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Country-by-Country Reporting

A study on how Swedish MNEs prepare for the new transfer pricing
documentation requirement

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Abstract

This paper employs a hybrid methodological approach to study the impact of the steps taken to comply with the new transfer pricing documentation requirement, Country-by-Country (CbC) reporting, on the management control system (MCS) in a Swedish multinational enterprise (MNE). Based on the empirical case study findings and the results from the industry survey, we find that there are inconsistencies between how transfer pricing policies are developed according to the arm's length principle (ALP) and how the outcome from those policies are documented in the common CbC report model template developed by the OECD. Our analysis shows that the inconsistencies create a multidimensional, time-ordered sequence effect on the components of our case company's MCS. We argue that the common CbC report model template creates uncertainty and unpredictability for MNEs, which are compensated through preparation of prevention mechanisms for the benefit of stakeholder management.

Keywords: Country-by-Country Reporting, BEPS Action Plan, Transfer Pricing, Management Control Systems, Stakeholder Management

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Stockholm, May 2016

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List of Abbreviations

ALP	Arm's Length Principle
BEPS	Base Erosion Profit Shifting
BC	Business Controller
BRIC	Brazil Russia India China
CbC	Country-by-Country
CPLM	Cost-Plus Method
CUPM	Comparable Uncontrolled Price Method
ETR	Effective Tax Rate
FTA	Forum on Tax Administration
GAAP	Generally Accepted Accounting Principles
GM	General Manager
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LOC	Levers Of Control
MCAA	Multilateral Competent Authority Agreement
MCS	Management Control System
MNE	Multinational Enterprise
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
PLI	Profit Level Indicator
PSM	Profit Split Method
RPM	Resale Price Method
TNMM	Transactional Net Margin Method

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1. Introduction

This section introduces the topic and the research question of this paper.

In July 2013, the Organization for Economic Co-operation and Development (“OECD”) published a series of action items collectively known as the Base Erosion and Profit Shifting (“BEPS”) Action Plan. BEPS involves the ‘*utilization of tax planning strategies by MNEs that exploit gap and loopholes within current and domestic international taxation legislation*’, resulting in income from cross-border activities that may go untaxed anywhere or be unjustifiably lowly taxed. These tax planning strategies primarily center on shifting profits from high-tax jurisdiction to low-tax jurisdictions through numerous methods, including among others transfer pricing. After extensive deliberation by the working parties of OECD¹, the final Action Plan was presented in October 2015, including 15 action points, with the overall aim to ensure that profits are taxed where economic activities generating the profits are performed and where value is created.

Transfer pricing is the area of tax law and economics that is concerned with how to split the consolidated profit between group companies involved in the value chain. Although some differences exist in the domestic regulations, the arm’s length principle (“ALP”) continues to be a fundamental concept according to which MNE group intra-group transactions are priced. The principle requires the members of an MNE group to set transfer prices by reference to the conditions which would have obtained between independent enterprises in comparable transactions and comparable circumstances.

The work under the BEPS Action Plan recognized that the existing guidance on the ALP is vulnerable to misapplications or manipulations to achieve BEPS. For this reason, the OECD revised their transfer pricing guidelines, specifically the guidelines relating to application of the ALP (Actions 8-10) and the guidelines relating to transfer pricing documentation (Action 13).

In addition to the revised guidance on already existing transfer pricing documentation requirements, Action 13 contained a common model template for Country-by-Country (“CbC”)

¹ i.e. the G20 countries, other OECD member states, as well as other large non-OECD states and representatives of developing countries

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reporting. The objective of the new reporting initiative is to revise and bring in a completely new level of transparency in transfer pricing reporting. Using the common template, Multinational Enterprises (“MNEs”) will be required to provide all relevant governments with necessary information on their global allocation of income, taxes paid and business activity. The emphasis is on collecting information that will assist tax authorities in assessing transfer pricing risk, but which will not be unduly burdensome for MNEs to collect.

CbC reporting is considered a much needed tool towards the goal of ensuring enhanced transparency for tax authorities on the one hand, while promoting increased certainty and predictability for MNEs on the other. Currently, many tax authorities only receive tax returns for the MNE entities required to file taxes in their tax jurisdiction and might thus not have access to information about related parties undertaking transactions with the taxpayer in their country. The incomplete picture of MNE global operations has been recognized to often result in BEPS behaviors, not being transparent for identification and quantification.

The benefits of tax transparency, however, depend on the information requested. Mandatory public disclosure requirements have a natural tendency to be inherently prescriptive in nature as opposed to clear articulation of information. MNEs seem to be concerned about the uniform CbC reporting approach to their increasingly complex global operations, and the potential for the information provided to be misinterpreted and misunderstood by tax authorities if it is provided without additional explanation. The concern raises the question whether enhanced transparency for tax authorities actually promotes increased certainty and predictability for MNEs.

In a larger context, transfer pricing has turned into a global debate about tax fairness. Various voices, including political leaders, Non-Governmental Organizations (“NGOs”), journalists and the society at large, are questioning whether MNEs pay their *‘fair share of tax’*, challenging international tax rules they feel do not fairly deliver the revenue they were intended to capture. The political rhetoric and public debate have sometimes been addressing very complex tax issues in a simplistic manner, accusing transfer pricing rules based on the ALP as the cause of these complex tax issues. The great coverage have changed the nature and impact of reputational risk associated with tax matters, creating a number of reputational risk challenges for MNEs looking to reconcile legally compliant tax positions with public perceptions about them. The increased interest and awareness has successively transformed tax fairness into a Corporate Social Responsibility

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(“CSR”) focus area, forcing MNEs to treat tax governance and tax compliance as important elements of their oversight and broader risk management systems. The development indicates that MNEs are increasingly recognizing tax as a significant strategic business issue, having to respond in a clear and thoughtful way to a much wider base of stakeholders than ever before.

Implementation of CbC reporting is moving ahead, and many countries have enacted a CbC reporting requirement into their domestic legislation in accordance with Action 13² for the 2016 tax year (filing in 2017). What this means for MNEs globally is that they need prepare their CbC report in order to be able to file it in the jurisdiction of their parent company (or in jurisdictions of particular legal entities of the MNE group)³ at latest 31st December 2017.

This paper contributes to the existing literature on the impact of transfer pricing tax compliance on Management Control Systems (“MCS”) by providing an MNE perspective on the creation and preparation of processes and controls as a result of the new CbC reporting documentation requirement. We do so in the context of a wide group of stakeholders, and their perceptions’ about how MNEs manage their transfer pricing practices. In this way, this paper aims at integrating managerial accounting, taxation law and international transfer pricing disciplines due to the close relationship that exists between them.

While a few studies have examined the effects of transfer pricing tax regulation on MNEs’ transfer pricing practices (Plesner Rossing, 2013) and on the design and use of their MCSs (Cools et al. 2008, Cools and Slagmulder 2009 etc.), these studies have not investigated how MNEs are affected by CbC reporting in the context of transfer pricing. Recent studies addressing CbC reporting have examined the effectiveness of CbC reporting as a transparency system (Wojcik, 2012b) and the adequacy of CbC as tool to address BEPS and tax avoidance by MNEs (Fuest et al., 2014; Evers et al., 2014). In addition to its function as a tool for transparency, deterring BEPS, other previous studies on CbC reporting have evaluated how a comprehensive form of CbC reporting should be implemented and structured into a corporate reporting system (Gallhofer and Haslam 2007; Ting, 2014a; Longhorn 2015). However, these studies have not explicitly investigated how CbC

² i.e. in accordance with the model legislation and the three model Competent Authority Agreements provided in the Action 13: Country-by-Country Reporting Implementation Package

³ Through the model legislation, the OECD have recommended that each country should consider collecting the CbC report locally if the jurisdiction in which the ultimate parent is tax resident is not engaged in collecting and exchanging the report.

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reporting, as outlined by the OECD in Action 13, affects MNEs' transfer pricing practices in the context of their MCSs. Such studies are relevant, as they may improve the current literature's limited understanding of how the OECD CbC reporting proposal will change the way MNEs handle internal transfer pricing for both managerial accounting and for tax purposes.

Consequently, this paper aims to answer the following research question:

What is the impact of the steps taken to comply with the Country-by-Country reporting documentation requirement, developed by the OECD in Action 13 as part of the BEPS Action Plan, on the Management Control System in a multinational enterprise?

In order to answer this research question, we have conducted a qualitative single in-depth case study of a Swedish MNE with operations in 91 countries. We have conducted 21 interviews with representatives to understand how the case company's transfer pricing practices have been influenced by the new CbC reporting documentation requirement. We also made a number of observations of how the transfer pricing practices were documented in the CbC report model template by carrying out a preparation and analysis of the case company's CbC report to be filed for the 2016 tax year. In order to understand if the transfer pricing practices of other MNEs are affected in a similar manner as our case company's, we also carried out an industry survey to all Swedish MNEs subject to the same CbC reporting documentation requirement.

In order to structure and analyze our findings, we developed an analytical framework that enables the presentation of the transfer pricing practices in the context of a MCS, using Eccles' (1985) definitions of determinants of transfer pricing practices in combination with Simons' (1994) Levers of Control ("LOC") framework.

From the analysis, we find that XX. We can draw the following XX conclusions...

1.1 Outline

The remainder of this thesis is organized as follows. Section two provides an institutional setting encompassing an overview of the tax regulatory environment and the developments relating to CbC reporting which outlines the broader context of the study. Section three commences with a review of the academic literature on organizational behavior and MCS and concludes with the development of the theoretical guiding frameworks that serves as the basis for our hypothesis development. Section four discusses the research methodology employed within this thesis,

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including the research design, the selection of the case company and research site and data collection used. Chapter five presents the pre-study findings of our dynamic analysis followed by the abductive analysis of the new transfer pricing documentation requirements in chapter six. This is followed by the analysis of the survey findings, which is presented in chapter seven. Finally, chapter eight discusses the overall conclusions, limitations and contribution of this study as well as suggestions for future research.

2. The Fiscal Environment

This section outlines the main features of the OECD Transfer Pricing Guidelines with respect application- and documentation of the ALP and the new CbC reporting documentation requirement.

Developments brought about by globalization and the digital economy have put increased pressure on where business profits ought to be taxed. The issue of jurisdiction to tax is closely linked with the measurement of profits. After establishing that a share of a MNE's profits can be considered to originate from a jurisdiction and that the jurisdiction should be allowed to tax it, it is necessary to have rules for the determination of the relevant share of profits that will be subject to taxation. Transfer pricing rules and procedures perform this function.

