Intra-European Organisation of Tax Administrations

IOTA Case Study Workshop

Transfer Pricing Issues

Case Studies

5 – 6 November 2025
Budapest, Hungary

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CASE STUDY 1- ROMANIA

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Background - Description of the Case:

General Information about the case

Company A provides marketing support services for the Romanian market to its affiliate, Company B from the country Greenfield, in the period 2017 - 2018.

Company A is described as a sales agent in both transfer pricing files prepared at the group level and at local level, carrying out marketing support activities on the Romanian market using specific knowledge of the local market for pharmaceutical products (medicine) sold locally.
Company B from Greenfield is active in the production and distribution of specialized pharmaceutical products in the global market.

According to the contract signed between the two companies the article about the object of the contract mentions that the service provider (Company A) will provide to the client (Company B):

- „...services that are adequate for the needs, benefits and interests of the Client";
- „...shall make every effort to promote and market the products in the territory with due care and diligence to a competent professional entity providing services of a similar nature (including, but not limited to, active efforts to encourage customers to place orders for products with the distributor and regular visits to existing and potential customers in the territory);"

Information based on the Transfer Pricing File

About the transfer pricing policy change

The transfer pricing policy was changed following the tax audit carried out in Greenfield for the period 2013 - 2016. The Greenfield tax authority rejected the CUP method applied by company B, based on which the company A received a remuneration equal to 24% of the company B's sales from third-party distributors in Romania.

Thus, the CUP method was replace by the TNMM method, considered by the Greenfield tax administration to be a more appropriate method in relation to the functional profile of the company A, namely service provided with low functions and risk.

As a result, according to a study conducted in TP Catalyst database by the Greenfield tax administration, the Greenfield tax administration set a profit margin of 10% for the company A based on the margins of comparable companies acting as sales agents.

About the functional analysis

According to the local transfer pricing file in regards to marketing strategy the following is specified: „With their knowledge of regional pharmaceutical markets, the subsidiaries determine the decision-making process with regard to the marketing strategy. Here, there is also a need for a specialized extensive know–how, which the particular foreign subsidiaries of Company B have".
Adding to that, the transfer pricing file drawn at the group level specifies that the subsidiaries contribute their expertise to product policy in the concerned territory and influence the selection of products available for marketing, as a result of which they assume their own market and sales risk.

About the economic analysis

According to the local transfer pricing file of company A for the period 2017 – 2018, the transactional net margin method was used for the evaluation and testing of transfer pricing at the level of company A.

In this case the party tested is company A and the profit level indicator chosen is return on sales (ROS).

Thus, for the year 2017 the profit level indicator was 61.31% while for the year 2018 the profit level indicator was -37.28%, with a weighted average for the period of 38.22%.

In order to test the analysed transaction a query was carried out in the TP Catalyst database with the application of a set of quantitative selection criteria.

	2017	**2018**	**average weighted for the period**
lower quartile	6.90%	7.2%,	6.6%
median	15.6%	14.9%	17.2%
upper quartile	40.1%	26.6%	30.9%

The company concludes that the profit level indicator of the tested party company A, calculated for each financial year individually, is outside the above mentioned range, while the weighted average calculated for the period is above the upper limit of the market range, thus considering that „the taxable base has not been eroded by the transfer prices applied".

Information about the tax audit in Romania

Regarding the tax audit in Romania we would like to mention the following:

- The local transfer pricing documentation was requested by the Romanian tax authority during a tax audit for the period 2017 – 2018.
- The tax auditors focused on the transfer pricing policy change and its implications on the profitability of the company A.

Questions (relating to the case):

1) Is the new transfer pricing policy for the Company A aligned with the arm's length principle?
2) What changes could be made in order to reflect the contribution of the company A to the group value chain?
3) What steps should be made by the Romanian tax audit in order to verify if the services rendered by company A to the company B are at arm's length?

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CASE STUDY 2 - SPAIN

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Background - Description of the Case:

This case is about a large International group whose activity consists on the sale of tangible sport products (t-shirts, footwear, bags, hats…) and is a global leader in the sporting goods industry. For the purpose of this case, we will call the brand "X".

There are three parties involved:
1. The company A, a subsidiary of the group placed in country A.
2. The company B placed in country B involved in one of the transactions under study.
3. The ultimate parent company or Company C, placed in country C.

