July 22, 2026

To,
Transfer Pricing,
Tax Treaties and International Agreements Division,
OECD Centre for Tax Policy and Administration

Subject: Suggestion on revisions to Chapter VII of the OECD Transfer Pricing Guidelines

Dear Sir/Madam,

We appreciate the efforts of the OECD in reviewing and revising Chapter VII of the OECD Transfer Pricing Guidelines. Bombay Chartered Accountants Society (BCAS) welcomes the opportunity to provide feedback on the discussion draft and respectfully makes certain recommendation. Please refer enclosed file containing comments by BCAS on the draft OECD Transfer Pricing Guidelines.

BCAS is honoured to be India's largest and oldest not-for-profit professional body of Chartered Accountants, guided by passionate volunteers with a 12,000+ membership presence across 350+ cities and towns in India. BCAS has remained steadfast in its dedication to the profession's development since its inception in 1949. As we mark completion our 77th year of service to the nation, we reaffirm our commitment to providing extensive growth and advancement opportunities to our members and other professionals through various avenues such as learning events, research publications, advocacy, networking, and community initiatives.

We appreciate OECD's consideration of our feedback and look forward to a favourable response.

Thank you for your time and consideration

Regards,

CA Kinjal Shah	**CA Mayur Nayak**	**CA Anil Doshi**
President	**Chairman**	**Co Chairman**

International Taxation Committee

Executive Summary

This document presents comments by the Bombay Chartered Accountants' Society ('BCAS') on the OECD's proposed changes to the transfer pricing guidance for intra-group services.

The overall view is that the revised guidance is useful, but several areas still need greater clarity. Terms such as "reasonable", "proportionate" and "disproportionately onerous" are too subjective and may be interpreted differently by taxpayers and tax authorities. The OECD should therefore provide clearer definitions, practical examples and measurable thresholds.

A key issue is the distinction between shareholder activities and chargeable services. Activities carried out only to protect or manage the parent company's ownership interest should remain shareholder costs. However, where the parent or another group entity provides operational support, implementation assistance, training or compliance services to subsidiaries, such activities should generally be chargeable.

The document also identifies several ownership-related activities that are not clearly covered in the existing guidance. These include investment monitoring, nominee director costs, shareholder disputes, ESG reporting, family-office governance, succession planning and protection of ownership rights.

Further guidance is also needed on allocation keys used to divide service costs between group companies. The allocation key should reflect the actual benefit received. For example, headcount may be suitable for HR services, number of users for IT services, transaction volume for accounting services and number of matters for legal services. Turnover should generally be used only where no better allocation key is available.

Stock-based compensation is another major area requiring specific guidance. The document recommends that such costs should normally be included in the cost base of a service provider and marked up where they relate to employees providing services. The allocation should follow where the employee actually performs the functions, rather than only the legal employer or the entity granting the shares.

For routine and low-risk services, cost-plus or TNMM should continue to be the normal transfer pricing method. Profit split should be used only for complex and highly integrated services, and the OECD should explain clearly how the relevant combined profit is to be identified.

The document also recommends retaining examples of common centralised services, clearly defining core and support services, reviewing the fixed 5% mark-up for low value-adding services and providing a simple comparison of documentation requirements for regular services and low value-adding services.

Overall, the response asks the OECD to make the guidance more practical, clear and consistent, while still allowing flexibility for different business models and factual situations.

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Part A

BCAS Comments & Suggestions on Questions to public commentators

Box 1. Questions to public commentators
Commentators' views are invited on: 1. The understanding and practical application of existing guidance in paragraph 7.10 of the OECD 2022 Transfer Pricing Guidelines. 2. Whether, based on your experience, there are other activities that would commonly meet the definition in paragraph 7.9 of the OECD 2022 Transfer Pricing Guidelines that are not reflected in paragraph 7.10 of the OECD 2022 Transfer Pricing Guidelines. 3. The activities that, based on your experience, could be captured by item (e) which refers to "ancillary activities to the corporate governance of the MNE as a whole".

BCAS Comments & Suggestions on Issue 1 to Box 1

Issue 1 to Box 1. The Understanding and Practical Application of existing guidance in Para 7.10 of the OECD 2022 Transfer Pricing Guidelines

Para 7.10 three practical issues remain:

1. Tax authorities may treat the list as a complete checklist, even though it is only meant to give examples.
2. It does not explain how costs should be divided when the same employee, entity or department performs both shareholder activities and chargeable coordination services. (This gap is still not clear in the new guidance)
3. It does not clarify which entity should bear the shareholder cost when the activity is performed by a regional or intermediate holding company instead of the ultimate parent.

A detailed analysis on every point of 7.10:

Juridical structure costs (shareholder meetings, share issuance, stock exchange listing, supervisory board) — this is the cleanest item on the list. Rarely disputed in practice because these costs are inherently parent-only and don't touch subsidiary operations. No real application problem here.

Reporting requirements (such as consolidation, the parent's audit of subsidiary accounts, and preparation of consolidated financial statements) - are often the main source of dispute. The 2022 guidance says that locally incurred costs may not need to be charged to the parent where identifying and separating them would be "disproportionately onerous." However, this term is not clearly defined. In practice, two issues arise. First, tax authorities often treat all group MIS and management reporting costs as shareholder costs, even where these systems also provide useful operational support to subsidiaries, such as budgeting assistance, performance analysis, and benchmarking. This makes it difficult to separate reporting done only for the parent's statutory purposes from reporting that also benefits the subsidiary. Second, because there is no clear threshold or practical example of what is “disproportionately onerous,” similar cases may be treated differently across jurisdictions.

Fund-raising and investor relations can also create practical difficulties. The 2022 guidance distinguishes between funds raised by a parent for acquiring an investment, which is treated as a shareholder cost, and funds raised on behalf of another group entity, which is treated as a service. While this distinction is reasonable in principle, it is difficult to apply in centralised treasury structures. The same treasury team and financing facility may be used for several group purposes, and it is often not clearly documented at the time of raising the funds which entity is being funded. The guidance therefore assumes a level of clarity that may not exist in practice.

Tax compliance costs of the parent (Specifically Pillar II example) are generally treated as shareholder costs and are usually less controversial. However, the position becomes more complex in relation to Global Pillar Two compliance. Pillar Two is a global project, but the work may also involve group local entities providing data, preparing calculations, reviewing adjustments, and meeting jurisdiction-specific requirements. The guidance does not explain how such mixed costs should be divided. In practice, costs relating solely to the parent’s own compliance should remain with the parent, while costs that directly support the compliance obligations or tax position of a particular subsidiary may be allocated to that entity. Common project costs may need to be separated using reasonable allocation keys, such as time spent, number of entities covered, or the level of work performed for each jurisdiction. With the introduction of BEPS AP 13 and its implementation across the globe by MNEs, the cost of gathering and compiling the data for preparation and submission of these documentation also requires to be allocated between the group companies as it is compliance on behalf of the group.

