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Transfer Pricing and Transparency in MNE Reporting

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Transfer Pricing background

- Increasing awareness of transfer pricing as a development concern– G20 spotlight.
- Perceived need to protect developing countries against profit-shifting and to create a predictable business environment.
- High demand from developing countries for assistance to adopt and effectively implement transfer pricing rules.
- Need for internationally agreed standards to reflect developing country realities.



Transfer Pricing issues for developing countries

Developing countries frequently report challenges in:

- Applying rules that often require some taxpayer and tax administration discretion.
- Obtaining relevant information for audit purposes.
- Obtaining arm's length pricing information derived from comparable transactions.



Transfer Pricing capacity development

- Diagnostic framework – assist developing countries assess needs.
- Legislative framework - assistance in adoption of relevant transfer pricing legislation, and supporting regulations .
- Administrative framework – assistance in building a transfer pricing function (including oversight, audit teams etc).
- Audit framework – assistance in building audit capacity to effectively enforce TP rules.



Transfer Pricing standards

- Coherent global approach desirable – prevent double taxation.
- But approach (arm's length standard, articulated in OECD's transfer pricing guidelines) must be relevant to, and applicable by, developing countries.
- Developing country input into the production of guidance required.



Transparent reporting by MNEs

- 2003. Extractive Industries Transparency Initiative (EITI).
- 2010. EU consultations on country by country reporting.
- 2010. US Congress approves the Dodd Frank Act.
- 2011. The IASB consultation on International Financial Reporting Standard for the oil, gas and mining industries.



OECD Task Force on Tax and Development

- Multi Stakeholder body hosted by OECD (LICs, OECD countries, business, NGOs) .
- Created 2010 to help developing countries with:
 - 1. Better aid** for tax administration and statebuilding.
 - 2. Transfer Pricing** policy and implementation advice.
 - 3. Transparency in MNE reporting.**
 - 4. Information exchange for tax purposes** (including addressing tax havens) to support Global Forum.



Taxation and Governance

Three framing issues:

1. Tax close to the top of the development agenda; central to state-society relations, encourages bargaining and negotiation.
2. Good governance means administrative efficiency but also linkages to expenditures, civil society, parliament, broader transparency, perceptions of fairness.
3. The way aid is delivered can support or undermine revenue/governance.