

Pillar One - Amount B Report (2024) - in 3 minutes

OECD/G20's BEPS Pillar One - Amount B report delineates an optional & simplified approach specifically designed for **transfer pricing related to baseline marketing and distribution activities** of multinational enterprises (MNEs).

The initiative caters to the **challenges and administrative complexities faced by tax administrations**, especially in low-capacity jurisdictions, boiling down to a structured yet flexible mechanism to ease compliance and enhance tax certainty across global value chains.



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Key Insights (1/2)

- **Simplified and Streamlined Approach Availability:** The guidance allows jurisdictions the choice to adopt an optional approach for MNEs engaged in baseline marketing and distribution activities within their territories.
- **Functional and Economic Analysis:** The report categorizes core distribution functions and distinguishes them from non-distribution activities, offering a clear delimitation of the scope applicable to baseline distributors. This scope determination includes an examination of distribution functions such as customer management, order processing, and logistics, among others, while explicitly clarifying the exclusion of manufacturing, R&D, procurement, and similarly unrelated functions.

Key Insights (2/2)

- **Methodological Framework and Design Elements:** Grounded in the TP Guidelines, the guidance delivers a more efficient strategy for delineating and pricing transactions related to marketing and distribution. It underscores a methodological preference for return on sales (ROS) as the net profit indicator for pricing outcomes under this simplified approach, further organized into a pricing matrix that accounts for net operating asset intensity, operating expense intensity, and segmented industry groupings.
- **Documentation and Compliance:** It emphasizes the significance of well-maintained documentation, elaborating on the types of information that are deemed crucial for tax administrations to assess the applicability and accuracy of the simplified approach. Such documentation includes detailed descriptions of the delineated in-scope transactions, relevant contractual agreements, and computations of revenues, costs, and assets.

Application Insights

- **Pricing Matrix:** A pivotal feature, it encompasses financial data from a global dataset to yield approximations of arm's length outcomes, segmented according to defined operating asset and expense intensities, alongside industry categorizations.
- **Adoption and Implementation:** Jurisdictions are given autonomy to incorporate the simplified approach for eligible entities, with an effective fiscal application for years commencing on or after 1 January 2025. This recognizes the distinct challenges and capacities of jurisdictions, allowing for tailored application while aiming for global consistency and the avoidance of double taxation.

Conclusion

The Pillar One Amount B report embodies a significant evolution in transfer pricing guidelines for baseline marketing and distribution activities, adeptly balancing the need for specific regulatory frameworks with the aspiration for global compliance simplicity and tax certainty. Its strategic approach, conclusive methodologies, and inclusivity towards low-capacity jurisdictions represent essential strides towards mitigating the administrative and economic complexities tied to the global digital economy's tax challenges.

By Sandro Andric.