Ancillary Activities - The phrase “ancillary activities relating to the corporate governance of the MNE as a whole” creates significant uncertainty because the guidance provides no examples or clear boundaries. In practice, almost any activity performed by the parent’s board, senior management, or central corporate team could be described as governance. This may lead tax authorities to classify a wide range of management and oversight costs as shareholder costs and deny their recharge to group entities. However, not every activity carried out by senior management is undertaken only for the parent’s benefit. Some activities may directly support subsidiaries through strategic guidance, risk management, operational supervision, policy implementation, or business planning. The key issue should therefore be whether the activity is performed only because of the parent’s ownership interest or whether it provides a real and identifiable benefit to one or more group entities. Without clearer guidance, the shareholder-activity exception may be applied more widely than intended.

Conclusion to the Issue 1 to Box 1

In conclusion, three changes would make the guidance easier to apply. First, the list in paragraphs (a) to (e) should be clearly stated to be illustrative and not exhaustive, since tax authorities often treat it as a complete checklist. Second, the Guidelines should provide a practical method for dividing costs where the same employees or departments perform both shareholder activities and chargeable services. This could be based on the functions performed, time spent, or another reasonable allocation key. Third, the phrase "disproportionately onerous" should be supported by a clear and workable threshold, such as a materiality-based safe harbour, instead of being left entirely to subjective judgment.

BCAS Comments & Suggestions on Issue 2 to Box 1

Issue 2 to Box 1: Whether, based on your experience, there are other activities that would commonly meet the definition in paragraph 7.9 of the OECD 2022 Transfer Pricing Guidelines that are not reflected in paragraph 7.10 of the OECD 2022 Transfer Pricing Guidelines.

In our experience, several recurring activities meet the test in paragraph 7.9 because they are performed only due to the ownership interest and benefit only the entity holding that interest. However, these activities are not specifically covered in the illustrative list in paragraph 7.10.

These activities broadly fall under five areas: investment monitoring and portfolio management; protection of ownership rights and governance; capital-markets and treasury-related matters; modern regulatory obligations that were not common when the current guidance was drafted; and promoter or family-controlled ownership structures, which are particularly common in India and the GCC.

We set out these activities below as an example broadly covering the above five areas and indicate which ones should, in our view, be given priority in the final guidance.

1. **Impairment testing and fair valuation of investments in subsidiaries.** The parent may be required to test its investment in a subsidiary for impairment or revalue it under its own accounting framework, such as IAS 36 or Ind AS 36. These costs arise because the investment appears in the parent's own books and do not provide any operational benefit to the subsidiary.

2. **Ongoing portfolio review and capital allocation decisions.** A holding company may regularly review which investments should be expanded, retained, restructured, or sold, and decide how capital should be allocated across the group. This is different from carrying out a specific sale or restructuring. It is the parent acting as an investor and reviewing its own portfolio, rather than providing a service to a subsidiary.

3. **Nominee or representative director costs.** A parent may appoint directors to the board of a subsidiary specifically to protect or monitor its investment. The costs of identifying, appointing and remunerating such directors, including directors' and officers' insurance for their role as nominees, should generally be treated as shareholder costs. These costs are not clearly covered by paragraph 7.10(a), which refers mainly to the legal structure of the parent itself.

4. **Monitoring shareholder agreements, joint venture agreements and financing covenants.** A parent or joint venture partner may monitor compliance with agreements and covenants that protect its ownership or investment position. Where the activity is focused on protecting the equity interest rather than supervising the day-to-day business, it is an ownership-related activity.

5. **Exercise and protection of ownership rights.** Costs relating to pre-emptive rights, anti-dilution protections, rights issues and decisions on whether to invest further to maintain a shareholding percentage are incurred to protect the parent's ownership interest. They do not represent a service to the subsidiary.

6. **Resolution of disputes between co-shareholders or joint venture partners.** Legal, arbitration or litigation costs may arise from disputes over ownership percentages, exit rights, valuation or control between shareholders. These are different from legal disputes faced by the subsidiary in the ordinary course of its business. The current guidance does not clearly recognise this distinction.

7. **Maintenance of the parent's own standalone credit rating.** Rating-agency fees and related disclosure costs incurred for assessing the parent's own creditworthiness as a borrower or investor should generally remain with the parent. These costs are close to investor-relations activities but are not clearly covered by paragraph 7.10(c), which mainly refers to communication with shareholders and analysts.

8. **Determination of dividend policy and capital repatriation strategy.** Decisions on how much profit should be extracted from subsidiaries, in what form and at what time are part of the parent's capital-allocation strategy. They reflect the owner's investment decisions rather than a service provided to the subsidiary making the distribution.

9. **Parent-level ESG and sustainability disclosure.** Where sustainability or ESG reporting is legally required from the listed parent itself, the related costs should generally be treated as shareholder costs. The current guidance was drafted before such reporting obligations became widespread and therefore provides little help in distinguishing parent-level reporting from services that may benefit group entities.

10. **Compliance with modern listed-company governance requirements applicable to the parent.** Listed parents may incur costs under frameworks such as SEBI's LODR requirements in India or governance rules issued by the DFSA or ADGM in the GCC. This may include board approvals and related-party transaction processes applicable specifically to the parent. These activities are similar to those referred to in paragraph 7.10(a), but are broader than the existing reference to the parent's "juridical structure."

11. **Family office or promoter-level governance structures.** Many groups maintain a family office or promoter secretariat at the holding-company level to manage the family's ownership interests across different operating businesses. Such activities are carried out for the owners and should generally qualify as shareholder activities. The current list, however, appears to assume a conventional corporate shareholder and does not address such structures.
12. **Succession planning and ownership-transition governance.** Costs relating to family constitutions, next-generation governance frameworks and planning for the transfer of ownership are connected with who owns the business, rather

than how the underlying business is operated. These should therefore generally be treated as shareholder costs.

13. **Anti-takeover and ownership-control defence costs.** Advisory and other costs incurred in developing shareholder-rights plans or defending against a takeover are aimed at protecting the parent's ownership and control over itself. This is different from the listing and legal-structure costs currently covered in paragraph 7.10(a).

14. **Share registry, depository and transfer-agent costs for the parent's own shares.** Costs relating to the maintenance and transfer of the parent's own shares should remain with the parent. These should be distinguished from costs incurred by the parent in administering share plans or equity records for employees of subsidiaries, which may amount to a chargeable service.

15. **Reporting to non-listed institutional co-investors or sovereign minority shareholders.** Periodic reporting obligations to a minority institutional or sovereign wealth fund co-investor, common in GCC ownership structures, are an ownership-relationship cost rather than investor relations in the public-markets sense contemplated by limb (c) of paragraph 7.10.