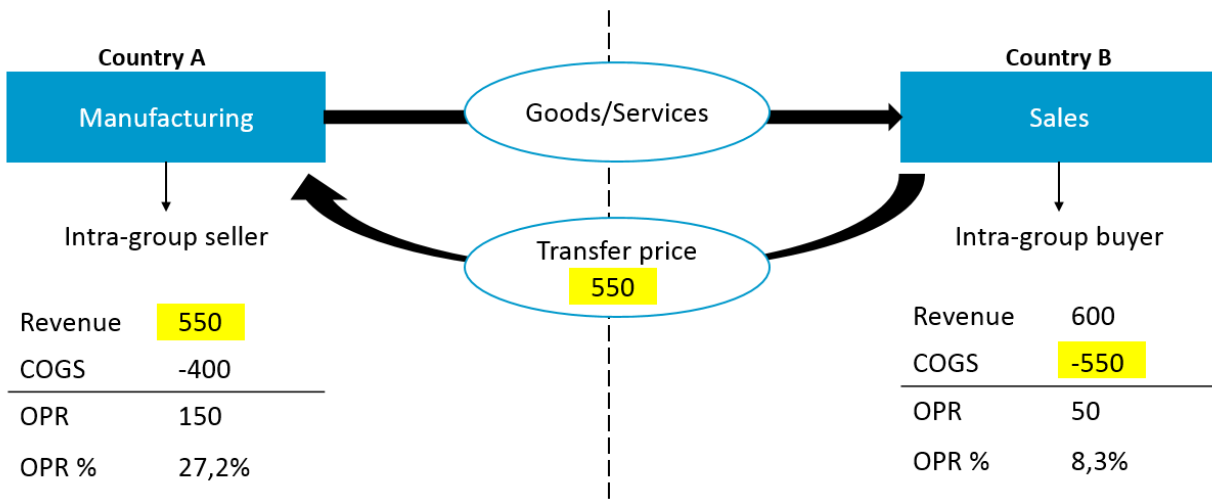
Rules and procedures applicable to transfer pricing are often found in the domestic tax law of many countries. In many cases these reflect the OECD Transfer Pricing Guidelines. The OECD has been the standard setter of transfer pricing guidelines in the international tax area for at least fifty years, building on a structured process and consensus between the member countries. In 1995 the OECD issued '*Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*' ("the OECD Transfer Pricing Guidelines") that should help tax authorities and MNEs to manage the implied tax issue in transfer pricing. The OECD Transfer Pricing Guidelines provide guidance on the application of the arm's length principle ("ALP"), the international standard that the OECD member countries have agreed should be used to evaluate transfer prices for tax purposes. The principle is outlined in article 9 of the OECD Model Tax Convention (1992)⁴ and follows the separate entity approach, treating affiliated group companies as operating as separate entities rather than as inseparable parts of a single unified business. The approach implies that the conditions made or imposed in commercial or financial relations between transacting affiliated companies, should not differ from those that would be made between independent companies engaging in similar transactions under similar circumstances.

⁴ The OECD Model Tax Convention Generally reflects the residence principle of taxation, while the UN model generally reflects the source principle of taxation.

2.1 Application of the Arm's Length Principle

MNEs apply the ALP to their intra-group cross-border transactions (“intra-group transactions”) through the development of transfer pricing policies according to which transfer prices are set for tax purposes. Transfer prices perform the function of distributing the consolidate profit made on a product and/or service offering between the legal entities involved in the value chain (See Figure 1 below).

Figure 1- Example application of the ALP



Because the separate entity approach treat affiliated companies as if they were independent, the application of the ALP is generally based on a comparison (“comparability analysis”) of the economically relevant characteristics (“comparability factors”) of the affiliated companies to the intra-group transaction under review, with those of comparable uncontrolled transactions under comparable circumstances.

The comparability factors are summarized in Table 1 below:

Table 1 - The Comparability Factors recognized in the OECD Transfer Pricing Guidelines

Comparability Factor	
1	Contractual terms
2	Functional Analysis <ul style="list-style-type: none"> - Functions performed - Assets used - Risks assumed
3	Characteristics of property or services transferred
4	Economic circumstances
5	Business strategies
... by each of the parties to the transaction.	

In order for a comparability analysis to be useful, the comparability factors of the situations being compared must be sufficiently comparable⁵. Comparability is determined by focusing on the nature of the intra-group transactions, and on whether the conditions thereof differ from the conditions that would be obtained in comparable uncontrolled transactions. Information on the comparability factors provides evidence of the actual conduct of the transacting parties, ensuring that the substance of the intra-group transaction is identified and accurately delineated. In particular, comparability is required on the functions performed⁶ (activities and responsibilities)⁷, taking into account the assets employed⁸ (used or contributed), and the risks assumed⁹, of the parties to the intra-group transaction under review. The information is obtained in a functional analysis¹⁰,

⁵ To be comparable means that none of the differences (if any) between the situations being compared could materially affect the condition being examined in the methodology (e.g. price or margin), or that reasonably accurate adjustments can be made to eliminate the effect of any such differences.

⁶ i.e. design, manufacturing, assembling, research, development, servicing, purchasing, distributions, marketing, advertising, transportation, financing and management etc.

⁷ i.e. including how those functions relate to the wider generation of value by the MNE group to which the parties belong, the circumstances surrounding the transaction, and industry practices

⁸ i.e. the type of assets such as plant and equipment, valuable intangibles and financial assets, as well as the nature of the assets such as age, market value, location and property right protection etc.

⁹ The functional analysis should determine how the associated enterprises that are parties to the transaction operate in relation to assumption and management of the specific, economically significant risks, and in particular which enterprise or enterprises perform control functions and risk mitigation functions, which enterprise or enterprises encounter upside or downside consequences of risk outcomes, and which enterprise or enterprises have the financial capacity to assume the risk.

¹⁰ In the functional analysis, it is the economic significance (the frequency, nature and value of such functions), rather than the quantity, of the functions performed that is relevant to the analysis.

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focusing on what the transacting parties actually do and the capabilities they provide. The more functions, risks and assets an affiliated company handles, generally the greater its compensation should be. For this purpose, it is important to understand how the group as a whole generates value, the interdependencies of the functions performed by the associated enterprises with the rest of the group, and the contribution that the associated enterprises make to value creation.

The information in the functional analysis is used to determine the most appropriate transfer pricing method for a particular case. Five methods have been recognized to be used to set transfer prices in accordance with the ALP. The first three methods are traditional transaction methods, regarded as the most appropriate means of establishing whether intra-group transaction pricing is arm's length, whereas the last two methods are transactional profit methods. Transactional profit methods advocated when there is no or limited publically available and reliable gross-margin information on third parties.

The different methods are outlined in Table 2 below:

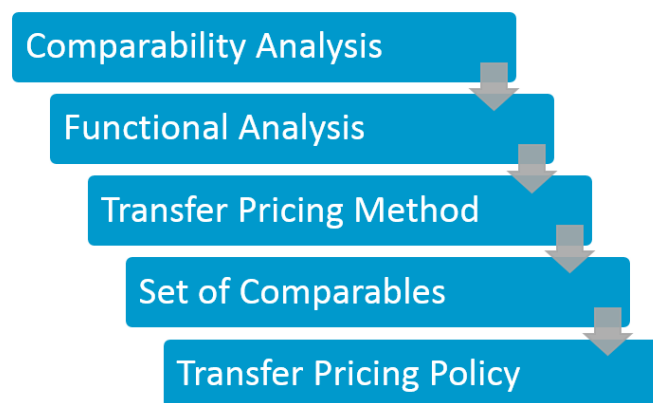
Table 2 – The Transfer Pricing Methods recognized in the OECD Transfer Pricing Guidelines

Method			Description
1	Comparable Uncontrolled Price Method (“CUPM”)	Price	The CUP method compares the price charged for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.
2	Resale Price Method (“RPM”)		The RPM begins with the price at which a product that has been purchased from an associated enterprise is resold to an independent enterprise. This price (the re-sale price) is then reduced by an appropriate gross-margin on this price (the re-sale price margin).
3	Cost Plus Method (“CPLM”)		The CPLM begins with the costs incurred by the supplier of property or services to a related purchaser. An appropriate percentage mark-up is then applied to the costs to give the arm’s length profit.
4	Transactional Net Margin Method (“TNMM”)		The TNMM examines the net margin arising from a particular combined controlled transactions and compares it to the net margin arising in comparable uncontrolled transactions in comparable circumstances. The method requires a selection of a tested party and a profit level indicator (“PLI”).
5	Profit Split Method (“PSM”)		The PSM first identifies the profit to be split from the controlled transactions in which the associated enterprises are engaged. The combined profit may be the total profit from the transactions or a residual profit intended to represent the profit that cannot readily be assigned to one of the parties, such as the profit arising from high-value, unique intangibles.

The transfer pricing method is used to set (and test) the price or margin for the intra-group transaction under review. A search for comparable uncontrolled transactions or companies (“comparables search”) that have a similar level of comparability and reliability is conducted to apply the pricing or margin information to the intra-group transaction under review. The pricing or margin information on comparable uncontrolled transactions or companies make up the arm’s length benchmark range according to which transfer prices must be set (or according to which profits must be evaluated). The selection of transfer pricing method together with the arm’s length benchmark range determined by the set of comparables form a transfer pricing policy.

The process of developing a transfer pricing policy in accordance with the ALP is summarized in Figure 2 below:

Figure 2 - Development of a Transfer Pricing Policy According to the ALP



2.2 Documentation of the ALP

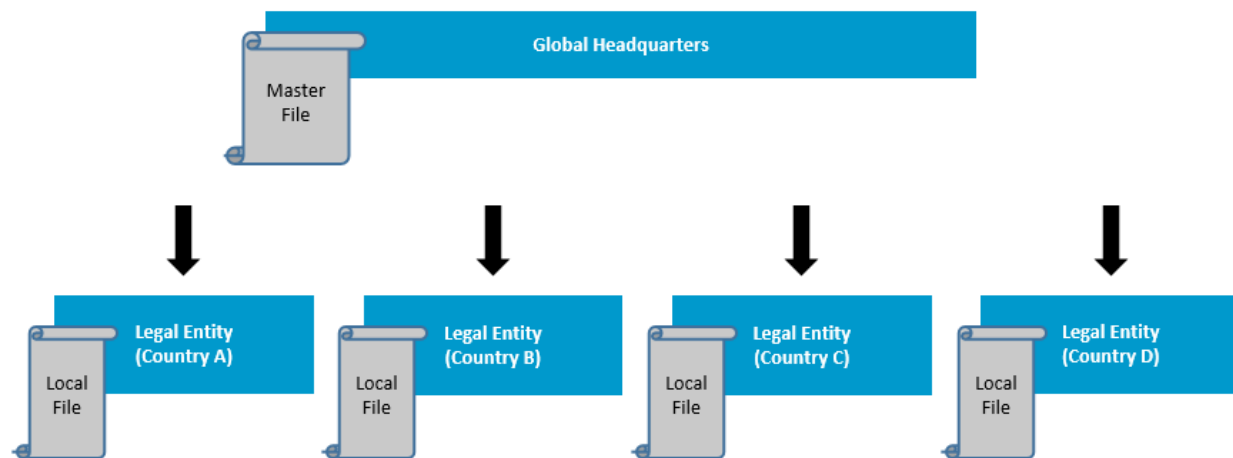
The OECD Transfer Pricing Guidelines require MNEs to document that their transactions satisfy the ALP, including information on the comparability factors taken into account and the method selected. The overarching consideration in of transfer pricing documentation is to (1) ensure that MNEs give appropriate consideration to transfer pricing issues, (2) provide tax authorities with the necessary information to conduct a risk assessment, and (3) provide tax authorities with the necessary information they require in order to conduct an appropriately through audit. The standardized approach to transfer pricing documentation consist of a master file and local files.

The descriptions outlined in Table 3, and visualized in Figure 3 below:

Table 3 - Transfer Pricing Documentation

Documentation	Description
1 Master File	The master file ¹¹ is intend to provide a high-level overview of the MNE's global operations and transfer pricing policies to tax administrations in order to assist the evaluation of significant transfer pricing risk. The information is provided in a single document available to all tax authorities where the MNE has operations. ¹²
2 Local Files	Local files ¹³ provide more detailed information relating to specific intercompany transactions.