The company C houses the majority of global headquarter functions. These include but are not limited to the brand management and product creation of the X brand. C is also the owner of all intellectual property rights pertaining to the X brand and is the provider of certain sports marketing, digital marketing and IP protection services. Apart from that, C performs various corporate service functions like Global IT, Global HR, Global Finance and other corporate services.

The company B is the group's global sourcing and procurement hub for the brand X. In this role, B buys products from third party manufacturers and sales products to the group's sales entities.

The company A engages in the marketing and distribution of X branded sporting goods that it mainly acquires from B for resale. A sells and distributes goods via both wholesale and retail channels into the local market.

This case includes two transactions:
1. Purchase of goods by A from B
2. Cost contribution agreement involving A and C (CCA)

Transfer pricing policy (fiscal year 2021)

1. Purchase of goods by A from B

- Functional analysis.

B is the group's international trading hub, sources finished products from third party contract manufacturers and resells them to the group's distribution companies like A.

A performs predominantly selling and local marketing activities and bears business risks only to a limited extent. The taxpayer says that A does not contribute high value intangible assets. Thus, A can be characterized as a buy/sell distributor with a reduced functional profile.

- Financial Analysis.

Because it is the less complex party, A will be the tested party.
The Group selects the transactional net margin method (TNMM) and use the operating margin as a profit level indicator.

According to the Distribution Agreement, prices charged by B shall allow A to achieve a profit margin within a bandwidth of between 2% and 5% of local sales on average over a period of three years. The target profit margin was confirmed to fall within an arm's length range of operating margins ("OM") of comparable independent companies, according to the study rendered by the company and represented in the table below.

Comparable Distribution Companies (2018-2020) Inter-quartile range of Operating Margins	
Lower Quartile	1,50%
Median	3,50%
Upper Quartile	7,00%

The following table shows the "OM" achieved by A in FY 2021 according to the Company's IFRS accounts:

Operating profit	4.000.000
Net sales	100.000.000
Profit margin (percentage)	4,00%

2. Cost Contribution Arrangement between A and C.
The Cost Contribution Arrangement has its origin in the fact that entity A enters into sponsorship agreements with local icons such as athletes, teams, federations and events in order to increase its sales in the local market.

Within these agreements, there is a fundamental one with an important football team that we will call YFC.

YFC is well known outside the territory of operations of A and the sponsorship may benefit other companies of the group as well, it was agreed that C should co-fund the costs of the sponsorship agreement in recognition of the global value of YFC.

In line with the arm's length principle, the associated costs should be borne by the actual recipient - or recipients - of the benefit. For this reason, a co-funding by C and A has been agreed upon for the sponsorship contract with YFC.

The respective share of costs to be borne by A and C from the sponsorship of YFC is determined in accordance with the expected benefits of the parties from the arrangement. Those benefits are calculated with the ratio of international to domestic sales of licensed products (mostly t-shirts).
As per the cost contribution agreement initially concluded between A and C on the 1st of July 2004,

and effectively extended several times since then, C contribution to A in connection to the agreement was set to 35%. The percentage is based on the following data:

Period	Net Sales Domestic	Net Sales International
01/01/2000 - 31/12/2003	6.500.000	3.500.000
Estimated Contribution	65%	35%

Key Figures for the CCA's Fiscal Year 2021.

The costs incurred by A in fiscal year 2021 in connection with the sponsorship agreement were the following:

Fixed costs	10.000.000,00

The part refunded by C was the following:

Fixed costs refunded	3.500.000,00

Relevant issues highlighted during the analysis of the case by the tax administration team.

The following relevant issues were brought to light during the audit:

1º Entity A carries out all the functions of daily execution and monitoring for the correct management of the relationship between the company and YFC. Without prejudice to the fact that C is the entity that establishes the main guidelines to be followed, it is the personnel of entity A located in country A who are responsible for supervising that YFC complies with its obligations by maximizing the visibility of the "X" brand.

YFC officials meet regularly with staff from A. They have created a relationship of trust in which, among other functions, staff from A accompanies the team to matches and events, travels with the team when necessary and ensures that the players always wear clothing from brand X.