We recommend that items 1 to 6 be given priority for inclusion in the final guidance. These activities arise in almost every multinational group, regardless of sector or ownership structure, and regularly lead to disputes because there is currently no clear reference to them in the text.

Items 7 to 10 may be better included as clarifications rather than as strict rules, because, depending on the facts, they may overlap with genuine treasury, management or group-compliance services.

Items 11- 15 highlight a broader concern. The current list appears to be based mainly on a traditional corporate shareholder structure and does not easily deal with promoter-led, family-controlled or co-investment arrangements. Such ownership structures are common not only in India and the GCC but in many other markets as well. The final guidance should therefore expressly recognise them.

BCAS Comments & Suggestions on Issue 3 to Box 1

Issue 3 to Box 1. Activities that may fall under item (e): "Ancillary activities to the corporate governance of the MNE as a whole"

Item (e) is the most open-ended part of paragraph 7.10 because it gives no examples. This creates risk on both sides: taxpayers may classify genuine services as governance, while tax authorities may treat valid services as shareholder activities. In our view, the following activities may properly fall under this category:

1. **Group governance framework and policy-setting.** Preparing and updating a group governance charter, code of conduct, or delegation-of-authority matrix is generally a shareholder activity. It becomes a service where the parent also helps subsidiaries implement the framework or provides operational training.

2. **Related-party transaction policy oversight.** Approval and periodic review of the group's related-party transaction policy by the parent board is a governance activity. Preparing documentation, benchmarking, or administering the policy for subsidiaries is a chargeable service.

3. **Specialised board committee oversight.** Costs of the parent's audit, risk, nomination, and remuneration committees should generally be treated in the same way as supervisory board costs. The current guidance does not clearly cover these committees.

4. **Enterprise risk management and internal audit oversight.** Board approval of the group's risk appetite, internal audit charter, and reporting structure is a governance activity. Conducting audits at subsidiaries or running risk-management systems for them is a service.

5. **Whistleblower and ethics oversight.** Board-level oversight of the group's ethics and whistleblower framework is governance. Operating the hotline, investigating complaints, or providing compliance training is a service.

6. **External governance assurance.** Board-effectiveness reviews, governance audits required under listing rules, and engagement with governance-rating agencies are generally parent-level governance costs.

7. **Company secretarial function of the parent.** Maintaining statutory registers, recording board minutes, and providing corporate compliance support to the parent board are governance activities of the parent. But if the same is provided by one group entity to other group entity as per local laws of the other group entity is a service.

8. **Legal entity rationalisation and group structure design.** Deciding whether to close dormant entities, reduce the number of subsidiaries, or simplify the ownership structure is generally a shareholder activity. Implementing the restructuring for subsidiaries is a service.

9. **Oversight of insurance and crisis-management frameworks.** Board-level approval of group insurance, crisis-management, or business-continuity policies is governance. Actual procurement, cost allocation, or operational support during a crisis is a service.

10. **Board composition and succession planning.** Setting the required skills, independence criteria, and succession plan for the parent board is a governance activity. Recruiting or appointing directors for a subsidiary may be a separate service.

11. **Conflict-of-interest and director-independence framework.** Designing and approving policies for identifying and managing conflicts of interest at the parent-board level is governance. Administering declarations and compliance processes for subsidiaries may be a service.

12. **Reserved-matters and approval framework.** Deciding which matters require approval from the parent board, shareholders, or group committees is part of

the parent's oversight role. Preparing and processing approvals for a subsidiary's day-to-day transactions may be a service.

13. **Parent-board reporting and governance packs.** Preparing information solely to enable the parent board to monitor the group may be a governance activity. Where the same reports also provide operational analysis or recommendations to subsidiaries, the related portion may be chargeable.

14. **Executive remuneration governance.** Parent-board or remuneration-committee decisions on group leadership remuneration, incentive philosophy, and senior executive succession are governance activities. Operating payroll, incentive plans, or employee-benefit schemes for subsidiaries is a service.

15. **Oversight and approval of major group transactions.** Parent-board review of acquisitions, disposals, major investments, or significant capital commitments is part of its ownership and oversight role. Due diligence, valuation, negotiation, or implementation support provided to a subsidiary may be chargeable.

16. *Where would the cost of due diligence before acquiring a stake in an entity which is also a holding entity of a group fall: in the hands of outgoing investors or the acquiring investor entity? These will also amount to shareholder activity. In which scenario such due diligence etc. will be considered services and in which scenario not? Can this be clarified by way of illustrations.*

17. **Group tax governance and tax-risk policy.** Approval by the parent board of the group's tax strategy, tax-risk appetite, and governance framework is a governance activity. Preparing tax returns, transfer pricing documentation, or tax advice for subsidiaries is a service.

18. **Cybersecurity and data-governance oversight.** Board-level approval and monitoring of the group's cybersecurity, data-protection, and information-governance framework is governance. Operating cybersecurity systems, responding to incidents, or providing data-compliance support to subsidiaries is a service.

19. **Group culture and conduct oversight.** The parent board's approval and monitoring of group values, culture, and expected standards of conduct is governance. Training employees, conducting investigations, or implementing conduct programmes within subsidiaries is a service.

20. **Director induction, evaluation, and governance training.** Induction and evaluation of the parent's own directors, including training required for their governance responsibilities, should generally remain a parent-level cost. Training directors or management of subsidiaries may be a chargeable service.

21. **Regulatory and governance horizon scanning for the parent board.** Monitoring legal and governance developments to inform the parent board of changes affecting its own oversight obligations is governance. Detailed regulatory advice or implementation support provided to individual subsidiaries is a service.

22. **Oversight of group reputation and stakeholder-risk policies.** Parent-board decisions on the group's overall reputation, stakeholder engagement, and conduct-risk framework are governance activities. Managing local stakeholders, public relations, or regulatory engagement for a subsidiary is a service.

23. **Approval of group constitutional and governance documents.** Reviewing and approving model articles, board mandates, committee terms of reference, and governance protocols is part of the parent's governance role. Customising and implementing these documents for individual subsidiaries may be chargeable.

The key distinction is whether the activity results in a decision, policy, standard, or approval required for the parent's oversight role, or whether it provides operational support that a subsidiary uses in running its business.

We recommend that the final guidance:

1. Include a non-exhaustive list of examples, particularly covering specialised board committees and the distinction between governance oversight and operational risk or internal audit work.

2. Clearly state the difference between governance activities and operational services.

3. Cross-reference paragraphs 7.29 to 7.31, since the same employees or committees may perform both shareholder and chargeable service activities.

<u>Box 2. Questions to public commentators</u>

Paragraph 7.59 of the OECD 2022 Transfer Pricing Guidelines provides examples of allocation keys in the context of low value-adding services:

7.59. By way of examples, the allocation key for services related to people might employ each company's share of total group headcount, IT services might employ the share of total users, fleet management services might employ the share of total vehicles, accounting support services might employ the share of total relevant transactions or the share of total assets. In many cases, the share of total turnover may be a relevant key.

