TS-200-ITAT-2021(Kol)-TP]
  - Acceptability of foreign tested party
    - Contrary decisions of various tribunals
    - Recent Madras HC decision accepting foreign tested party [Virtusa Consulting Services Private Limited v DCIT, Chennai]
      - Materials provided to establish functional profile of AE
      - TPO himself rejected TP study and hence Assessee should be permitted to submit alternate analysis
      - TPO has accepted assessee's approach of considering foreign tested party in subsequent years
  - Practical approach and challenges
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# Profit Level Indicator (PLI)

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- Rule 10B(1)(e) - the net profit margin realized by the enterprise from an international transaction [or a specified domestic transaction] entered into with an associated enterprise is computed **in relation to costs incurred or sales effected, or assets employed or to be employed by the enterprise or having regard to any other relevant base**
  - OECD TPG
    - Denominator should be a relevant indicator of the value of functions performed
      - For distribution activity – Sales or distribution operating expenses
      - For Services – Full cost or operating expenses
      - For Manufacturing – Operating cost or operating asset (in case of capital-intensive activities)
    - Denominator should be reasonably independent from controlled transaction
  - Commonly used PLIs and its relevance - OP/ OC; OP/ OR
  - Berry ratio
    - Berry ratio is defined as ratio of gross profit to operating expenses. Alternatively applied as OP/ VAC
    - Useful where purchase from AE and sale to AE (RPM and CPM not applicable)
    - Japanese Sogo Soshu Companies
    - Indenting companies, Freight services
  - Cash PLI
    - Numerator without depreciation expenses – Whether it is PLI variant?
    - Approves cash-PLI if assessee establishes depreciation variance - Rittal India Pvt Ltd(TS-484-ITAT-2019(Bang)-TP)
    - Depreciation an inseparable and integral part of operating-costs, rejects assessee's cash-PLI plea - INA Bearings India Pvt. Ltd [TS-540-ITAT-2019(PUN)-TP]
    - Cash-PLI not restrictive to capital intensive industry, accepts application for software developer - Net Guru Ltd [TS-860-ITAT-2019(Kol)-TP] -
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# Adjustments

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- Companies operate in diverse and volatile economic conditions. Each company has its peculiar issues on the market
  - It is relevant to compare the tested party with comparable companies operating in similar identical or economic conditions
  - OECD guidelines also require the adjustments to price/ margins should be made (where appropriate) to enhance comparability.
  - Economic adjustments in the Indian context have become popular over the last few years. Common adjustments are as follows:
    - Market penetration strategies
    - Working capital adjustments
    - Idle capacity adjustments
    - Adjustments on account of business risks
    - Foreign exchange risks
    - Accounting adjustments
    - Risk arising due to geographies
-

# Comparability/ Economic Adjustments

<b>Working capital adjustment</b>	<ul style="list-style-type: none"><li>• Undertaken to iron out difference in pricing arising from varying credit terms provided to customers</li><li>• To adjust for level of working capital level between tested party and comparable companies</li><li>• Fairly standardised practice and largely acceptable by tax authorities</li><li>• Important to factor the credit period while undertaking price setting exercise</li></ul>
<b>Risk Adjustment</b>	<ul style="list-style-type: none"><li>• Undertaken to iron out difference in profitability due to difference in level of risks between tested party and comparable companies</li><li>• Sophisticated techniques such as CAPM used by taxpayers; difference between risk free bonds and AAA rated bonds</li><li>• Generally denied by tax authorities (single customer risk)</li><li>• Courts have applied flat adjustment/ reduction without any scientific basis</li></ul>
<b>Others</b>	<ul style="list-style-type: none"><li>• Import duty adjustment<ul style="list-style-type: none"><li>• Demonstrate that tested party has unusually high import duty when compared to comparables and has accepted need for adjustment</li><li>• Counter argument – import duty integral part of cost of consumption; sale price would take care of the commercial viability</li></ul></li><li>• Accounting year difference – Calendar year vs. financial year</li><li>• Initial year losses (projections, comparable with losses)</li><li>• Capacity Utilisation</li><li>• Pass through Cost treatment<ul style="list-style-type: none"><li>• No value addition; FAR supports</li><li>• Recovery separately at cost</li><li>• Supporting accounting treatment</li></ul></li></ul>