Figure 3 - Example Master and Local Files of an MNE Group



¹¹ The information required can be grouped into five categories: 1) the MNE group's organizational structure; 2) a description of the MNE's business or businesses; 3) the MNE's intangibles; 4) the MNE's intercompany financial activities and 5) the MNE's financial and tax positions. The information should be presented for the MNE as a whole and should be available to each country in order to assure that an appropriate overview of the global business is provided.

¹² MNEs typically also have regional modules of the master file.

¹³ The information required focuses on information relevant to the transfer pricing analysis related to transactions taking place between a local country affiliate and associated enterprises in different countries being material in the context of the local country's tax system. Such information include for instance financial information regarding the specific transactions, a comparability analysis and the selection of the most appropriate transfer pricing method.

Although the large majority of domestic transfer pricing rules are based on the ALP, ambiguity is created by the fact that the ALP is built on judgments made from both MNEs and tax authorities on how it can be applied. Further, tax authorities in different jurisdictions tend to differ in both regulatory standards of international transfer pricing and the way such standards are to be interpreted and applied (OECD, 2013). This contributes to uncertainty as to what constitutes tax compliant behavior and creates transfer pricing risks for MNEs and tax authorities alike. Transfer pricing risks are evaluated in a transfer pricing risk assessment. From the MNE perspective, a transfer pricing risk assessment may be used to refer either to the risk of a transfer pricing audit being carried out or of a transfer pricing adjustment being made as a result of such an audit. From the perspective of tax authorities, it may simply refer to the amount of tax that is likely to be at risk, i.e. the amount that related party payments have the potential to shift to other jurisdictions thereby eroding the local tax base. For tax authorities, effective transfer pricing risk identification and assessment constitute an essential early stage in the process of selecting appropriate cases for transfer pricing audits or enquiries and in focusing audits on the most important issues.

2.3 The BEPS Project

The changes in business practices brought about by globalization and digitalization of the economy have raised questions among governments about whether the domestic and international rules on the taxation of cross-border profits have kept pace with those changes. In a globalized world where economies are increasingly integrated, domestic tax systems designed in isolation are often not aligned with each other. As a result, there has been a growing concern that the interaction of different domestic tax systems has resulted in income from cross-border activities may go untaxed anywhere or be unjustifiably lowly taxed due to practices that artificially segregate taxable income from the activities that generate it, i.e. achieving BEPS.

As a first step in addressing concerns surrounding the challenging global tax environment and the current international tax systems, the G20¹⁴ leaders together with the OECD-member countries

¹⁴ The G20 brings together finance ministers and central bank governors from 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States of America plus the European Union, which is represented by the President of the European Council and by the Head of the European Central Bank. The G20 was formally established in September 1999 when finance ministers and central bank governors of seven major industrial countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) met in Washington, D.C. in the aftermath of the financial crisis of 1997–1998, which revealed the vulnerability of the international financial system in context of economic globalization and showed that key developing countries were insufficiently involved in

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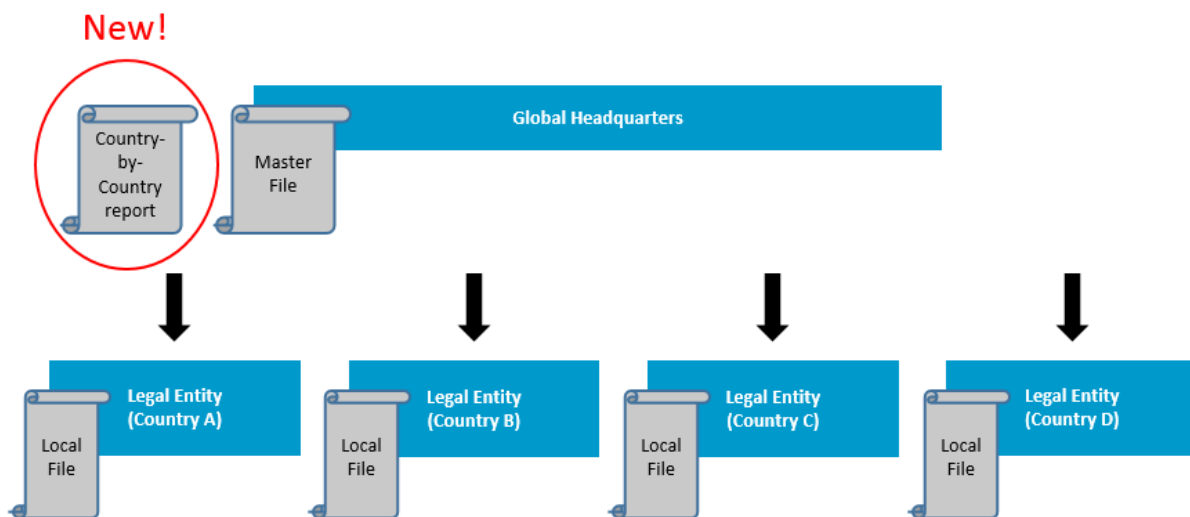
launched the BEPS Project to collaborative coordinate changes. As part of the project, a comprehensive 15-point Action Plan was developed to better aligning rights to tax with real economic activity. The Action Plan reflects the demand for more transparency and stricter documentation requirements for companies in all industry sectors.

In addition to a need for increased transparency, the Action Plan addresses key pressure areas of BEPS, including among others, those related to transfer pricing. Being addressed in several action points, it was acknowledged that transfer pricing risk is created from vulnerability of existing guidance on application of the ALP. Tax administrations often find transfer pricing documentation to be less than fully informative and not adequate for their tax enforcement and risk assessment needs (OECD, 2015). For this reason, the guidance on application and documentation of the ALP was clarified and strengthened in Actions 8-10 (application) and Action 13 (documentation).

The revised guidance on documentation of the ALP in Action 13 introduces a three-tiered approach to transfer pricing documentation was, adding to the existing documentation requirement of a master file and local files, a CbC report.

The new three-tiered approach is visualized in Figure 4 below:

Figure 4 - Example Three-tiered Approach to Transfer Pricing Documentation



discussions and decisions concerning global economic issues. The objectives of the G20 refer to: 1. Policy coordination between its members in order to achieve global economic stability, sustainable growth; 2. Promoting financial regulations that reduce risks and prevent future financial crises; 3. Modernizing international financial architecture.

2.3.1 The new Transfer Pricing Documentation Requirement

CbC reporting is an attempt to increase the capability of tax authorities to develop a big picture view of an MNE's global value chain(s), providing access to information about related parties undertaking transactions with the taxpayer in their country for the first time. The new report is intended to provide tax authorities with a tool (1) helpful for high-level transfer pricing risk assessment purposes, and may (2) evaluating other BEPS related risks, and where appropriate (3) for economic and statistical analysis.¹⁵

The report consists of a standardized model template, requiring aggregation of tax jurisdiction-wide information relating to global allocation of income, the taxes paid and certain indicators of the location of business activity among tax jurisdictions in which an MNE group operates. The model template also requires a listing of all the MNE group entities for which financial information is reported.

The CbC report model template is visualized in Figure 5, 6 and 7 below, and the general instructions provided along with the model template in Action 13 are disclosed in the Appendix.

Figure 5 - Overview of Global Allocation of Income, Taxes Paid and Business Activities by Tax Jurisdiction

Name of the MNE Group: Fiscal year concerned:										
Tax Jurisdiction	Revenue			Profit (Loss) before Income Tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued (Current Year)	Stated Capital	Accumulated Earnings	Number of Employees	Tangible Assets other than Cash and Cash Equivalents
	Unrelated party	Related party	Total							
Country A	X	X	X	X	X	X	X	X	X	X
Country B	X	X	X	X	X	X	X	X	X	X
Not resident in any tax jurisdiction	X	X	X	X	X	X	X	X	X	X

¹⁵It is also stated that the CbC reporting should not be used as (1) a substitute for a detailed transfer pricing analysis and full comparability analysis, and neither that (2) the report on its own constitute conclusive evidence that transfer prices are not appropriate and nor that (3) it should be used by tax administrations to propose transfer pricing adjustments based on a global formulary apportionment of income.

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Figure 6 - List of all the constituent entities of the MNE Group included in each aggregation per tax jurisdiction

Name of the MNE Group: Fiscal year concerned:															
Tax Jurisdiction	Constituent Entities Resident in Tax Jurisdiction	Tax Jurisdiction of Organization or Incorporation if Different from Tax Jurisdiction of Residence	Activities												
			Research & Development	Holding or managing intellectual property	Purchasing or procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or support services	Provision of services to unrelated parties	Internal group finance	Regulated financial services	Insurance	Holding shares or other equity instruments	Dormant	Other
Country A	Legal Entity A		√		√						√		√		
	Legal Entity B			√				√		√					
Country B	Legal entity C					√				√					

Figure 7 - Additional Information

Name of the MNE Group: Fiscal year concerned:
Please include any further brief information or explanation you consider necessary or that would facilitate the understanding of the compulsory information provided in the country-by-country report.

It has been recommended that the first CbC reports be required to be filed for MNE fiscal years beginning on or after 1st of January 2016¹⁶, and that MNEs be allowed one year from the close of the fiscal year to which the CbC report relates to prepare and file the report.¹⁷ MNEs with an annual consolidated group revenue above EUR750¹⁸ million or a near equivalent amount in domestic currency are required to file a CbC report annually. The report should be filed in the jurisdiction of tax residence of the parent entity and shared between tax jurisdictions through automatic exchange by signing a Multilateral Competent Authority Agreement (“MCAA”).

¹⁶ It is acknowledged that some jurisdictions may need time to follow their particular domestic legislative process in order to make necessary adjustments to the law.

¹⁷ The recommendation means that the first CbC reports would be filed by 31 December 2017.

¹⁸ It is believed that this threshold will exclude approximately 85-90% of MNE groups, but that MNE group controlling approximately 90% of corporate revenues will be included.

3. Literature Review and Theoretical Guidance

This section outlines previous organizational literature, management accounting literature and control system literature as well as other analytic tax accounting studies on transfer pricing. We also present the theoretically guiding framework used to structure our empirical findings and guide our analysis.

Early studies on transfer pricing in the management accounting literature focused on the transfer pricing problem¹⁹ as an internal pricing scheme based on mathematical programming and marginal cost solutions that a rational integrated group would establish in order to maximize profits of the group as a whole (Hirshleifer 1956; Hirshleifer 1957; Dopuch and Drake 1964). However, working as a mechanism to distribute the consolidated profit between jointly responsible business units of a divisional value chain, several studies indicated the importance of setting transfer prices so as to induce a goal congruent behavior (Schiller 1999; Sahay 2003; Anthony 2007; Bergstrand 2011). Whereas Schiller (1999) found that an internal seller would be discouraged to incur revenue-increasing efforts receiving a lower share of the joint profit, Sahay (2003) found that the internal buyer is likely to underinvest if not compensated with an appropriate mark-up for investment costs.

Recognizing transfer pricing as a vital part of the MCS, the transfer pricing problem²⁰ was more commonly viewed as an internal pricing scheme generating information and control for implementing corporate, business unit and product strategy (Eccles, 1983; Cravens 1997). Specifically, Eccles (1983) concluded that ‘*a transfer price is useless unless unit managers feel they are being treated fairly while top management retains control*’ and that ‘*what makes a transfer pricing policy work is an effective management process whereby top management monitors the interaction between units and alters the transfer pricing policies to reflect changes in strategy*’. However, as many companies grew larger using internationalization as strategy (Hedlund 1986), a

¹⁹ Dopuch and Drake (1964) defined the transfer price problem as a short-run efficiency problem, i.e. a problem of how to best utilize a fixed quantity of resources to achieve an optimal allocation of firm resources.