Comments are invited on:

1. Would it be useful to provide further guidance on the application of allocation keys for certain intra-group services?

2. What are the allocation keys appropriately applied in practice to specific intra-group services?

<u>BCAS Comments & Suggestions on Issue 1 to Box 2</u>

Issue 1 to Box 2: Would it be useful to provide further guidance on the application of allocation keys for certain intra-group services?

In our view, yes. Paragraph 7.59 of the 2022 Guidelines (renumbered paragraph 7.90 in the discussion draft) is framed as “by way of examples” and stops there. The discussion draft gives allocation keys only “by way of examples” and does not provide a clear method for choosing between them. This creates four recurring practical issues.

First, there is no decision rule for cases where more than one allocation key may be reasonable, but each produces a materially different result. For example, IT service costs may be allocated based on user count, device count, or transaction volume. Each key may appear reasonable, but the result can vary significantly depending on the group’s technology model.

Second, neither the discussion draft nor the existing OECD Transfer Pricing Guidelines 2022 provide clear standards on the quality of data to be used. It is unclear whether actual, budgeted, or estimated figures are acceptable, how often the data should be updated, and how current measures such as headcount, assets, or transaction volumes need to be.

Third, the guidance does not adequately address differences across sectors and business models. A headcount-based key may be suitable for a traditional people-driven business but may produce a distorted result for a highly automated business with few employees and a high volume of transactions. In such cases, transaction volume, market volume, system usage, or customer contacts may be more reliable.

Fourth, there is no materiality threshold for deciding when an allocation key should be reviewed or changed. Paragraph 7.91 of the discussion draft, corresponding to paragraph 7.60 of the existing OECD Transfer Pricing Guidelines, cautions against changing allocation keys without a justified reason. However, neither provision explains how the most appropriate key should be selected at the outset or when a change becomes sufficiently material to be required.

In our experience, disputes over allocation keys arise because the taxpayer’s chosen key is often treated as unreasonable. They arise because neither the taxpayer nor the tax authority has a clear textual benchmark against which the choice can be tested. A published, non-exhaustive matrix linking common service categories with suitable primary and alternative allocation keys would therefore provide useful practical guidance and reduce disputes.

BCAS Comments & Suggestions on Issue 2 to Box 2

Issue 2 to Box 2: What allocation keys are appropriately applied in practice to specific intra-group services?

Based on our experience across group structures, we set out below an illustrative, non-exhaustive matrix of allocation keys we would recommend the final guidance adopt as a reference point – not as a mandatory rule, but as a shared starting point for taxpayers and tax administrations alike.

Service category	Primary allocation key	Alternative / supplementary key	Practical note
Accounting and auditing (financial statement gathering/review, accounting records, operational/financial audit assistance, budget preparation)	Number of transactions/journal entries processed	Total assets or turnover	Transaction count best reflects effort where volume varies by entity; turnover suits cases where the driver is business scale rather than transaction count.
Processing and management of accounts receivable and accounts payable	Number of invoices/ transactions processed	Turnover	OECD's own named LVA example; transaction count is almost always more precise than turnover here.
HR – staffing and recruitment	Headcount, or hires/vacancies filled per entity	—	Headcount is a reasonable proxy where hiring-volume data isn't tracked centrally. Weights can also be considered basis the different levels of employees.
HR – training and employee development	Headcount	Training hours delivered per entity	Headcount is OECD's own suggested key; training-hours is more precise if usage varies widely across entities.
HR – remuneration services (compensation/benefits policy, payroll, timekeeping)	Headcount	Payroll transaction volume	Straightforward, low dispute risk in our experience.
HR – development and monitoring of staff health, safety and environmental standards relating to employment matters	Headcount	Number of sites/facilities	This is the employment-specific HSE bullet in the LVA list; distinct from the business-wide monitoring bullet below.

Monitoring and compilation of data relating to health, safety, environmental and other standards regulating the business	Number of sites/facilities	Headcount	The broader, business-wide regulatory-monitoring bullet in the LVA list, as distinct from the employment-specific item above; site-count better reflects risk where exposure is plant- or site-driven.
IT – installing, maintaining and updating IT systems; information system support (accounting, production, client relations, HR/payroll, email)	Number of IT users	Number of devices/licences	OECD's own example (paragraph 7.59); covers the bulk of the LVA IT bullet.
IT – training on use of information systems and equipment; developing IT guidelines; organising the IT helpdesk	Number of IT users, or helpdesk tickets raised	Headcount	Ticket-volume allocation is often more precise than a flat user-count where support intensity varies significantly by entity.
IT – telecommunications services, IT security systems, and supporting/maintaining IT networks (LAN/WAN/internet)	Number of devices/endpoints connected	Number of IT users	Network and security cost often scales with connected endpoints rather than headcount, particularly in device-heavy operations.
Internal and external communications and public relations support (excluding advertising/marketing strategy)	Headcount	Turnover	Usage is largely uniform per employee, so headcount is the standard default.
Legal – drafting and reviewing contracts, agreements and other legal documents	Number of contracts/matters handled per entity	Turnover (fallback)	Time-recording by matter is ideal where available.
Legal – legal consultation and opinions	Number of advisory requests/matters per entity	Headcount of the function seeking advice	Harder to quantify; a logged-request

			count is a reasonable proxy.
Legal – representation of the company (litigation, arbitration, administrative procedures)	Number of active matters/cases per entity	Turnover	Material litigation should generally be direct-charged rather than pooled; use this key only for genuinely shared, low-value support.
Legal – legal research and administrative work for registration and protection of intangible property	Number of IP filings/registrations per entity	Headcount	Distinguish carefully from IP development, enhancement, maintenance, protection and exploitation (DEMPE) functions, which fall outside LVA scope entirely.
Tax – information gathering and preparation of tax returns (income tax, sales tax, VAT, property tax, customs and excise)	Number of tax returns/filings per entity	Turnover	Consider weighting for the number of tax types/jurisdictions filed, not just the headline filing count, basis the time and effort.
Tax – making tax payments, responding to tax administrations' audits, and giving advice on tax matters	Number of filings/audit responses per entity	Turnover	As above; complexity-weighting is often more accurate than a flat count.
General services of an administrative or clerical nature	Headcount	Turnover	OECD's own default catch-all; use turnover only where headcount data is unreliable.
Fleet management	Number of vehicles	Vehicle mileage or fleet value	OECD's own example at paragraph 7.59; qualifies as LVA only where genuinely supportive and non-core (e.g., not a fleet used directly in a

			transport/logistics core business).
Procurement/purchasing support (non-production goods and services only)	Value of purchases processed (spend)	Number of purchase orders	Must be clearly distinguished from purchasing of raw materials or production inputs, which is expressly excluded from the LVA simplified approach.
Facilities/real estate management support (general office administration)	Floor area occupied	Headcount	A common practical extension of “general administrative” support; not separately named in the LVA list but generally accepted as in scope where genuinely low-value.
Residual/general overhead with no single clear driver	Turnover (share of total group turnover)	—	OECD's own suggested key; a last resort, not a first choice – it can distort allocation between capital-intensive and labour-intensive entities.