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# Capacity Utilization Adjustment

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- To eliminate the differences arising on account of varying levels of activity between the tested party and the comparables.
  - For example: The taxpayer has utilized only 45% of its installed capacity whereas the capacity utilized by the comparables is 80%.
  - Unabsorbed fixed costs shall skew the PLI of the taxpayer for the period under consideration.
  - Indian judicial trends and practical issues:
    - Adjustment on tested party or comparable companies?
    - Data relating to capacity utilization of comparable companies?
    - Trend of case laws suggest that the issue gets remanded to TPO for verification and application of principles based on data
    - Select recent decisions:
      - Allows capacity utilization adjustment during first year of operation to call-centre services provider - Colwell & Salmon Communications [I] Ltd(TS-575-ITAT-2020(DEL)-TP)
      - Remits capacity-utilisation adjustment, directs TPO to seek information u/s. 133(6); Follows IKA India ruling - Essentra (India) Pvt Ltd(TS-306-ITAT-2020(Bang)-TP)
      - Allows capacity utilization adjustment; - Skoda Auto India Pvt Ltd(TS-563-ITAT-2019(PUN)-TP)
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# Case Study 5

- ABC Inc is an electronic component manufacturer based in Sweden and has a subsidiary in India, ABC India
- ABC India as a manufacturer has the following transactions with its parent company:
  - It sources components from ABC Inc to use in manufacture of CD players
  - It receives technical know-how from ABC Inc and also uses the ABC brand name owned and developed by ABC Inc
  - It imports CD players from ABC Inc for resale
  - It avails foreign currency loan from ABC Inc
- ABC India also sources components for its manufacturing function from unrelated entities
- ABC India purchases CD players from unrelated entities for resale purposes
- ABC India sells CD players to its group company in Thailand and also to unrelated entities

**Evaluate and discuss the approach to TP analysis for ABC Group.**

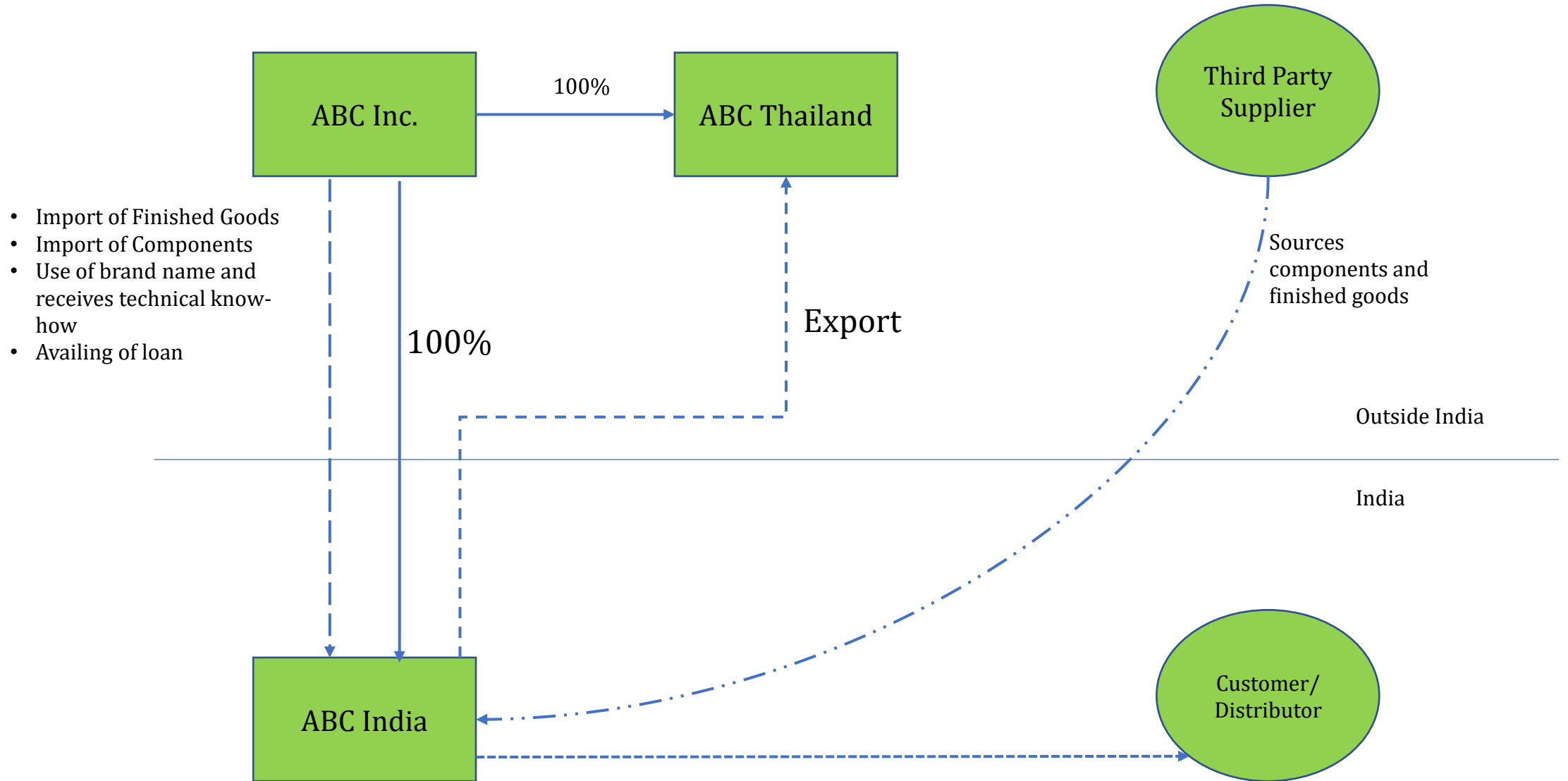
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# Case Study 5

