

DIRECT INVESTMENT TECHNICAL EXPERT GROUP

OUTCOME PAPER # 5(B)

August 6, 2004

(1) Topic: Reinvested earnings of indirectly owned direct investment enterprises

(2) Issues – See DITEG Issues Paper #5B and Figure 1 in *OECD Benchmark Definition of Foreign Direct Investment* (p.11)

(3) Recommendations

(i) The group agreed that reinvested earnings should be grossed up, along the chain of indirectly owned enterprises.

(ii) The group agreed that, on a bilateral basis, reinvested earnings should only be allocated to the most immediate counterpart country, regardless of where the reinvested earnings may have originated.

(iii) The group agreed that the new manual and the new *Benchmark Definition* should clarify the treatment of reinvested earnings of indirectly owned enterprises. At present, countries that are applying the methods explained in Figure 1 (of the BD3) may be double counting the reinvested earnings of indirectly owned enterprises; these earnings could be both included in the operating profit of the recipient enterprise and added to the total reinvested earnings passed up the chain of enterprises.

(4) Rejected alternatives

None

(5) Questions for the Committee and the WIIS

(i) Do the Committee and the WIIS agree that reinvested earnings should be grossed up all the way along the chain of indirectly owned enterprises?

(ii) Do the Committee and the WIIS agree that the most immediate country in the chain should be allocated the reinvested earnings, regardless of where the earnings may have originated?

(iii) Do the Committee and the WIIS agree that the revision of BPM5 and the new edition of the Benchmark Definition should clarify the treatment of reinvested earnings of indirectly owned enterprises to eliminate the possibility of double-counting?