In addition to above, in this era of AI, it will be significant to note that if all or any of the above services are being provided using the AI, then there must be guidance for appropriate selection of allocation key in the different scenarios using the AI. For illustration, if IT services provided by one group entity to other group entities through use of AI, then in certain circumstances allocation key of using the headcount can become irrelevant. Hence, many more such permutations and combinations can arise basis the use of AI, and therefore services provided through use of AI can be a different chapter in itself.

Box 3. Questions to public commentators Commentators are invited to provide their views on the relevant considerations regarding the treatment of stock or share based compensations in the context of intra-

group services. Specifically, we seek commentators' views on:

1. Do you encounter challenges associated with the appropriate treatment of stock or share based compensation in relation to intra-group services? If so, please describe these challenges and whether they include timing, accounting treatment and valuation of stock or share based compensation?

2. How do you address stock-based compensation as part of your transfer pricing analysis?

3. Do you think additional guidance in relation to stock or share-based compensation would be beneficial for intra-group services?

BCAS Comments & Suggestions on Issue 1 to Box 3

Issue 1 to Box 3: Do you encounter challenges associated with the appropriate treatment of stock or share based compensation in relation to intra-group services? If so, please describe these challenges and whether they include timing, accounting treatment and valuation of stock or share based compensation?

Stock-based compensation in intra-group service arrangements

Stock-based compensation is one of the more consistently under-addressed cost items in transfer pricing documentation for intra-group services. The 2022 OECD Transfer Pricing Guidelines refer to stock-based compensation only briefly, as an example of a direct cost in what is now paragraph 7.58. However, the Guidelines do not explain how such costs should be dealt with in relation to timing, accounting treatment, or valuation.
In practice, all three issues are important. They also interact with each other, which makes the treatment of stock-based compensation in a service cost pool particularly difficult.

Timing of the expense
The first issue is timing. Under accounting rules, the cost of stock-based compensation is normally recognised over the vesting period (graded or straight-line vesting), which may extend over three or four years. However, the employee continues to perform services during this period, and the employee's role, employing entity, or area of responsibility may change before the award fully vests.

This is common in shared-service centres, centralised support functions, and secondment arrangements. For example, an employee may receive a stock award while working in a group IT or finance function. During the vesting period, the employee may be promoted, transferred to another entity, seconded to a different jurisdiction, or assigned to a new business function. Despite this change, the accounting expense may continue to be recorded in the original cost centre, or it could change the cost centre and the efforts of such vesting were undertaken in the past, so typically the expense does not belong to that cost centre.

This creates a practical question: which entity or service cost pool should bear the continuing expense? It may no longer be appropriate to charge the cost to the original service recipients if the employee is now performing different work or supporting different entities or vice versa.

A related issue arises when awards are forfeited or re-estimated. If an employee resigns before the award vests, the previously recognised expense may need to be reversed. Similarly, where vesting depends on performance conditions, the expected vesting outcome may need to be revised periodically.

These adjustments are generally recorded in the period in which the estimate changes. They may therefore create a large positive or negative adjustment in a later year, even though the underlying employee services were provided over earlier periods.

Accounting treatment
The second issue is accounting treatment. There are at least three important areas of divergence.

The first is the difference between equity-settled and cash-settled awards. Equity-settled awards are generally measured at fair value on the grant date, and that value is then recognised over the vesting period. The amount is not normally remeasured simply because the share price changes.

Cash-settled awards, such as phantom shares or stock appreciation rights, are treated differently. They are usually remeasured at fair value at every reporting date until settlement. Any change in value is recognised through the profit and loss account.

As a result, two employees receiving economically similar compensation may generate very different accounting costs. An equity-settled award may result in a relatively stable expense, while a cash-settled award may produce substantial year-to-year volatility. This difference may arise only because of the design of the incentive plan, rather than because the employee provided more valuable services.

The second area of divergence is the accounting framework itself. IFRS 2, US GAAP under ASC 718, and Ind AS 102 do not always produce the same result. Differences may arise in the treatment of forfeitures, performance conditions, modifications, and other measurement matters.

A multinational group may therefore record one amount for stock-based compensation in its consolidated financial statements and a different amount in the local statutory accounts of the service provider. This raises an important transfer pricing question: which accounting number should be included in the service cost pool?

The third and often most important issue is the difference between accounting expense and tax deduction. The amount recognised in the books may not be deductible for tax purposes in the same amount, in the same entity, or in the same year.

This is relevant in India and in many other jurisdictions. A group may include the book expense in the cost-plus base and recharge it to another entity. However, the entity bearing or paying the cost may not receive a corresponding tax deduction.

This mismatch can create double taxation. The service provider may earn a mark-up on a cost that is not deductible, while the recipient may also face questions about the deductibility of the recharge. The resulting exposure arises from the accounting and tax mismatch rather than from the arm's-length nature of the transfer price.

Valuation of stock-based compensation

The third issue is valuation. The fair value of share options and similar instruments depends on several assumptions, including expected volatility, expected life of the option, risk-free interest rate, dividend yield, and expected exercise behaviour.

These assumptions involve judgment. Two companies with employees performing similar functions may therefore record materially different stock-based compensation costs simply because they have used different valuation assumptions.

This can reduce comparability in a cost-plus or TNMM analysis. A higher recorded stock-based compensation expense may reduce the operating margin of one company, even where the underlying business and employee functions are similar to those of another company.

The issue is more difficult for privately held companies because there is no quoted market price for their shares. The company must first determine the value of the underlying equity, often using a discounted cash flow method, comparable-company multiples, or another valuation approach including the Black-Scholes Model.

Such valuations are inherently more judgmental. In the case of cash-settled awards, the valuation may also need to be updated at every reporting date. This can introduce further volatility into the service cost base.

The valuation issue also affects benchmarking. Comparable companies used in a TNMM analysis are often listed companies that disclose material stock-based compensation expenses. The tested party, however, may be an unlisted service provider that has no stock-based compensation plan, uses a different type of plan, or records the cost differently.

The comparison of margins may therefore be distorted because one company includes a significant stock-based compensation cost while another does not. This may require a comparability adjustment or, at a minimum, a careful review of whether the expense is treated consistently across the tested party and the comparable companies.

Another complication is that the grant-date fair value of an equity-settled award remains fixed and is recognised over the vesting period, even if the value of the company changes significantly.

For example, an employee may provide services in the third year of a four-year vesting period, but the expense recognised in that year may still be based on a valuation completed when the award was granted three years earlier. In a fast-growing company, the grant-date value may be much lower than the actual economic value eventually delivered to the employee. In a declining company, it may be much higher.