Ultimately, they have generated a valuable relationship of trust that allows them to be the link between the Club and entity C.

On the other hand, the global marketing department is located in entity C. That department is responsible for implementing a uniform brand policy worldwide and making all the strategic and operational decisions. This entity also performs the protection and exploitation of the brand.

2º During fiscal year 2021, the ratio of international sales to domestic sales of licensed products was as follows:

Period	Domestic Net Sales	International Net Sales
01/01/2021-31/12/2021	3.600.000	8.400.000
Estimated Contribution	30%	70%

Questions (relating to the case):

1. Do you agree with the functional characterization proposed by the taxpayer regarding A?
2. Do you think that the transfer pricing policy regarding the purchase of goods transaction is correct?
3. Would you consider making any adjustments to the CCA?
4. If affirmative, what adjustment would you make? What additional adjustments would you make if A goes out of range? What if it doesn't go out of range?

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CASE STUDY 3 - FRANCE

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Background - Description of the Case:

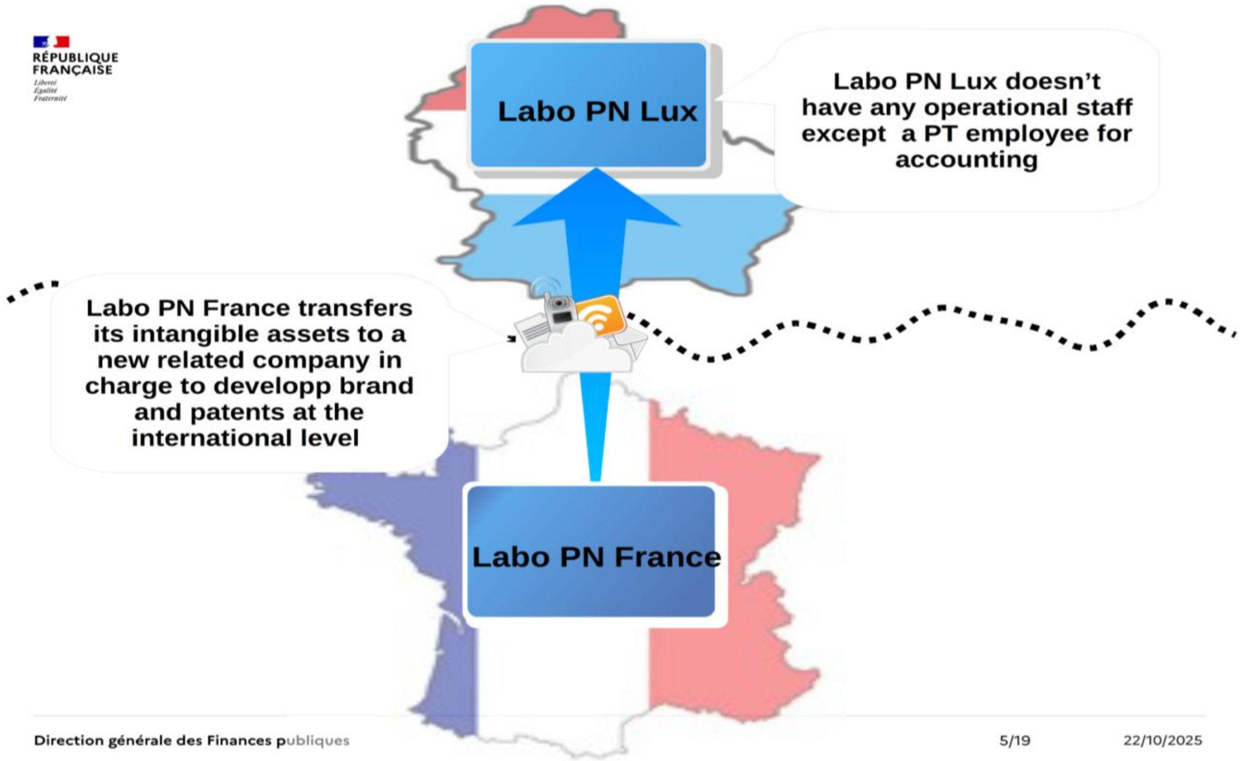
Illustration of a practical application of DEMPE FUNCTIONS to a case of intangible property.