²⁰ Eccles (1983) defined the transfer pricing problem as consisting of two parts: (1) the sourcing decision, and (2) the pricing decision, where the transfer price may be determined first and become an input to the sourcing decision or the decision to buy inside may be made before the transfer price is decided on. This definition was also recognized by Anthony (2007).

dual role of transfer pricing emerged. Even if a foreign operation (generally a legal entity) was a responsibility center for management control purposes, it had to be treated as a profit center for accounting purposes in order to maintain a complete set of accounting records for legal and tax purposes.

Extant tax law and tax accounting literatures has provided a contingency-based perspective (Jones 1985), recognizing that transfer pricing policies are contingent upon organizational and environmental circumstances. In this context, the challenge for managers to reconcile the tax role and the management control role of transfer pricing has been extensively investigated in management accounting research (Hyde and Choe 2000; Durst 2002; Cools 2003; Cools and Slagmulder 2009; Shunko et al. 2014). As MNEs were obliged to determine arm's length prices for tax compliance purposes, Hyde and Choe (2000) and Durst (2002) both highlighted the anomalies of a single accounting system and that MNEs can do better using two sets of books. Further, in the context of increasingly strict and detailed fiscal transfer pricing rules, Cools (2003) also recognized a tension between fiscal compliance and the management control role of transfer pricing, and that the fiscal environment imposes a large cost on MNEs in the sense that *'the tax requirement hinder the optimal use of transfer pricing within the management control system'*. Cools and Slagmulder (2009) confirmed the priority placed upon transfer pricing tax compliance at the expense of managerial entrepreneurship also in their case company. The authors found that tax compliance triggered administratively simplified the determination of profit margins in order to *'increase the defensibility of its TP policy worldwide'* by enhancing the understandability to tax authorities and the traceability of the transfer prices along the value chain. Shunko et al. (2014) investigated how tax and transfer pricing considerations affects the local manager's sourcing decisions and subsequently the MNEs profits, and quantified the absolute and relative inefficiency in terms of the after tax MNE profit change from using a single transfer pricing system as compared to a dual transfer pricing system. Even though a dual transfer pricing system was considered the first-best solution in order to not settle with a sub-optimal compromise, it was concluded that a single transfer pricing system could be nearly as efficient as a dual-transfer pricing system by making local management compensation contingent on firm-wide metrics. Extending the existing accounting literature on decentralization in a transfer pricing setting, Chen et al. (2015) later demonstrated that properly designed performance measurement and evaluations systems for

divisional managers can facilitate more autonomous transfer pricing practices²¹, with a subsequent positive impact on perceived transaction fairness and transfer pricing effectiveness.

Operating in an international environment, researches in the economic field showed that MNEs could seek to minimize their tax burden by using existing tax rules and tax rate differentials to shift taxable income to low tax countries (Copithorne 1971; Yao 2013; Bradley 2015; Taylor et al. 2015). Copithorne (1971) indicated that transfer pricing is a two-step process²² for MNEs to allocate as much profit as possible to the countries with the lowest transfer pricing tax rates. Yao (2013) confirmed the findings of Copithorne (1971), that an MNEs decision where to locate its downstream firms ‘*hinges*’ on the relative level of the corporate tax rates in the respective country. Further, together with (Keuschnigg and Devereux 2013), Yao (2013) blamed the ALP incapable to raise tax revenues under endogenous location choices, and found that arm’s length prices systematically differ from prices set by independent companies thereby introducing flawed benchmark in the taxation of multinationals. Bradley (2015) highlighted the increasing tension between MNEs and tax authorities related to transfer pricing and the use of planning techniques. The author found that MNEs will ‘*use all the tax planning techniques that are available to avoid tax*’ and that there is a substantial global movement on the part of regulators and tax authorities to prohibit MNEs use of aggressive tax planning, where ‘*the OECD BEPS Action Plan orchestrates this movement*’. Taylor et al. (2015) performed a quantitative study, where the regression results showed that MNEs magnify their international transfer pricing aggressiveness through the joint effects of intangible assets, multinationality and tax havens. However, whereas some firms set their transfer pricing strategy to minimize tax payments, previous research have also shown that a lot of firms pursue a transfer pricing tax compliant strategy. Extending the research in accounting and economics, Klassen et al., (2014) investigated the links between transfer prices and tax reduction by more directly identifying corporate strategies and transfer practices, linking them to effective tax rates, and documented that more firm focus on tax compliance as opposed to transfer pricing strategies to minimize tax payments.

²¹ Transfer pricing autonomy was defined as the extent to which divisional managers rather than the top managers of the firm determine the final transfer prices for internal transactions between divisions.

²² The first stage was recognized to maximize pre-tax profit among related entities on a global basis. The second stage was recognized to allocate transfer prices among the controlled entities in a way that minimize the overall tax cost.

Today, fiscal transfer pricing regulations and international tax initiatives have started to play a prominent role in the MNEs decision-making process, where the implied ambiguity as to what constitutes tax compliant behavior has become a dominant concern for corporate tax departments of many MNEs (Plessner Rossing 2013; EY 2013; PwC 2014; PwC 2014; Deloitte 2014; Deloitte, 2015; CEB 2016). We have found two studies in the management control and accounting field that investigated the role of transfer pricing regulations in the MNE decision-making process and its implications for the MCS.

Cools et al. (2008) investigated the impacts of the steps taken to comply with international transfer pricing regulations on the design and use of the MCS in an MNE using one set of transfer prices, i.e. the way fiscal regulations can influence the internal role of transfer pricing and the MCS to which it belongs. The authors stressed *‘the need to take into consideration the priority that corporate management affords to tax compliance’* trying to understand the design and use of the MCS in complex, modern-day MNEs, and suggested that *‘the process of gaining tax compliance should be explicitly examined when researching the design and use of the MCS within MNEs’*. Using Eccles (1985) five administrative components, the authors guided the description of how the MNE under investigation approached transfer pricing tax compliance. The authors found immediate effects of the approach to become transfer pricing tax compliant on the design, and an increased coercive use, of the MCS overall. In terms of design, one of the contributions made by the authors was that transfer pricing documentation requirements, as part of MNEs’ transfer pricing tax compliance, can play an important role in the decision to restructure divisional activities.

Plesner Rossing (2013) studied organizational risk management practices, investigating how a functional tax strategy influence the MCS in an MNE facing transfer pricing risks²³. The author made an interpretation of how contingency-based theory applies to a transfer pricing setting, presumed that *‘transfer pricing practices differ between organizations depending on the contextual circumstances and changes in the tax environment of MNEs will require adjustments to existing managerial controls and accounting systems’*. Based on the interpretation of contingency-based theory in a transfer pricing setting, the author investigated how and why transfer pricing practices are amended over time, how and why a functional tax strategy was developed in order to effectively

²³ The author defined transfer pricing risk as a consequence of the uncertainty faced by MNEs in the tax environment, primarily relating to ambiguous transfer pricing regulations, and inconsistencies in the way different tax authorities apply the arm’s length principle when examining MNE transfer pricing practices.

manage the risk in an ambiguous tax environment, and the subsequent impacts on the MCS. Simons (1994) LOC framework was considered as the most suitable MCS to guide the case study and organize the case study findings. The case study findings illustrated how all four types of control levers were influenced by the tax strategy as new formal control systems were employed and used to support the tax compliance goal, suggesting that the MCS in a multinational setting is contingent upon the MNE's response to its tax environment. The main contribution made by the author was that organizations adapt their MCSs to their organizational and environmental context, concluding that *'from this particular study, the functional tax strategy developed in response to the tax environment is found to be a significant explanatory variable for the MCS'*.

However, there is still a need for research that examines accounting and taxation perspectives on transfer pricing. Considering the ever-changing global tax environment, currently with the OECD at the forefront with the BEPS Project, an immediate research need is to determine how the OECD proposals will change the way MNEs handle internal transfer pricing for both managerial accounting and tax purposes (Bradley, 2015).

Transparency was identified as a key pillar in the global fight against BEPS. CbC reporting was developed as a new tool to enhance transparency between MNEs and tax authorities, and has become the most widely contested area of the BEPS initiative. With the deadline approaching, research is needed on how MNEs are prioritizing creating processes and controls for the new CbC reporting compliance requirement. Before knowing the true magnitude of the changes and the challenges that will present as a result of the new documentation requirement, MNEs will have to endure a period of uncertainty. Transfer pricing risks are a consequence of uncertainty in the tax environment, surrounding MNEs. Plessner Rossing (2013) emphasized that future research is needed on tax risks in relation to tax compliance, in order to ensure a more complete understanding of MCS in a multinational setting. Further, in one of the most recent critical analyses of CbC reporting, Longhorn (2015) stress the need to contribute to the limited literature on the OECD CbC reporting template. Specifically, a recommendation for such future research is to examine the effectiveness of the CbC reporting disclosure requirements by MNEs, using different research methods and methodologies such as qualitative interviews to capture the views of CbC reporting issues.

Whilst previous academic studies evaluated the policy effectiveness of CbC reporting, the usefulness of the information requested, and the appropriate mechanisms for disclosure of CbC information (Gallhofer 2007; Wojcik 2012b; Evers et al., 2014; Fuest et al., 2014; Ting 2014a; Longhorn 2015), none of these explicitly investigate the implications of the new CbC reporting from an MNE perspective. Neither did they investigate the CbC reporting requirement in a transfer pricing setting, analyzing the transfer pricing practices pursued by MNEs in relation to the information required to be documented in the CbC report model template.

3.1 The Theoretically Guiding Framework

In order to understand how MNEs transfer pricing practices are documented in the CbC report model template developed by the OECD, it must first be understood the transfer pricing practices pursued. At heart of the academic field covering transfer pricing, is the framework of transfer pricing choice developed by Eccles (1985). Eccles (1985) investigated how transfer pricing is managed in practice, and more specifically, why particular transfer pricing policies were chosen and how these policies were implemented. The author developed a theory for practice, acknowledging that strategy and administrative process are two principal determinants of transfer pricing practices pursued by MNEs. The central conclusion of his study was that *‘transfer pricing policies are an integral aspect of strategy implementation, and that effective management of these policies requires careful attention to administrative processes.*

The findings point to two relationships that must be investigated in order to understand transfer pricing practices: (1) that between strategy and transfer pricing policy, and (2) that between administration and transfer pricing policy. Further, because transfer pricing policy is an integral part of strategy, requiring an administrative process guiding its implementation, the investigation should be made within a framework for management control.

3.1.1 Strategic transfer pricing practices

Recognizing that strategy affects transfer pricing practices, and that there is an intimate relationship between the two, Eccles (1985) also emphasized the importance of consistency between transfer pricing policy and strategy in order to manage effective strategy implementation. The tautological relationship between transfer pricing policy and strategy appears generally recognized in management accounting and control literature of transfer pricing. Cravens (1997) examined the role of transfer pricing as strategy for MNEs, and found that an increasing number of executives

recognize the role of transfer pricing as an essential strategy for MNEs. Specifically, it was found that transfer pricing can be used to accomplish a variety of strategic objectives, and that transfer pricing is a key contributor to overall corporate performance. As a result, the author concluded that transfer pricing policy ‘*should play an active role in business strategy*’.