The accounting cost recharged for the year may therefore not reflect the actual economic value of the compensation relating to the services performed during that year.

Combined impact
These timing, accounting, and valuation issues often reinforce each other. For example, a privately held group using cash-settled phantom shares may face all three problems at the same time. It must obtain a judgmental valuation of the company, remeasure the liability at every reporting date, and decide how the resulting volatile expense should be allocated across employees, entities, service cost pools, and service recipients.

The guidance should therefore go beyond simply identifying stock-based compensation as a direct cost under paragraph 7.58 of the 2022 OECD Transfer Pricing Guidelines. It should explain:

1. how the expense should be allocated where an employee changes role, entity, or function during the vesting period;
2. how forfeiture reversals and performance-condition adjustments should be treated;
3. whether the group, local statutory, or tax-deductible amount should be used in the cost pool;
4. how differences between equity-settled and cash-settled awards should be addressed;
5. whether valuation-related volatility should be included in the marked-up cost base;
6. and how comparability adjustments should be considered where the tested party and comparable companies follow different stock-based compensation practices.

Without such guidance, taxpayers and tax authorities may adopt very different approaches to the same cost, leading to avoidable disputes and possible double taxation.

<u>BCAS Comments & Suggestions on Issue 2 to Box 3</u>

Issue 2 to Box 3: How do you address stock-based compensation (SBC) as part of your transfer pricing analysis?

SBC is generally included in the cost base and marked up like any other compensation cost, particularly for limited-risk service providers, since excluding it would understate the true cost of the function performed and the return that should attach to it. The cost is typically allocated to the entity where the employee is functionally engaged at the relevant time, rather than to the entity holding the formal employment contract or the original grant, which addresses cases where employees move between entities during the vesting period. For measurement, the accounting treatment is generally followed so as to keep book and tax positions aligned, unless there is a specific tax reason to depart from it. Whatever convention is adopted is applied consistently across periods and entities to limit dispute risk, and where the cost is absorbed by the parent and not actually recharged, this can create further complications, including domestic secondary-adjustment consequences in some jurisdictions, which practitioners factor into the analysis when deciding how the cost should ultimately be treated. This can also lead to high pitch litigations pertaining to secondment of employees like recent case of EY USA pronounced by an Indian high Court.

That said, practice on all of the above varies significantly from practitioner to practitioner and from country to country, precisely because there is no clear, uniform guidance on the treatment of stock or share-based compensation that can be applied consistently across jurisdictions. Given the materiality and recurrence of this issue, we believe stock-based compensation merits its own independent chapter in the OECD Transfer Pricing Guidelines, rather than being addressed only incidentally, as it currently is, as a passing example of a direct cost.

BCAS Comments & Suggestions on Issue 3 to Box 3

Issue 3 to Box 3: Do you think additional guidance in relation to stock or share-based compensation would be beneficial for intra-group services?

Yes. Given the issues discussed in Questions 1 and 2, the need for additional OECD guidance on stock-based compensation is not a marginal point. It is almost a necessary conclusion.

The main reason is that stock-based compensation has become far too important in practice to be dealt with only in passing. At present, the OECD Guidelines refer to stock-based compensation only once, and that too as one example of a direct cost, along with items such as salary and travel expenses. This limited reference does not reflect the real importance of the issue. In actual transfer pricing practice, stock-based compensation can materially affect the cost base, the mark-up, the tested party's profitability, and the overall arm's length outcome. It can also create disputes on whether the cost should be included at all, whether it should carry a mark-up, how it should be valued, and which entity should bear it.

If one country requires stock-based compensation to be included in the cost base and another country does not accept the corresponding charge, the taxpayer may be exposed to double taxation. In some countries, non-recharge or under-recharge of such cost may also trigger secondary adjustment issues. Therefore, the issue is no longer small enough to be left to broad interpretation.

In the absence of clear OECD guidance, practice differs significantly across taxpayers, advisors and tax administrations. Some practitioners include stock-based compensation in the cost base with a mark-up. Some include it without a mark-up. Some exclude it completely. Some rely on accounting expense, while others look at recharge, cash cost, grant-date value or settlement value. This lack of a common approach creates uncertainty. This is precisely the reason the answer to Question 2 is kept general rather than being specific. This is exactly the kind of issue where OECD guidance is useful, because the purpose of the Guidelines is to create a common framework and reduce avoidable disputes between jurisdictions.

Stock-based compensation is no longer limited to a few technology companies or start-ups. It has become a common part of employee remuneration across global capability centres, shared service centres, financial services businesses, professional services firms and multinational groups generally. In countries such as India and in the GCC region, stock-based compensation is increasingly relevant for senior employees, key technical personnel and large employee groups. As a result, it is now a routine cost item in many intra-group service arrangements. The OECD Guidelines have not kept pace with this practical development.

The guidance should therefore address the main areas where disputes arise.

First, the OECD should provide guidance on whether stock-based compensation should generally be included in the cost base. In our view, for a limited-risk service provider that is remunerated on a cost-plus basis, the correct starting point should be inclusion of stock-based compensation in the cost base, along with an appropriate mark-up. This is because the entity is expected to earn a return on its fully loaded operating cost. If stock-based compensation is part of the employee cost of delivering the service, excluding it may understate the true cost base and distort the arm's length remuneration.

At the same time, the guidance should recognise that facts matter. If the stock-based compensation is clearly a shareholder cost, or if it relates to group-level ownership incentives that do not benefit the service recipient, a different treatment may be justified. The guidance should therefore provide a principled default, but not a rigid rule.

The guidance should address allocation of stock-based compensation where employees move between entities or perform functions for more than one group entity during the vesting period. In such cases, the cost should not necessarily follow the legal employer or the entity that granted the award. A more appropriate approach may be to allocate the cost based on where the relevant functions were actually performed during the period. This would align the cost with the economic activity that gave rise to the charge.

The OECD should provide guidance on measurement. One practical question is whether the amount to be included should follow the accounting treatment or whether a separate tax valuation should be applied. A sensible approach would be to use accounting treatment as the starting point, because it is objective, available and auditable. However, the guidance should also explain when a departure from accounting treatment may be justified, especially where the accounting expense does not reflect the arm's length economic cost or where there is a significant mismatch between accounting and tax outcomes. For example, as per Indian safe harbour regulations, the operating expense includes the cost incurred in the tax year by the taxpayer in relation to international transactions during the course of its normal operations, including its cost relating to ESOP or similar stock-based compensation provided for by the AE of the taxpayer to the employees of the taxpayer.