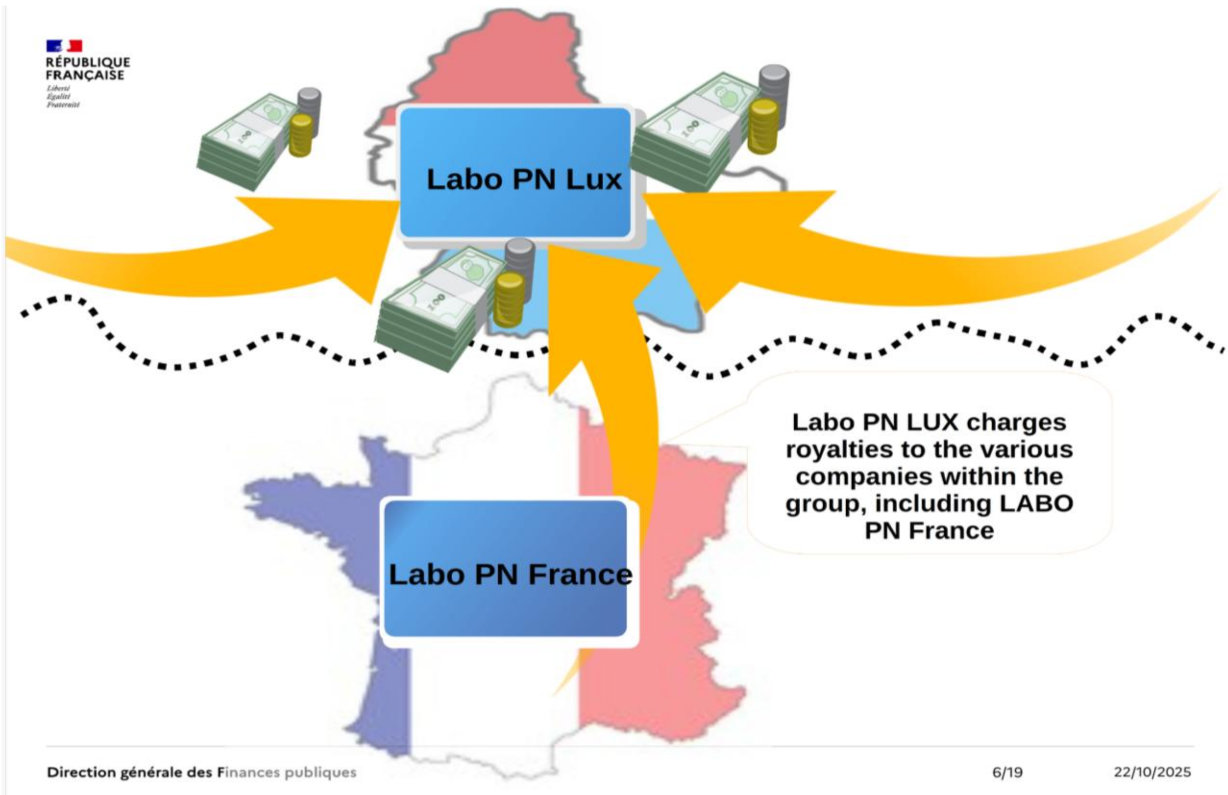
RÉPUBLIQUE FRANÇAISE

Facts about the audit

- Taxpayer's business : production and marketing of perfumes and cosmetics. The perfume and cosmetics market comprises five major segments: body care products, hair care products, toiletries, perfumes and make-up.
- Audited time period: 2013-2015
- A subsidiary of a multinational group, owned by an French company
- The audited company "LABO PN" is the ownership of brand and patents and exploits them by its own means. Conducts different activities in France : R&D, marketing and distribution.
- The group's senior management has decided to develop the brand internationally.

- Until 23 December 2013, the French company **Labo PN France owned the group's main patents** and held the main trademarks marketed both in France and abroad. It defined the related marketing strategy.
- Under a contract signed on 23 December 2013**, Labo PN France transferred** to the related company **Labo PN Lux**, located in Luxembourg:
  - The **patents** it had filed and the associated rights for €6,000,000 ('Patents assignment agreement').
  - Certain **trademarks** it owned, including some specific trademarks, for €5,000,000 ('Trademarks assignment agreement').
- In practice, only the 'product range' trademarks were transferred to the Luxembourg-based company Labo PN Lux. The parent brands remain the property of Labo PN France.
- It should be noted that the French company Labo PN France retains the well known national "PN" brand for all territories where it is operated and certain secondary brands that are derivatives of the same brand (e.g. PN Sun, PNexellence, etc.).