The relationship between strategy and of transfer pricing policy suggest that corporate strategy must be investigated in order to understand how its transfer pricing policies are determined. Mintzberg (1987a) identified four distinct ways in which strategy can be defined: as a perspective, as a position, as a plan and as a pattern. Simons (1994) used these definitions of strategy in developing an integrated framework for management control, the LOC framework. In the LOC framework, a different lever (“control system”) is selected and used by managers to control key strategic variables inherit in each definition of strategy.

The cornerstones of the LOC framework, including Mintzberg’s definitions of strategy, and their related key strategic variables and levers of control, are presented in Table 4 below:

Table 4 - Mintzberg's definitions of strategy and Simons' LOC Framework

Strategic dimension	Key strategic variables	Control system
<i>Strategy as perspective</i> is a unique way of doing things.	<i>Core values</i> and the direction that senior managers want subordinates to adopt are key strategic variables identified through such documents as corporate credos, mission statements and statements of purpose.	<i>Beliefs systems</i> are used to control strategy as a perspective, communicating core values making up the shared purpose of the business.
<i>Strategy as a position</i> focuses on the content or the economic substance of a chosen strategy.	<i>Business risks</i> that could jeopardize the well-being of an organization and dissipate its resources are key strategic variables that must be avoided, determined through analysis of the risks associated with specific business strategies.	<i>Boundary systems</i> are used to control strategy as a strategic position, imposing codes of business conduct and strategic planning systems.
<i>Strategy as plan</i> is the intended course of action.	<i>Critical performance variables</i> are specific goals associated with that strategy are key strategic variables, identified by analyzing the intended strategy.	<i>Diagnostic control systems</i> are used to control strategy as plan, measuring and monitoring inputs and outputs.
<i>Strategy as pattern</i> concerns emerging patterns of actions.	<i>Strategic uncertainties</i> that could undermine the current basis of competitive advantage are key strategic variables, determined based on current strategy, strategic vision, and perceptions of known and unknown contingencies that could threaten or invalidate the current strategy.	<i>Interactive control systems</i> are used to control strategy as a pattern consisting of managers' personal and regular involvement in decision-making activities.

The definitions of strategy and the LOC framework will guide our presentation of the empirical findings of the strategic background from which transfer pricing policies are determined. It will also be used to guide our analysis.

3.1.2 Administrative transfer pricing practices

Recognizing that the administrative process used to implement transfer pricing policy also determines transfer pricing practices, the findings of Eccles (1985) suggest that the relationship between the administrative process and transfer pricing policy must be investigated in order to understand how transfer pricing policies are implemented. Implementation of transfer pricing policy according to the OECD Transfer Pricing Guidelines, entails both the application of the ALP to intra-group transactions and articulation of such application in transfer pricing documentation. Having transfer pricing documentation readily available in accordance with practice on a contemporaneous basis has been shown in previous research to increase the rigidity of the administrative process, with subsequent implications for the MCS (Cools et al., 2008).

Eccles (1985) distinguished five administrative components relevant for transfer pricing practices: (1) how the transfer price is set, (2) the individuals involved, (3) what information is used, (4) when transfer prices are set and, and (5) how conflict is managed. Within these components he realized that a great deal of variation is possible, which can make it difficult to make general prescriptive statements of how companies implement transfer pricing policies. Cools et al. (2008) used the administrative components developed by Eccles (1985) to describe the transfer pricing tax compliance process in their case company. Likewise, the five administrative components will guide our presentation of the empirical findings how transfer pricing policies are implemented (including the new documentation requirement) in our case company, and guide our analysis.

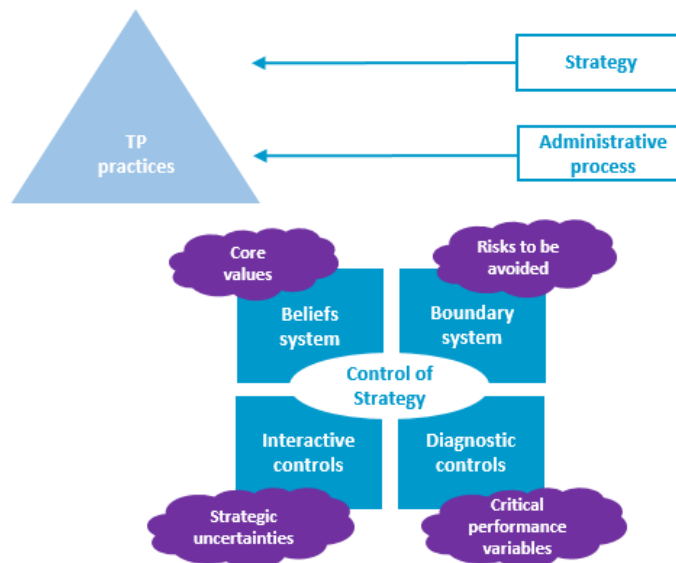
3.1.3 Impact on the MCS

In order to understand the impact of the steps taken to comply with the new CbC reporting documentation requirement on the MCS, previous research point to the importance of understanding transfer practices in the context of a MCS. The LOC framework focuses strongly on different aspects of strategic issues, the respective control systems employed and how they are used. Considering that transfer pricing practices are determined by strategy and administrative process, the determination and implementation of transfer pricing policy can be viewed as inherit parts of the LOC framework. As a result, the LOC framework will guide our presentation of the

empirical findings of how the steps taken to comply with the new CbC reporting documentation requirement impact the MCSs. The framework will also be used to guide our analysis.

The theoretically guiding framework is illustrated in Figure 8 below:

Figure 8 - Theoretically guiding framework



3.1.4 Theoretical frame of reference

During the interviews with different employee representatives of the case company, it was acknowledged that external stakeholders' perception about the case-company's transfer pricing practices was a recurrent consideration in the preparation for the new compliance requirement to complete and file a CbC report. As a result, we decided to expand the theoretically guiding framework to also incorporate stakeholder management theory. The extended theoretical platform will be used to explain the empirical findings and discuss implications on the case-study and the industry survey, and to guide the analysis of how the LOC framework is influenced by determination and implementation of transfer pricing policy.

Stakeholder management theory is based on the premise that managers reconcile their own objectives with the claims and expectations being made on them by various stakeholder groups, with an inherent challenge to ensure that the firm's primary stakeholders achieve their objectives while other stakeholders are also satisfied (Carroll, 1992). The stakeholder management theory thus implies that transfer pricing practices will be influenced by those groups who have a stakeholder, a claim or an interest in the operations and decisions of the firm. Being part of MNEs

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internal and external tax environment, the cause-and-effect relationship is also in line with contingency-based theory. According to contingency-based theory, changes in the tax environment will require adjustments to a company's transfer pricing practices with subsequent effects on MNEs existing and future controls and processes within the framework of a MCS.

4. Methodology

In this section, we present and motivate the methodology applied in our study. The research design of the qualitative in-depth case study and the quantitative industry survey are described, followed by an outline of the data collection process and the abductive approach to data analysis. Lastly, we discuss the overall quality of the study in terms of reliability and validity.

6.1 Research design

The extensive number of previous research on transfer pricing and management control in various settings implies that the management accounting field of research is rather mature. However, transfer pricing is a practical phenomenon subject to constantly changing taxation laws and regulations, and the new CbC reporting documentation requirement is a topic for which limited previous tax accounting research exist. Because little is known, rich and detailed data are needed to shed light on the implications of the new CbC reporting documentation requirement for a MCS. Given this mixed state of prior research, with a new tax reporting phenomenon that sits within a mature stream of management accounting and control research, Edmondson (2007) advocates a combination of qualitative data to help elaborate a phenomenon and quantitative data to provide preliminary tests of relationships that can promote both insight and rigor. This methodological fit in field research correspond to a hybrid methodological approach²⁴ and was applied to this study through a qualitative in-depth case study and a quantitative industry survey.

6.2 Case study

The in-depth case study consisted of two parts: a preliminary study and an explanatory study, together referred to as the ‘*in-depth case study*’. The preliminary case study was undertaken to improve our understanding of transfer pricing as a practical phenomenon and in order to gain insight into the case company’s transfer pricing arrangement. The explanatory case-study was undertaken to gain direct observations of how controls and processes were influenced, initiated and prioritized as a result of the new CbC reporting documentation requirement. A vital part of the

²⁴ i.e. using both quantitative and qualitative methods

explanatory case study consisted of preparation of the case company's CbC report to be filed at latest 31st December 2017, and an analysis of how the transfer pricing practices pursued were documented in the common model template developed by the OECD.

6.2.1 Empirical method

A single in-depth qualitative case study was considered an appropriate empirical method to first investigate transfer pricing with an open mind, and subsequently its complexities related to CbC reporting. In-depth qualitative case studies are suitable when aspiring to understand complex contemporary phenomenon, such as the initiative of CbC reporting being part of the recently introduced BEPS Action Plan, as it allows to maintain a holistic view of essential characteristics observed in real-life events (Yin, 2014; Dubois and Gadde, 2002). Applying an in-depth case study method can also facilitate in generating and modifying theory, as it is commonly used to explore and aim for explanation, which is particularly valuable when current theories are unable to fully explain observed phenomena (Yin, 2014).

Considering the research question of this paper, investigating *'the impact of the steps taken to comply with the CbC reporting documentation requirement/.../on the MCS in an MNE'*, the empirical methods is further motivated by Otley and Berry (1994). The authors have found that single in-depth case studies allow for assessing and evaluating the structure and operation of MCSs by placing them in a wider context. Further, Yin (2014) also found this approach to be most appropriate when *'how'* and *'why'* questions are being asked in order to answer the research question. In addition, a number of researchers have called for more case-based research to increase our understanding of transfer pricing practices in MNEs (Cools et al., 2008; Longhorn, 2015) and the way management accounting and tax is integrated in practice (Bradley, 2015). Anchoring on the previous studies carried out by Cools et al. (2008) and Plesner Rossing (2013), an exploratory approach can also assist in further building on to the authors' findings related to the transfer pricing practices and its effect on MCSs.

6.2.1.1 Selection of case company

Theoretical sampling (Eisenhardt, 1989) guided the selection of a case company. The process of selecting a case company started by narrowing the scope to Swedish MNEs subject to the new CbC reporting documentation requirement. A deliberate decision was to select an MNE with a global headquarter in Sweden (or known to have a large headquarter function presence within Sweden).

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The location was important for the ability to collect large amounts of data in person on the research site. Another deliberate criterion was an established MNE characterized by a large number of cross-border transactions.

As one of the authors had recently done an internship at an MNE fulfilling the deliberate criteria, looking for assistance in preparing and analyzing a completion of their first CbC report, this MNE was selected as the research sight.

The case company

Due to the sensitivity that surrounds international transfer pricing, the MNE's identity has been concealed and will be called 'the Group'. This is a common feature of transfer pricing case studies (Plesner Rossing, 2013; Cools et al., 2008).

The Group is a truly global organization, characterized by complex value chains comprising manufacturing of products in 30 countries and sales activities in more than 180 countries, operating in the mechanical and industrial engineering sector. It has been ranked as one of the world's most sustainable companies in each of its industries several time. In 2015, the Group had more than 43 000 employees.

Once having selected the Group as an appropriate case company, a subsequent decision was made to use the Group Tax department ("Group Tax") as the primary research site, being a corporate support function to the Group's organization. Group Tax is also responsible for the development and documentation of all the Group's transfer pricing policies.

6.2.2 Data collection

In the in-depth case study, multiple data collection methods were used to get a thorough insight of the transfer pricing practices pursued and the implications of the new CbC report documentation requirement. Triangulation²⁵ was utilized to secure our understanding of the empirical observations and findings. The data collection methods consisted of document analysis, interviews and direct observations.