The guidance should deal with differences between accounting standards. Groups may report under IFRS 2, ASC 718, Ind AS 102 or other accounting frameworks. These standards may not always produce the same timing or valuation result. In a multinational group, this can create differences in how the same stock-based compensation plan is recognised across jurisdictions. OECD guidance should provide a common transfer pricing approach for dealing with such differences, so that the transfer pricing outcome does not become dependent only on the accounting standard used by a particular entity.

The OECD should expressly address cases where the stock-based compensation cost is borne by the parent company and is not recharged to the operating entity. This is a common fact pattern. The absence of recharge does not automatically mean that the cost is irrelevant for transfer pricing. If the employee of the operating entity is providing services and part of that employee's reward is being funded through stock-based compensation, the question remains whether the operating entity's cost base is understated. This issue can become even more sensitive in countries that have secondary adjustment rules, because a failure to recharge may be treated as creating a separate tax consequence.

The guidance is needed on comparability. Benchmarking can become distorted where some comparable companies disclose stock-based compensation separately, while others do not. Some may include it in employee cost, while others may classify it differently. Without a common approach, the tested party's margin and comparable margins may not be measured on a like-for-like basis. The OECD should therefore explain when comparability adjustments may be required and how such adjustments may be practically made.

The form of the guidance is also important. This issue should not be addressed through another short passing reference in Chapter VII. Stock-based compensation is not relevant only to intra-group services. It can affect cost-plus manufacturing arrangements, limited-risk distribution models, contract R&D services, cost contribution arrangements and even profit split analyses. Wherever employee cost or cost base is relevant, stock-based compensation can become relevant. Therefore, the issue deserves either a dedicated section in the Guidelines or a standalone treatment covering its application across different chapters.

However, the guidance should not become overly prescriptive. Stock-based compensation plans differ widely. Some awards are equity-settled, while others are cash-settled. Some vest over time, while others depend on performance conditions. Some relate to listed companies, while others relate to unlisted group entities. Some are granted by the parent, while others are granted locally. Because of this variety, a single rigid rule would not work for every case.

The better approach would be principles-based guidance supported by practical examples. The OECD could set out the main principles and then illustrate how those principles apply in common fact patterns. This would give taxpayers and tax authorities a common starting point, while still allowing room for fact-based analysis.

In summary, additional OECD guidance is needed because stock-based compensation is now a material and recurring transfer pricing issue. The current guidance is too limited, practice is inconsistent, and the absence of a common framework can lead to disputes, secondary adjustment exposure and double taxation. The guidance should cover inclusion in the cost base, mark-up, allocation, valuation, accounting differences, parent-funded awards, recharge issues and comparability adjustments. It should be detailed enough to reduce uncertainty, but flexible enough to deal with different plan designs and commercial fact patterns.

Part B
Other BCAS Comments, Suggestions and Responses on the Revisions to Chapter VII of the OECD Transfer Pricing Guidelines

Issue 1 – Para 7.52 - Removing the old presumption favouring cost-plus/ TNMM for services

Issue in suggested draft (Paragraph 7.52):
The draft removes the earlier preference for cost-based methods without confirming that they remain appropriate for routine, low-complexity services. This may unnecessarily require detailed economic analysis, including consideration of profit split, even for simple shared services.

BCAS Comments & Suggestions
Paragraph 7.52 should retain the existing principle that the method should be selected based on the actual nature of the service rather than its label. However, it should also confirm that a cost-based method will ordinarily be appropriate for routine services that do not involve unique and valuable intangibles or the assumption of significant risks. The transactional profit split method should remain limited to the circumstances described in paragraphs 7.66 and 7.67.

Suggested language:
"Where the service is routine, does not involve unique and valuable intangibles, and does not involve the assumption of significant risk by the service provider, a cost-based method will ordinarily be the most reliable method. Other methods, including the transactional profit split method, should be applied only in the circumstances described in paragraphs 7.66 and 7.67."

Issue 2- (Para 7.66–7.67) Profit split for services

Issue—Paragraphs 7.66–7.67, read with Chapter II, paragraphs 2.114–2.151:
The draft states that the transactional profit split method may be appropriate for complex or valuable services. However, it does not explain how the profit to be split should be identified. Unlike a product transaction, a service often does not generate a separate or directly measurable profit. Its value may instead contribute to a wider business activity, product line, or group transaction. The existing guidance in Chapter II, paragraphs 2.114 to 2.151, explains how a profit split should be carried out, but largely assumes that the relevant combined profit has already been identified. This leaves uncertainty when applying the method to services.

BCAS Comments & Suggestions
WP6 should provide specific guidance on how the relevant combined profit should be determined for a service. This should include whether the profit may be identified from the wider business activity to which the service contributes, how directly the service must be connected to that profit, and how far downstream the analysis may reasonably extend. The guidance should also prevent profits unrelated to the service from being included in the profit pool.

Suggested language:
"When applying the transactional profit split method to a service under paragraphs 2.114 to 2.151 of Chapter II, the combined profit to be split should be limited to the profit that can reasonably and directly be linked to the service, or to the group of closely connected transactions of which it forms part. Where the service does not generate a separate profit figure, the relevant profit may be identified from the broader activity to which the service contributes, provided that the link is sufficiently direct and reliable."

Issue 3- "Disproportionate," "reasonable," and "materiality" are used repeatedly as thresholds

Issue—Paragraphs 7.4, 7.15(d), 7.44, 7.71 and 7.94:
The chapter uses the word "reasonable" and similar terms for two different purposes without clearly separating them. In paragraphs 7.4, 7.44 and 7.71, the term relates to the level of information, compliance cost or documentation burden that may reasonably be required. In paragraph 7.15(d), however, "reasonably expected" refers to whether a benefit could have been foreseen when the activity was performed, which helps determine whether a service exists at all. Paragraph 7.94 is the only provision that provides a measurable threshold, and even that applies only to low value-adding services. In all other cases, taxpayers and tax authorities must interpret the meaning from the context.

BCAS Comments & Suggestions
WP6 should clarify that these are two separate concepts. For information requests, compliance costs and documentation burdens under paragraphs 7.4, 7.44 and 7.71, the guidance should provide a measurable threshold similar to the approach in paragraph 7.94. The test in paragraph 7.15(d) should remain a facts-and-circumstances test because it concerns whether the benefit was reasonably foreseeable when the activity was performed.

Suggested language:
"Where this Chapter refers to information requests, compliance costs, documentation requirements or materiality as being 'reasonable,' 'proportionate' or 'disproportionate,' the assessment should be based on a measurable factor, such as the ratio of the relevant cost or burden to the value of the transaction or the recipient's turnover, consistent with the approach in paragraph 7.94. This is separate from the reference to a benefit being 'reasonably expected' in paragraph 7.15(d), which concerns whether the benefit was foreseeable when the activity was performed and should be assessed on the relevant facts and circumstances."