Facts about the audit

- Labo PN LUX is a new company in the group, created on May 2012 in Luxembourg.
- Outcome of the both sales of these IP : As a result of these transactions, on 23 December 2013, the French entity Labo PN sold certain secondary brands and patents to RC for €11,000,000.

- Following this acquisition, Labo PN LUX owns part of the group's intangible assets and has established a trademark royalty under a contract dated 24 September 2014 (‘Intangible Marketing Licence Agreement’) equal to 1.5% of the turnover. And Labo PN has to pay a royalty of 1,5 % of the turnover's net sales in France.

- After the sales of the IP, Labo PN and Labo PN LUX have concluded two contracts: one concerning R&D, this other one concerning the marketing.

- Regarding these functions, the French company is entitled to provide R&D and marketing on behalf of Labo PN LUX.

- The transfer pricing method is cost plus markup.

BEFORE the sales of the brand and patents

- French company itself produces the products in France
- Marketing department with different employees in France
- Carry out Research & Development activities in France
- Distributes the branded products on its local market
- Legal ownership of IP: brand and patents

AFTER BUSINESS RESTRUCTURING

- Stays legal ownership of some kind of IP: brand and patents
- Produces and distributes products on French market
- Became Service provider on behalf of Luxembourg company Labo PN LUX: marketing and R&D
- On its local market

Functional Analysis in France:

The trademarks and patents have been developed in France by Labo PN France.

Following the sale of the intellectual property, **Labo PN France continues to develop marketing** in France for all brands (both its own and those sold).

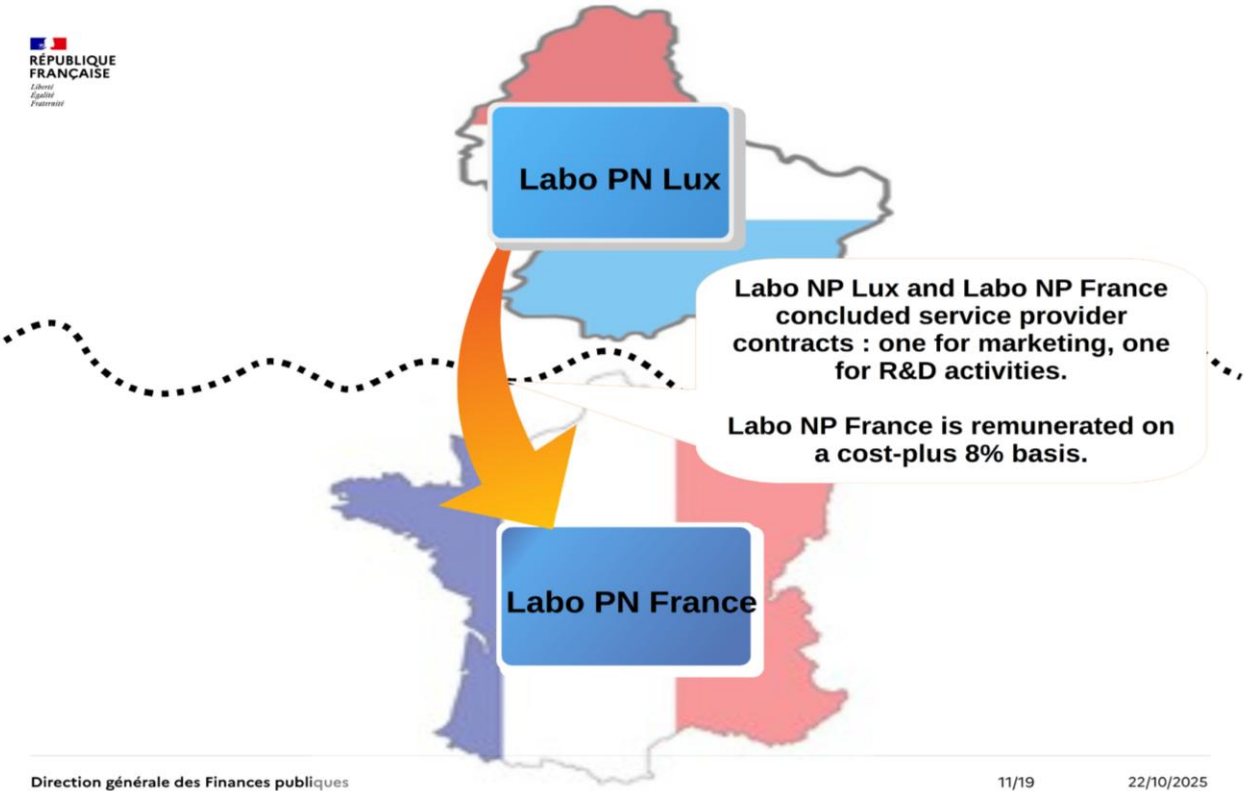
Following the sale of certain patents, **Labo PN France continues to conduct R&D activities** in France (research and development department in France : employees, machinery, applications, etc.).