²⁵ Triangulation is a process by which the same phenomenon is assessed with different collection methods to determine whether convergence across methods exists. (Edmondson 2007)

6.2.2.1 *Document analysis*

Document analysis was used as the initial data collection method to provide background and context to transfer pricing guidelines and documentation requirements, specifically CbC reporting. Documents are primarily used in research as a complimentary research source, however Bowen (2005) identified that often documents may be the only available data source regarding new phenomena, as was the case for this thesis. Documentary data collection was appropriate for this study as in addition to providing background and context on the issue of CbC reporting, it provided a means of tracking changes and developments in reporting framework proposals, published opinions and responses from a range of sources. The documents analyzed consisted of purposively selected publications, including topics related to transfer pricing, BEPS and CbC reporting, and where used to inform the research questions under investigation.

The selected external documents have been summarized in Table 5 below:

Table 5 – External documentary data collected for analysis

Type	Form	Source
BEPS Actions 8-10, 11 and 13 (and the related materials to each action point), BEPS Explanatory Statement	Reports	OECD (http://www.oecd.org/ctp/beps-actions.htm)
CbC reporting	Reports, surveys etc.	OECD, Governments, Civil society groups, Consultancy websites
Specific reporting frameworks containing CbC reporting	Legislation	Organizational and governmental websites
Transfer pricing regulations	Legislation, Published organizational and governmental reports	OECD, Governments
Commentary and critiques	Comment letters, Academic papers, media articles	OECD published letters, academic journals, newspapers and news websites
Annual report	Reports	Company websites

First, publications on Actions 8-10, 11 and 13 (and the related materials to each action point), BEPS Explanatory Statement were collected to get a general understanding of the topic from its inception. Due to the very public nature of the BEPS project, a significant quantity of related documents were publicly available on OECD's website. A systematic approach was applied where all documentations including all final action points, the related discussion drafts and the explanatory statement were read in the order presented in the volumes published on OECD's website. Specifically, we analyzed Actions 8-10 and the OECD Draft Handbook for Transfer Pricing Risk Assessments in conjunction with Action 11 and Action 13, along with the observations made in the case company, in order to understand if there are any limitations inherent in the CbC report data

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affecting the usefulness of such information as a high-level tool for transfer pricing risk assessments (and as a basis for economic and statistical analysis).

Second, publications on CbC reporting were collected from the websites of ‘*the big 4*’ consultancy firms. Third, specific reporting frameworks containing CbC reporting or elements thereof were gathered from organizational and governmental websites. Forth, publications on transfer pricing regulations were collected to grasp the context. Fifth, critiques and commentary associated with these specific frameworks and proposals were collected from Internet search engines such as Google Scholar and from academic journals.

6.2.2.2 *Conduct and structure of the interviews*

After the initial documentary data collection process, the main method of collecting data was through interviews and direct observations.

The decision to conduct interviews favors an in-depth case study approach, as these methods are viewed as particularly helpful in the generation of rich and detailed answers. Furthermore, a semi-structured method is preferred when more than one person is involved in the interview process due to the risk of somewhat divergent interview styles (Yin, 2014). A semi-structured interview approach has therefore been conducted for our in-depth case study. More specifically, we have been two persons (the authors) conducting the interviews, where one was responsible for leading the interview and the other for asking follow-up questions, taking notes and recording observations (Eisenhardt, 1989). Specifically, the method provided a structure of predetermined questions based on the initial framework, whilst also allowing for deeper elaboration on certain matters and new insights through additional follow-up questions (Yin, 2014). After each interview the findings were discussed and notified further in written form in order to facilitate the analytic process.

The data collection process was initiated by the preliminary study where we conducted open-ended interviews with senior management at the Group Tax department and from the operations (business area vice presidents and divisional controller) in order to get a background of the case company, grasp the operational context and its transfer pricing arrangements. In the explanatory case-study phase of the data gathering, semi-structured interviews were conducted with other personnel indirectly involved with the company transfer pricing practices, such as employees from the Group Accounting and Controlling department, and employees from different business areas and divisions. Together, these interviews cover representatives from different departments within the

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case company and different hierarchical positions, which is important in order to obtain the different perspectives needed to explore the research question of this paper. In total, 21 interviews have been conducted with 17 informants. The interviews lasted between approximately 30 and 90 minutes, and took place between January and April 2016 in Stockholm. Further, the explanatory study also covered the preparation and analysis process of the Group's first CbC report from which a number of direct observations were made, providing us with more reliable and naturally occurring data, later used as '*input data*' to the industry survey.

6.2.2.3 *Additional data sources*

Complementary data such as internal documents was collected for the purpose of triangulation and increasing overall understanding. Internal documentation such as a large number of archival-, internal- and other transfer pricing documents were inquired during interviews and received from the company, with the purpose of reaching a deeper understanding of the situation. As these documents were received during the interview process, they enabled us to further elaborate on certain matters during the latter part of the interview process as well as discuss them in relation to the findings.

The selected internal documents have been summarized in Table 6 below:

Table 6 – Internal documentary data collected for analysis

Type	Form
Organization charts	Internal
Master File	Internal
Local Files	Internal
Transfer Pricing Agreements	Internal
The formal corporate tax strategy	Internal
Internal training material on transfer pricing	Internal
Benchmark studies	Internal
Tax Policy Document	Internal
Transfer pricing process descriptions	Internal
Transfer pricing models and price calculations	Internal
Administrative instructions	Internal
Emails	Internal

In order to gain a holistic perspective on the new CbC reporting documentation requirement, other experts beyond the case company organization were approached. As tax authorities are a crucial party in the field of transfer pricing, and CbC reporting, two representatives from the Swedish tax authorities were interviewed. Further, two representatives from the Confederation of Swedish Enterprise were met with in order to provide a broader view on the topic.

6.2.3 Data analysis

There are two basic distinctions for linking theory with empirical evidence, an inductive approach and a deductive approach. The deductive approach starts with a pre-defined theory where propositions and dimensions are set beforehand about a certain phenomenon for which hypothesis are tested against to conclude whether characteristics exist empirically. In the inductive approach, on the other hand, theory is systematically generated and framed from empirical raw data gathered (Dubois and Gadde, 2002). As previous research on our selected topic is limited, none of the above approaches were suitable for our research design.

The process of data analysis used in this study rather conforms to the definition of systematic combining by Dubois and Gadde (2002), which serves a combination of a deductive and inductive approach. A significant characteristics of such an abductive approach is the iterative process of moving back and forth between empirical data and theory to draw verifiable conclusions, '*where theoretical framework, empirical fieldwork, and case analysis evolve simultaneously*' (Dubois & Gadde, 2002). According to the authors, an abductive approach implies that theory is confronted with empirics, more or less continuous throughout the research process, stressing the continuous interplay between theory and empirical observations. As a result, this approach to data analysis creates fruitful cross-interaction where new combinations are developed through a mixture of established theoretical models, at the same time as new concepts can be derived from the confrontation with practice.

In this respect, our in-depth case study began with an in-depth review of documentation on the background and context of the new transfer pricing documentation requirements. This preliminary analytical framework served as articulated '*preconceptions*' during the preparation and analysis of the case company's CbC report and in the beginning of the data collection process. By constantly going back and forth from one type of research activity to another, between empirical observations and theory, we were able to expand our understanding of different theories in the field of transfer pricing and the empirical observations. In this way, the theoretically frame of reference was developed over time according to what was discovered through the empirical fieldwork, as well as through analysis and interpretation against different theories. The evolved theoretically frame of reference further directed the search for empirical data, refined the research question and strengthened the set-up of the research design. Essentially, this iterative process resulted in the

identification of unanticipated, yet related, issues that was further explored in interviews or by other means of data collection.

6.3 Industry Survey

6.3.1 Empirical method

In order to reinforce the logic underlying the qualitatively induced propositions in the case study and in order to get better understanding of the broader implications of the new CbC reporting documentation requirement, a quantitative industry survey was conducted to acquire a broader empirical dataset. This makes it possible to explore the empirical diversity of transfer pricing structures and approaches to the CbC reporting across different Swedish MNEs and draw generalized conclusions. With the aim of analytic generalization, the survey method explore the diversity of the research question within a population, and establish explanations for meaningful variation in relevant dimensions and values (Jansen, 2010).

6.3.2 Data collection

The survey questionnaire was designed following the guidelines of Van de Stede, Young and Chen (2005). The following steps were taken to ensure the quality of the questionnaire design:

First, in-depth interviews with the Group Head of Tax at the case company, and with representatives from the Confederation of Swedish Enterprise, were conducted to develop a better understanding of the variations and potential problems in the transfer pricing decision-making process. Based on our in-depth case study and an extensive literature review on transfer pricing and the new CbC reporting requirement, a preliminary version of the questionnaire was constructed. The questionnaire was clustered around three main categories: (1) general questions about BEPS, (2) General questions about application of the ALP, and (3) Specifics about the new CbC reporting documentation requirement.

Feedback was then obtained on the draft questionnaire from the Group Head of Tax, our research tutor at Stockholm School of Economics and representatives from the Confederation of Swedish Enterprise. The questionnaire was iteratively modified in order to make the questions relevant for the research question. Before distribution of the survey, a pilot study was made with the Group Head of Tax in order to ensure that the survey was accurate valid. The survey was further revised

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until it was deemed fully satisfactory by the Group Head of Tax. The final version of the survey questionnaire is included in the Appendix.

Due to the sensitivity²⁶ of transfer pricing practices, the industry survey could preferably not be limited to one or a few particular sectors. As a result, the selected population for which the survey was distributed consisted of all Swedish MNEs subject to the new CbC reporting documentation requirement (with exceptions explained below). Hence, the sample criteria was MNE groups with a Swedish parent company and a consolidated revenue over 750 MEUR for year 2014 or the last available financial year. The sample was collected through the databases Orbis and Retriever. From the list of MNE groups, the country of incorporation of the parent company was cross-checked to ensure that the parent company was Swedish. When the parent company was not Swedish, the MNE Group was excluded from the sample. Further, financial institutions and companies operating in the extractive industries were excluded as these industries are already subject to other CbC regulations different from the initiative in the OECD BEPS Project. Further, for investment companies we manually called each of them regarding majority holdings (more than 51%) to ensure that they were subject to the new transfer pricing documentation requirements. Further, companies with operations only in Sweden were excluded as they do not have intra-group cross-border transactions. Lastly, insurance companies, pension funds and real estate companies were also excluded. Based on this, the final data sample comprised of a total of 81 companies.

The survey was sent to the tax manager, transfer pricing specialist or accounting manager of each MNE. To ensure an appropriate rate of response, it was important that a person who had knowledge about tax matters and experience of transfer pricing practices in a multinational enterprise answered the survey. This person was identified by calling each of the MNEs and asking for the contact details of their tax, transfer pricing or accounting manager.

The survey was distributed electronically via e-mail and filled out via an online survey tool (Qualtrics). Remainders were sent out three times and a follow up call was made for those who had not filled out the survey. In total, the survey was conducted during two weeks. If the respondent did not take the survey after a total of five follow up events (initial distribution, three remainder e-mails and one phone call), they were excluded from the analysis. A number of eight of the MNEs answered that their organizations only had operations in Sweden and thereby excluded from the

²⁶ i.e. the application of the ALP is unique to every MNE Group and its intra-group transactions

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sample. Out of the 81 surveys distributed, we received 40 fully completed responses, yielding a satisfactory response rate of 55% which could be classified as high (Van de Stede, Young and Chen, 2005).