Issue 4- No Practical Guidance on Stock based compensations

Issue: The consultation includes a specific question on stock-based compensation on page 20 and invites detailed comments on its treatment. However, Annex I, despite containing 21 practical examples on a wide range of service issues, does not include any example dealing with stock-based compensation. Given the level of uncertainty and dispute this issue creates in practice, this is an important gap that could be addressed through a simple worked example.

BCAS Comments & Suggestions

Add a new Example 22 to Annex I illustrating how SBC should be treated in the cost base of a limited-risk service provider — specifically, that it should be included and marked up like any other compensation cost, that it should be allocated to wherever the employee is functionally engaged (not fixed to the original grant entity if the employee is seconded mid-vesting), and that measurement should follow the accounting treatment absent a specific tax reason to depart from it.

Issue 5 – Taking out or removing the guidance on Centralised services which is existing paragraph 7.14 in OECD 2022 TP Guidelines:

The existing OECD Transfer Pricing Guidelines include a practical list of common centralised functions, such as accounting, IT, legal, human resources and treasury support, which would ordinarily qualify as intra-group services. This list provides a useful starting point and avoids the need to establish the benefit test afresh for routine support services. The discussion draft removes this list without providing any replacement or practical example.

BCAS Comments & Suggestions

WP6 should retain a similar illustrative list, or include a worked example confirming that ordinary centralised support functions generally qualify as intra-group services.

Issue 6 – Core and Support services – introduced – Definition needed

Issue—Section A, paragraph 7.2:

Paragraph 7.2 distinguishes between services forming part of the MNE group's core business, such as research and development, production or marketing, and services of a supportive nature, such as administrative or finance functions. However, it does not provide a clear test for distinguishing between the two in less obvious cases. This distinction is important because paragraph 7.78 uses the same concept to determine which services are excluded from the simplified approach for low value-adding intra-group services.

BCAS Comments & Suggestions

WP6 should provide a practical and consistent test for distinguishing core-business services from support services. Paragraphs 7.2 and 7.78 should both refer to the same test to avoid different interpretations.

Suggested language:

"A service forms part of the MNE group's core business where it directly contributes to the group's principal source of revenue or profit. A service is supportive where it enables or facilitates the core business without directly generating such revenue or profit. This distinction should apply consistently throughout this Chapter, including paragraph 7.78."

Issue 7 – LVAS – Mark-up revision and country specific mark ups in some cases

Issue—Section E, paragraph 7.92:

The fixed 5% mark-up for low value-adding intra-group services has remained unchanged for many years and may no longer reflect current market conditions across all jurisdictions. A single OECD-determined rate may also not be appropriate for countries where domestic safe harbour rules prescribe a different mark-up based on local economic conditions and market data.

BCAS Comments & Suggestions

The 5% mark-up should be revisited to assess whether it remains appropriate. The Guidelines should also allow a jurisdiction to apply the mark-up prescribed under its domestic safe harbour framework instead of the standard OECD rate, where that local rate is supported by relevant market and economic data.

Issue 8 – Documentation checklist (illustrative) could be added – minimum standards – For general and for LVAS

Issue: The chapter contains two separate documentation frameworks that are not clearly connected. The general guidance applies to all intra-group services and states that documentation should be proportionate to the nature and value of the services involved.

BCAS Comments & Suggestions

Incorporate a comparative table, as follows, equating and differentiating both the documentation expectations.

Documentation theme	**General / non-LVAS services — full documentation (paras 7.71–7.73)**	**LVAS — minimum documentation (para 7.95)**
Description of the service	Technical documentation or service agreement describing the specific nature, scope, and implementation schedule of the service (e.g. intra-group services agreement, project materials, presentations)	Description of the *category* of service, the beneficiaries, and the rationale for providing it within the context of the MNE's business
Qualification/threshold justification	Not applicable — no equivalent qualification test for general services	Reasons justifying that each category meets the low value-adding definition in Section E.1
Evidence of benefit	Explanation of the expected benefit from the specific activity, supported by communications on scope and uptake (meeting minutes, emails, approvals) and deliverables evidencing the benefit (reports, memos, IT tickets)	Description of the benefit or expected benefit of each service *category*, at an aggregated level

Monitoring where benefit doesn't materialise	Required — an explanation of the underlying reasons, including any review undertaken and the resulting commercial decision (adjusting or discontinuing the charge)	Not required — tax administrations are expected to generally refrain from revisiting the benefit test once the simplified approach conditions are met
Breakdown of activities *(newly added)*	Documentation providing a clear and accurate breakdown of the activities connected to the service	No direct equivalent — LVAS documentation operates at the cost-category level (see cost base row below), not an activity-by-activity breakdown
Contracts/agreements	Technical documentation or service agreement covering the same ground, but tailored to the specific service rather than a category-wide arrangement	Written contracts or agreements identifying the entities, nature of services, and terms/conditions, evidencing agreement to the allocation rules
Cost base construction	Explanation and calculation of how the cost base was constructed, separately identifying direct costs, indirect costs, and operating expenses, whether actual, budgeted, or standard, supported by source documents (invoices, timesheets, receipts)	Documentation and calculations showing the cost pool for the category, with a detailed listing of categories and amounts of cost, including costs relating to services provided solely to one member
Allocation key support	Justification for the selected allocation key(s), detailed calculation of their application (budgeted vs. actual), an explanation of any discrepancy between total costs allocated and total costs incurred, and the procedures/criteria used to select costs and keys	Description of the selected allocation key(s) and the reasons justifying that they reasonably reflect the benefits received together with calculations showing their application
Mark-up support *(cross-referenced, not a literal 7.72–7.73 bullet)*	Full benchmarking support for the mark-up applied, consistent with the general transfer pricing documentation requirements in Chapter V	Confirmation that the prescribed mark-up (currently 5%) has been applied — no benchmarking study required
Pass-through costs *(cross-referenced, not a literal 7.95 bullet)*	A specific breakdown of pass-through costs versus marked-up costs, together with external providers'	Implicit within the cost pool documentation, given pass-through costs are excluded from the

	invoices for the pass-through amounts	mark-up under paragraph 7.92

Issue 9 – Activities performed by Shareholder that satisfy benefit test

Issue—Paragraphs 7.29–7.31, Section B.2.1.4:
Paragraphs 7.29 and 7.30 repeat the general benefit test already set out in paragraph 7.13. A separate subsection for activities performed by a shareholder may incorrectly suggest that a different test applies. The example of a parent providing training also does not raise any issue unique to shareholder activities. The only new and useful point is paragraph 7.31, which addresses the need to separate the shareholder's own-benefit portion from the chargeable service portion.

BCAS Comments & Suggestions
WP6 should remove paragraphs 7.29 and 7.30 as a separate subsection and incorporate the apportionment principle in paragraph 7.31 into the existing shareholder-activities guidance in paragraphs 7.24 to 7.28.

We trust that all the above comments and suggestions will be duly considered.

PS: For further communication in relation to this representation document kindly connect on following mail IDs as well as contact numbers:

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