Functional analysis concerning the Luxembourg company:

Labo NP Lux does **not have the internal resources** necessary to carry out its activities.

Labo NP Lux:

- **uses the services of one group accountant** who works within the company to record daily transactions;
- **outsources marketing and research work to Labo PN France** by a service provider contract.



Questions (relating to the case):

1) Regarding this case and taken in account your legislation, how do you challenge the group? Do you consider there are several options and if yes, could you explain the different options?
2) What kind of questions do you ask to the French company? Concerning the French company or the Luxembourg company to have a global overview of the situation?
3) Would you agree that the French entity has to pay royalties for brand and patents created by them?
4) What would be your approach in terms of transfer pricing, and can you explain your main lines of reasoning?
5) How do you calculate the amount of the transfer pricing?

CASE STUDY 4 - GERMANY

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Background - Description of the Case:

1. General information

The **T Group** is a globally active **Tier 1 Automotive Supplier** headquartered in Germany. It supplies all major OEMs, including Volkswagen AG, with seat heaters.

In **2010**, Volkswagen AG established a production site in Bulgaria. VW required **T AG** (the German parent company) to set up its own production facility in direct proximity if T AG wished to supply the new VW location.

Consequently, **T AG** also **founded T Bulgaria OOD in 2010**, located directly next to the VW plant. T Bulgaria OOD **exclusively manufactures** seat heaters **for the VW plant** in Bulgaria.

The **seat heaters** were **developed** and adapted for the respective models **by T AG** in Germany. T Bulgaria OOD **manufactures** the seat heaters **according to T AG's specifications**, using production machinery determined by T AG, along with pre-products and materials specified and procured by T AG.

The **T Group** classifies **T AG as the Principal (Strategic Entrepreneur)** and **T Bulgaria OOD** as a pure **Contract Manufacturer**. Corresponding to this classification, **T Bulgaria OOD** is designated as the **"Tested Party"** for transfer pricing documentation purposes.

2. Transfer Pricing Mechanism and Restructuring in 2014

Initially, the **billing path** ran through **T AG**: T OOD delivered the goods to the VW plant, but the invoicing was done by T AG to the VW plant in Bulgaria.

Until the end of 2013, the service provided by T Bulgaria OOD was therefore remunerated via T AG. The remuneration method applied was a **Full Cost Plus mark-up of 5%** on the costs of T

Bulgaria OOD.

At the **end of 2013**, the customer, Volkswagen AG, demanded a **change in invoicing**, requiring that invoicing should henceforth be **done directly by T Bulgaria OOD** to the VW plant.

Starting in 2014, T Bulgaria OOD therefore **took over the invoicing function**. The original Cost +5% remuneration via T AG was no longer practicable, as T OOD now generated the revenue directly with the VW plant. To ensure that T AG's value contributions (development, IP usage) continued to be adequately compensated, **T AG implemented a royalty fee**. This consists of a Sales Royalty totaling **2%** (split into 1% for **Trademark** and 1% for **Know-How**) on the revenue of T Bulgaria OOD. Benchmark studies range between 0.5% and 4%**.**