The sample description is summarized in Table 7 below:

Table 7 - Sample description

Panel A: Sample selection

	No. (#)	Share (%)
Number of MNEs targeted	81	
Less - MNEs with only operations in Sweden	(8)	
Final sample	73	
Number of respondents	40	55%

Panel B: Position of the respondent

	No. (#)	Share (%)
Tax Manager	20	49%
Transfer Pricing Manager	7	16%
Accounting Manager	3	7%
Tax Controller	4	9%
Tax Analyst	0	0%
Economy Manager	4	9%
Other	4	9%

6.3.3 Data analysis

The responses from our survey were qualitatively analyzed in various dimensions according to our theoretically guiding framework. Patterns in the three clusters were analyzed both between respondents and between respondents and the case company to explore any empirical diversity, differences and similarities. Further, filtered analysis based on position of the MNE representative respondents, and for two questions in the two of the clusters in order to further explore any empirical diversity, differences and similarities.

6.4 Research quality

The choice of research design approach applied in this paper has had consequences on the results obtained. To establish the quality of the research design, the concepts developed by Eisenhardt (1989) and Yin (2014) were used as guidance. The concepts regard whether the research outcome

is representative of the generally studied phenomenon and if other researchers studying the same phenomenon would reach the same conclusions. Next, some of these will be presented and how we have attempted to comply with them.

6.4.1 Reliability

Reliability is concerned with the study's repeatability, demonstrating that the research operations can be repeated for another study with the same results, i.e. if another researcher can follow exactly the same procedures, conduct the same study on the same organization and thus, receive the same result and conclusions (Yin, 2014).

To ensure that any potential researchers wishing to replicate our case study obtains the same results and reach the same conclusions, we aimed at being systematic in our documentation. All relevant information throughout the process of the study have been documented and saved to an own database. Additional secondary data and literature available in digital format have also been compiled and structured into different suitable folders. Last, the use of triangulation, i.e. the use of multiple sources of evidence while shifting between analysis and interpretation, has further enhanced reliability.

6.4.2 Validity

Validity concerns to which degree the findings of the study correspond to reality and discussed in terms of construct validity, internal validity and external validity (Yin, 2014).

Construct validity refers to the establishment of appropriate operational measures to apply for the concepts being studied. To increase the construct validity of our study, multiple sources of data have been used. As mentioned, the analytic process of this study rests on data gathered from different levels in the case study company, and subsequently from the survey results. Further, the draft industry survey was reviewed by key informants both in the case study company and externally to increase the construct validity. Some of the examples provided based on insights from the in-depth case study have been simplified for illustrative purposes.

Internal validity refers to the establishment of a causal relationship and concerns the interpretations made by the researchers. To ensure a high internal validity, interviews and the survey were structured around similar questions for confirmatory purposes. Further, by executing a pilot study before launching the full survey and using open commentary fields to all questions, we made efforts

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to ensure validity of the study. Further, the selected quotes were discussed and cross-checked during the process of writing to ensure the quotes portray the right context and thus a truthful picture of the specific finding. The selected survey quotes were translated into English. Lastly, in order to increase the knowledge of corporate taxation in general, and transfer pricing specifically, the authors took courses in taxation law (15 ECTS) at the Stockholm School of Economics during the fall 2015.

External validity concerns the extent to which the study findings can be generalized beyond the specific study. As the choice of a single in-depth case study in itself limits generalizability, we chose to distribute an industry survey to similar situated MNEs with the aim of analytic generalization. Both in e-mails, phone calls and in the survey we highlighted that all responses were to be treated anonymously to avoid interpretation bias from individual managers. Further, we chose to send out on survey to each MNE respectively, directly to a manager with knowledge about tax and international transfer pricing in order to ensure relevant inquire responses.

5. Result and Analysis

This section presents the empirical findings from the in-depth case study and the results from the industry survey, as well as the analysis according to the theoretically guiding framework.

5.2 Case study

5.2.1 Strategy

This section provides the empirical findings of different dimensions of the Group-wide strategy in order to understand in order to understand the high-level strategic background from which transfer pricing policies are determined.

5.2.1.1 *Strategy as a perspective*

The Group-wide mission is to deliver ‘*sustainable profitable growth*’. It is built upon a strong corporate identity, created by common values. The core values reflect how the Group’s behave internally as well as in the relationships with external stakeholders. By constantly reinforcing the Group’s corporate identity and the common values upon which it rests, executive management guides the organization towards its mission and ensures that business is conducted in a responsible way.

“Our Group is a Group of companies with a very strong corporate identity and common values. That makes us unique.” (CEO, April 2016)

“Our mission, vision and strategy guide us in where we are going and what we do. /.../ By constantly reinforcing our company culture and build on our innovative spirit we will continue to deliver sustainable profitable growth also in the years to come.” (CEO, April 2016)

During the last couple of years, ‘*sustainability*’ has been given increased strategic recognition in organizational definitions used at the corporate level of the Group. It was first integrated into the Group’s corporate level mission statement along with the creation of a sustainability backed credo statement, reflecting the core values of the Group (2009). Subsequently, it was further incorporated into the corporate level vision statement (2011). In the same year, the Group introduced five

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strategic pillars defined as crucial to back the Group-wide strategy. Most recently (2015), the Group has also introduced five priorities to complement the strategic pillars, where the first priority being recognized was ‘*ethics*’, intended to guide how the Group develops and drives its business strategy. Being core to the way in which the Group pursues business, sustainability is a reflection of the priority placed upon strategy as a creator of long-term shared value for all stakeholders.

“Growth must be done in a responsible way, or there will be no growth. /.../ In our world this includes everything from competence development and ethical behavior, to the development of new innovative products which offer customers even higher productivity.” (CEO, April 2016)

5.2.1.2 Strategy as a position

The Group has a strategic commitment that goes beyond the requirements of legal compliance to be a ‘*good and reliable corporate citizen*’, observing the spirit as well as the letter of the laws of the countries in which it operates. The business code of practice is designed to make sure that the Group always act with the highest ethical standards and integrity, even when environmental standards and social conditions vary in countries of presence.

“We also train our people in our Business Code of Practice to protect both the individuals and our Group. In addition, we have a compliance process where all managers sign off that they have understood what we stand for and are prepared to live along the highest ethical values at all times.” (CEO, April 2016)

“In cases where the business code of practice is stronger than local laws and regulations, we insist on following our own policies in order to safeguard our reputation as a reliable and trustworthy company.” (Chairman of the Board, March 2016)

Inherent in the Group-wide commitment is the importance of protecting the Group from violating its strategic position. During recent years, a number of new violation risks have been recognized, including among others, reporting risks and risks for non-compliance of laws and regulations (2013) where taxes, ‘*especially transfer pricing risks*’ (2014) and ‘*new tax rules and regulations*’ (2015) have been especially emphasized in the context of reporting risks. The Group has systems

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in place used to prevent, detect and manage violation risks that are deemed crucial to effective governance and control of the Group's business. One of the systems in place is a risk management framework initiated as a structured and pro-active approach to manage the Group-wide risks. The framework consists of a risk mapping exercise where risk mitigating factors and potential opportunities are identified and quantified to control for acceptable levels of risks.

“The Group sees opportunities in an efficient risk management both from risk reduction and business opportunity perspectives, which can lead to good business growth.” (Annual Report, 2015)

Recent results from such materiality mapping exercise have shown that taxes, among other factors, is a rising priority among the Group's stakeholders. The tax payable is considered to have a high impact on the Group's long-term strategy to create value for all stakeholders, whereby the Group has realized the importance of gaining accountability for the risk management processes in place to control for compliance with international tax norms and laws. The Group has two internal documents in place to control for such risk management: the ‘*Business Code of Practice*’²⁷ and ‘*Operation Management*’²⁸.

“The aim is to achieve group goals with well-managed risk taking in line with the strategy and within the frame of the company manual Operational Management.” (Annual Report, 2015)

5.2.1.3 Strategy as a plan

The Group pursues an integrated sustainability strategy, with an aim to grow the business in a way that is economically-, environmentally- and socially responsible. The integrated sustainability strategy requires a balance between performances of the different dimensions of responsibility, so

²⁷ The Business Code of Practice has historically been a central internal guiding policy for the Group, owned by the Board of Directors. The internal policy document has primarily been related to business ethics and social and environmental performance, where all employees and managers within the Group, as well as external business partners have been expected to adhere to the policies. The Business Code of Practice is given to all new employees with related training, and managers receive in depth-training of dilemma cases before signing the Business Code of Practice compliance statement.

²⁸ Operation Management is a database collecting group-wide strategies, processes, principles, guidelines and shared best practices, covering a wide array of business functions and services. The database helps the Group to maintain a structured and proactive approach to identify the company's risks, recognizing that the ability to prevent, detect and manage risks is crucial for good governance and control of the strategy. The database thereby ensures well-managed risk taking in line with the strategy and within the frame of the company manual.

that improved performance in one dimension is not achieved at the expense of poorer performance in another. As a result, Group-wide goals and Key Performance Indicators (“KPIs”) are based on the Group’s five strategic pillars and the newly introduced priorities. These group-wide goals are considered to constitute the foundation for the Group’s success:

“Sustainability is an integrated part in each step in how we do business.”

(CEO, April 2016)

“Our five strategic pillars will ensure we focus on the right opportunities. /.../

All our operational units base their activities on our pillars.” (CEO, April

2016)

5.2.1.4 Strategy as a pattern of actions

A vital part of the Group-wide strategy derives from a continuous stakeholder dialogue, demonstrating business results to gain accountability for the actual and potential impact on its stakeholders. It is also used as a way to safeguard that the strategy remains truly sustainable and creates value for all stakeholders. By initiating stakeholder dialogues through meetings and discussions, the Group demonstrate achievements, take advice, and learn from their views. Such stakeholder views are commonly used as a foundations from which Group-wide goals and KPIs are developed in order to ensure that the overall expectations of the Group’s stakeholders are fulfilled. The Group has recently conducted such consultations with different groups of stakeholders.

“Given its global reach, the Group has an influence on the economic and social development of the countries in which it operates. The Group is expected to demonstrate that influence in a positive way and strives to be a good and reliable corporate citizen by creating shared value.” (Annual report, 2015)

“In 2015, the Group completed consultation with 200 institutional stakeholders, which was conducted over an eight month period to identify the key sustainability priorities that impact, and are impacted, by the Group’s business.” (Annual report, 2015)

“Last year we conducted a thorough work to see what our stakeholders, including external parties, believe we should focus on to be successful also in the longer term. Five priorities singled out as the most relevant ones and they make a lot of sense to all of us.” (CEO, April 2016)

5.2.1.5 **Transfer pricing tax compliance**

Being a good and reliable corporate citizen the Group aims to pay the fair amount of tax in all jurisdictions of presence. This entails setting transfer prices in accordance with the OECD Transfer Pricing Guidelines, i.e. in accordance with the ALP. The commitment to be transfer pricing tax compliant is articulated in the Group-wide Tax Policy document.