## **Identification of International transactions**

- Purchase/ Sourcing of components by ABC India from ABC Inc
  - Purchase of finished goods by ABC India from ABC Inc for resale
  - Purchase of components and finished goods from unrelated parties – whether deemed international transaction?
  - Export of manufactured (finished) goods by ABC India to ABC Thailand
  - Payment of royalty to ABC Inc for receipt of technical know-how and right to use the 'ABC' brand name
  - Availing of loan from ABC and payment of interest on loan by ABC India to ABC Inc
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# Purchase of components/ Movement of tangible goods

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## Price analysis

- Comparison of price of similar components procured by ABC India
- Comparison of price of similar components sold by ABC Inc
- Comparison of price of similar components between two unrelated entities

## Margin based analysis

- Concept of tested party
  - **Internal TNMM** - Comparison of margins earned by ABC India from sale of finished goods using components procured from unrelated entities vis-à-vis those using components imported from ABC Inc
  - **External TNMM** - Comparison of margins earned by ABC India vis-à-vis margins earned by comparable manufacturers in India identified through external searches
  - **Internal TNMM; Foreign tested party** - Comparison of margins earned by ABC Inc from sale of components to ABC India vis-à-vis margins earned by ABC Inc from sale of components to unrelated entities
  - **External TNMM; Foreign tested party** - Comparison of margins earned by ABC Inc vis-à-vis margins earned by comparable manufacturers in Sweden identified through external searches
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# Payment of royalty

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## **Price analysis**

- Comparison of royalty payments made by ABC India for similar intangibles licensed from unrelated entities
- Comparison of royalty received by ABC Inc from unrelated entities for licensing of similar intangibles
- Comparison of similar licensing arrangements between two unrelated entities identified through an external search

## **Margin based analysis**

- Comparison of margins earned by ABC India at a company wide level with margins earned by similar manufacturers identified through external searches
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# Availing of foreign currency loan

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## **Price analysis**

- Comparison of interest payments on similar loans availed by ABC India from unrelated entities
- Comparison of interest payments on similar loans given by ABC Inc to unrelated entities
- Comparison of similar loan agreements between unrelated entities identified through external searches

## **Margin analysis?**

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A

**Thank  
You**





# Selecting and Applying Transfer Pricing Methods

**IFA SRC – Chennai**  
**24 September 2021**

By

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