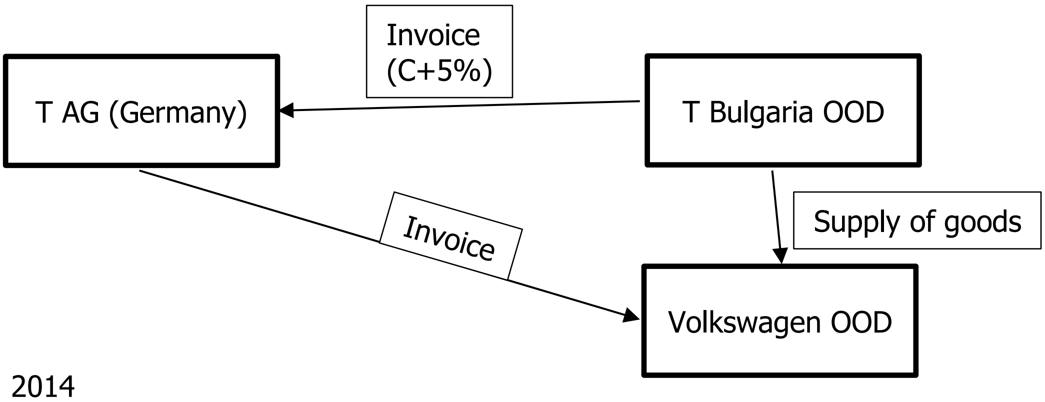
3. Functional and Risk Analysis presented by the company:

	Functions and Risks T-Group	T AG	T Bulgaria OOD till 2013	T Bulgaria OOD from 2014
	Functions			
R & D	Basic Research	x	-	-
	Product Development	x	-	-
Procure-ment	Strategic Procurement	x	-	-
	Negotiation of Framework Agreements	x	-	-
	Operational Procurement	o	x	x
	Warehousing / Inventory Holding	-	x	x
	Manufacturing / Production	-	x	x
Marketing	Marketing	x	-	o
	Contract Negotiations	x	-	-
	On-site Technical Customer Service	-	x	x
	Logistics	x	x	x
	Invoicing	x	-	x
	Warranty	x	o	o
	Risks			
General	R&D Risk / Failed R&D	x	-	-
	Market Risk / Global Macroeconomic Risks	x	-	-
Operational Risks	Utilisation Risk / Risk of Unsuccessful Acquisition	x	-	-
	Procurement Risk	x	o	o
	Inventory Risk	x	x	x
	Quality Risk	x	x	x
	Warranty Risk	x	o	o
	Product Liability Risk	x	-	-
	Supply Reliability Risk	x	x	x
	Bad Debt Risk / Credit Risk	x	-	x
	Wirtschaftsgüter			
Intangibles	Product-knowhow	x	-	-
	Process-knowhow	x	x	x
	Customer Base	x	-	x
	Trademark	x	-	-
	Supplier Base	x	-	-
	Production Facilities / Tangible Assets	-	x	x

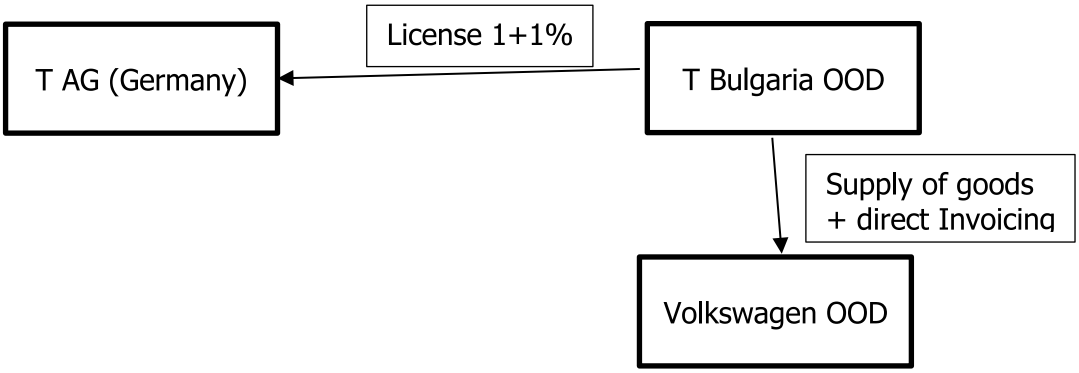
x = yes **- = no** **o = partial**

4. Diagram:

2010 - 2013



From 2014



5. Financial results

T Bulgaria OOD

In TEUR	**2010**	**2011**	**2012**	**2013**
Revenue	50,000	60,000	70,000	80,000
Costs	47,620	57,140	66,667	76,190
- thereof material from T AG	30,000	40,000	46,000	50,000
EBIT	2,380	2,860	3,333	3,810
EBIT in %	4,8%	4,8%	4,8%	4,8%
Cost Plus in %	5%	5%	5%	5%

In TEUR	**2014**	**2015**	**2016**	**2017**
Revenue	98.000	110.000	120.000	130.000
Costs w/o License	85,000	95,000	105,000	115,000
- thereof material from T AG	55,000	60,000	68,000	75,000
License Fee 2 %	1,960	2,200	2,400	2,600
EBIT	11,040	12,800	12,600	12,400
EBIT in %	11.2%	11.6%	10.5%	9.5%

6. Benchmark studies provided by the Taxpayer

Search Strategy: Independent Manufacturing Companies in Eastern Europe in the Automotive Industry; Revenue 10,000 TEUR – 300,000 TEUR

Benchmarking	2010-2013 EBIT-Margin	2014-2017 EBIT-Margin
1st quartile	3.0%	3.2%
Median	7.2%	6.8%
3nd quartile	10.35%	11.75%

A. Positions of Tax Audit vs. Company:

1. Key Positions of the German Tax Audit:

- Tested Party is **T Bulgaria OOD**
- Qualification as **Routine Entity** till 2013 and from 2014
- Remuneration C+5% till 2013 is at arm`s length
- **Cost Base** is not at arm´s length (**only value-added costs** should be remunerate with C+5%, Only day to day sourcing by T Bulgaria OOD, **Exclusion of material costs procured by T AG**)
- 2014 onwards: The Function and Risk Profile didn´t change significant, only the Invocing-Function has been changed; **Remuneration of C+5% on value added Costs still appropriate**; implementation of a profit-based license fee that leads to a result similar to the C+ remuneration.
- **Benchmarking** has to be screened and **adjusted** because there are **qualitative differences** that must be taken into account, like that all Benchmark Entities have own **Key account management, Marketing Divisions, Procurement Departments** which leads to the intangibles like **Customer base, Supplier base and brand reputation**. This is **not comparable to T Bulgaria OOD.**

2. Key Positions of the Company:

- Qualification of **T Bulgaria OOD as Routine Entity till 2013**
- Remuneration **C+5%** till 2013 is at arm`s length
- the **Full Cost Base is at arm's length**; material costs should be included.

Reason: This accounts for the compensation of **economies of scale** resulting from procurement advantages at T AG. Material **quality** is primarily **dictated by the OEM**, meaning T AG has no independent decision-making authority over it. **Quality control** is performed **by T Bulgaria OOD** and is an integral part of the production activity (poor material = poor product)

- The centralised **procurement managed by T AG is a routine service** for T Bulgaria OOD, which can be charged out to T Bulgaria OOD using a cost allocation method with a profit element (Cost Plus). Since the costs from T AG aren´t very high, in the context of the overall analysis, this does not serious affect T Bulgaria OOD's result as it remains within the benchmark range.
- As **of 2014**, T Bulgaria OOD is characterized as a **licensed manufacturer**. The **Process Know-How** (manufacturing process – reducing scrap, improvement of process management) has become a **significant intangible asset** over the years. Furthermore the **Customer Base** is economically attributable to T Bulgaria OOD, as the VW plant could not have been supplied without T Bulgaria OOD and T Bulgaria OOD have the direct contact (invoicing) to VW plant
- Therefore, a **Trademark Fee of 1% and a Technology Fee of 1%** are at arm's length (Benchmark studies range between 0.5% and 4%).

Questions (relating to the case):

1. Qualification of T Bulgaria OOD till 2013 and from 2014

a) Qualification of the invoicing function, central procurement (economies of scale), Customer Base and Process Know-How?

b) Overall Qualification of T Bulgaria in the respective years?

2. If remuneration C+ is appropriate, which Cost Base till 2013?

3. Benchmark analysis appropriate? Adjustments necessary?

4. Remuneration from 2014 onwards?