“When more than one country is involved, we aim to pay the fair amount of tax in respective jurisdiction by setting transfer prices based on the arm's-length principle in accordance with international standards and relevant local legislation.”(Group Tax Policy document)

The Group’s operational structure is based on business areas and divisions, where each division has global responsibility for the value chain of a specific product or service offering. Divisions conduct business through geographically dispersed legal entities, which are frequently engaged in intra-group transactions. Because global value chains are structured and governed based on the operational structure, transfer pricing policies must be established and monitored upon this as well. This implies that intra-group transactions must be analyzed in the context of the operational structure when transfer pricing policies are developed. The integration of the operational structure with the legal structure has sometimes made transfer pricing tax compliance a complex task, especially as the Group have always organized themselves according to what is operationally optimal, without giving much consideration the subsequent implications for the Group’s transfer pricing practices.

”Business areas and divisions have always had the mandate to dictate the operational structure, organizing themselves according to what is operationally optimal without considering the implications for transfer pricing. When transfer pricing policies have to adjust accordingly, second hand,

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transfer pricing tend to become a complex task.” (Group Head of Tax, February 2016)

However, after a transfer pricing tax reassessment in one of the Group’s legal entities a couple of years ago, the compliance process started to receive an increased amount of management attention. Specifically, the Group’s executive management started to engage personally in the operational responsibility to implement and monitor the transfer pricing policies.

“Previously, the executive management only lightly reviewed the transfer pricing compliance status we reported. However, since the reassessment, they have started to scrutinize the compliance status in more detail, following up with more questions throughout the year, eager to assure that we will be within the range at year-end. (Group Head of Tax, February 2016)

The increased urgency to ensure transfer pricing tax compliance was reflected in an increased number of managers involved in the compliance monitoring process and an increased frequency under which the compliance status was reviewed. The increased number of managers involved and the frequency under which the compliance status was reviewed was accomplished by implementing the compliance status as a standard topic in several internal meeting agendas, ranging from the board of directors meeting agenda, to individual company review meetings.

“Transfer pricing compliance must be implemented as a standard topic on all different meetings, including Business Board Meetings, Divisional Controller Meetings and Company Review Meetings. How else can we prevent any deviations from the benchmark range?” (Group Treasurer, February 2016)

Requiring more time and resources being spent on the compliance monitoring process, transfer pricing compliance received an increased recognition and priority within the Group. The primary incentive pushing for this development was the fear of reputational damage and the way the Group is perceived by its stakeholders in the case of a public announcement related to penalties for non-compliance. The fear of reputational damage and the concern about stakeholders’ perception about the group’s transfer pricing practices has further been amplified by the increased awareness of BEPS among stakeholders and the society at large.

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“The reputational risk is much bigger than the taxation risk! It is very important how [The Group] appear in the public domain, especially following the increased awareness of BEPS. We deserve to be perceived as the good corporate citizen we are.” (Group Head of Tax, February 2016)

Interim Recognitions Strategy and Transfer Pricing Tax Compliance

The results from the Group's materiality mapping process indicate that the Group's stakeholders give increased consideration to taxes when determining the Group's business success. At the same time, the Group has specifically emphasized risks for non-compliance with *new tax rules and regulations* as a vital aspects to address for the Group's strategic success. They have also started to treated stakeholders' perceptions about the Group tax payable as a strategic matter. Together, the empirical observations indicate an increased desire to control for that the Group's performance is aligned with stakeholder priorities and the picture conveyed about the Group's performance on such priorities to its stakeholders.

The consideration is illustrated in Figure 9 below:

Figure 9- The relationship between stakeholder priority and its strategic importance



5.2.2 Administrative process

This section provides the empirical findings of the administrative components used to implement transfer pricing policy. In order to understand how the ALP applies to intra-group transactions, i.e. the development and monitoring of transfer pricing policies, and how the outcome is document in the new CbC report model template, the observations are presented respectively within each administrative component.

5.2.2.1 *How are transfer prices set?*

Transfer prices are set based on transfer pricing policies developed in accordance with the ALP. Application of the ALP is based on a comparability analysis, including an examination of five comparability factors on a legal entity basis, to identify and delineate the terms and conditions of the intra-group transactions undertaken by legal entities of the Group. The information on the comparability factors, specifically the functional analysis, is used to evaluate and select the most appropriate transfer pricing method (sometimes also including the selection of a tested party and PLI) and comparables. The transfer pricing policies developed are used to price intra-group transactions. A few examples will illustrate:

Example 1 – Different transfer pricing policies triggered by different transfer pricing methods

According to the OECD Transfer Pricing Guidelines, the selection of an appropriate transfer pricing method should always aim at finding the most appropriate method for a particular case. However, as the OECD regards traditional transaction methods as the most direct means of establishing arm's length pricing the Group applies the CUP method and the CPM methods wherever applicable according to the comparability analysis. Transactional profit methods with reference to external comparables are allowed when there is no or limited third party gross margin information on internal²⁹ and external comparables. Because it is often difficult to find publicly available data on third party gross

²⁹ i.e. legal entities making comparable transactions with unrelated comparables

margin information³⁰, the TNMM applies to many of the other intra-group transactions of the Group.

Example 1 illustrates that application of the ALP triggers different transfer pricing methods, which included in the transfer pricing policy, is used to price different intra-group transactions. As will be illustrated in the examples below, application of the ALP also triggers different transfer pricing policies to price intra-group transactions in situations within the same transfer pricing method.

As the TNMM is the most commonly used transfer pricing method within the Group, the below examples will illustrate how transfer pricing policies are developed in accordance with the ALP based on TNMM. The TNMM requires the selection of an appropriate tested party and PLI to form the transfer pricing policy, generally determined by the value chain activities performed by the parties to the transaction under review.

Example 2 – Different transfer pricing policies for different legal entities

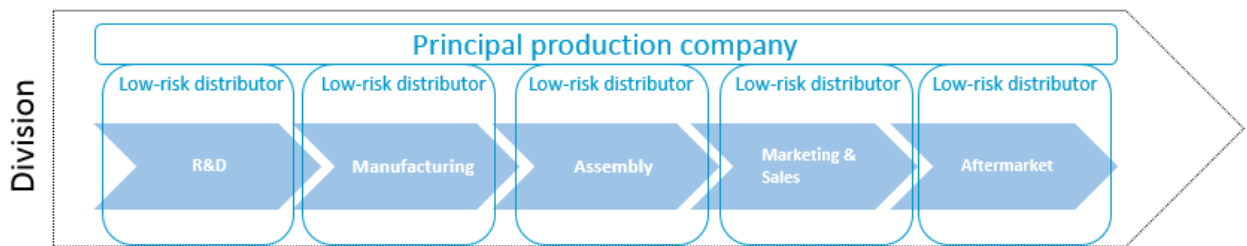
Assuming global value chain responsibility, each division has a divisional headquarter which is generally a '*principal*' production company engaged in the development of the underlying concepts and methodologies of the pursued business strategies within the division. The principal is involved in basically their whole value chain either by actually performing the functions themselves or by having developed the underlying concepts and strategies of the steps in their value chain, and assumes the major business risks. The principal perform and/or finance R&D activities and as a result own the product intangibles, such as know-how, design, brands and technology, related to their product range.

The divisional headquarter assign further responsibility for specific activities of the value chain to other legal entities to operate on behalf of the principal. Such legal entities are commonly referred to as '*low-risk distributors*', focused on one or a few activities of the divisional value chain on behalf of the principal and making only non-unique contributions.

³⁰ Another important criterion is that a majority of the legal entities to the intra-group transactions under review make contributions to the value chain that are not unique (e.g. non-unique intangibles, non-unique business processes and non-unique market knowledge).

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Figure 10 - Legal entities focused on a divisional value chain activity on behalf of the principal



Being engaged in different activities of the value chain, the appropriate PLI and comparables to form a transfer pricing policy varies accordingly.³¹ Being evaluated based on different PLIs, the transfer prices are in turn set through different approaches³² and monitored according to different arm's length benchmark ranges based on different sets of comparables³³. Transfer prices are considered compliant with the ALP when intra-group transactions are priced so that the principal is entitled to the '*residual*' of the consolidated profit (or loss) made on the divisional product and/or service offering, after the low-risk distributors have been granted an arm's length benchmark profit according to the applicable transfer pricing policy. As a result, legal entities engaged in different activities of the value chain are evaluated based on different transfer pricing policies when developed in accordance with the ALP.

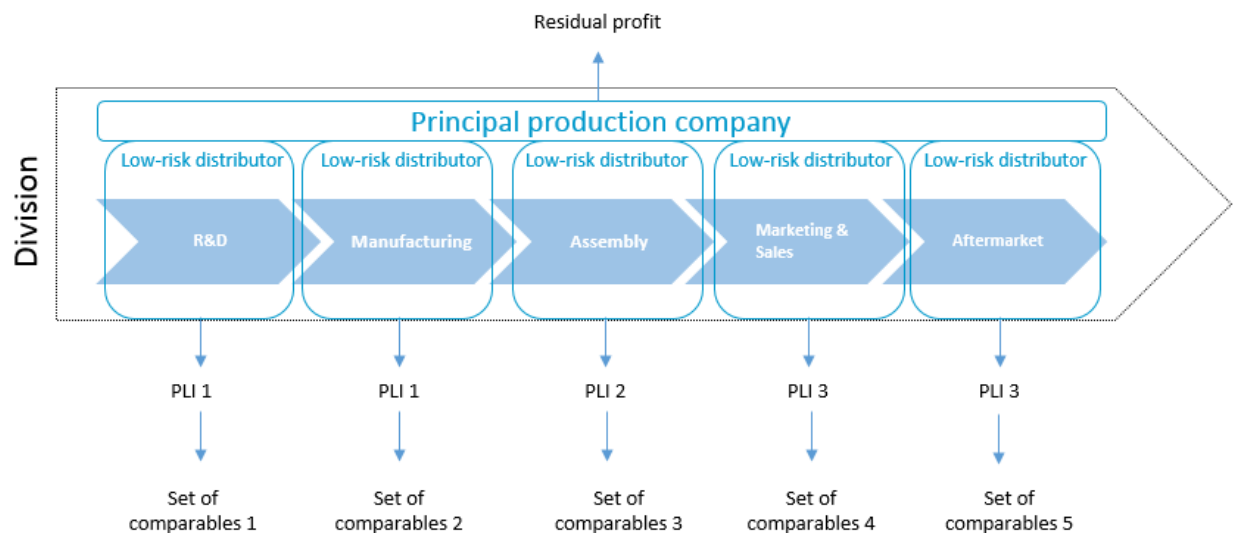
³¹ For instance, a relevant indicator of the value contributed by low-risk distributors engaged in marketing and sales activities (i.e. resale of items purchased from the principal to independent customers) is net profit divided by sales, whereas a relevant indicator of the value contributed for low-risk distributors engaged in contract manufacturing activities (i.e. of items sold to the principal) is net profit divided by operating costs.

³² When a cost-based PLI applies, the transfer prices charged by low-risk distributors from the principal is determined through a return to costs approach. This is because the net profits recognized by such low-risk distributors will be evaluated according to an arm's length benchmark range of net operating profits divided by operating costs. When a sales-based PLI applies, the transfer prices paid by low-risk distributors to the principal is determined through a return to sales based approach. This is because the net profits recognized by such low-risk distributors will be evaluated according to an arm's length benchmark range of net operating profits divided by sales.

³³ The arm's length benchmark range is determined by the selection of uncontrolled comparable companies engaged in similar activities to the tested party, which forms the last part of the transfer pricing policy developed for a low-risk distributor. Even if not illustrated in the figure, it should be noted that the selection of comparables determining the arm's length benchmark range also varies with the regional market in which the low-risk distributor operates, as well as with the business area to which the division belongs.

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Figure 11 - Different transfer pricing policies for legal entities engaged in different value chain activities



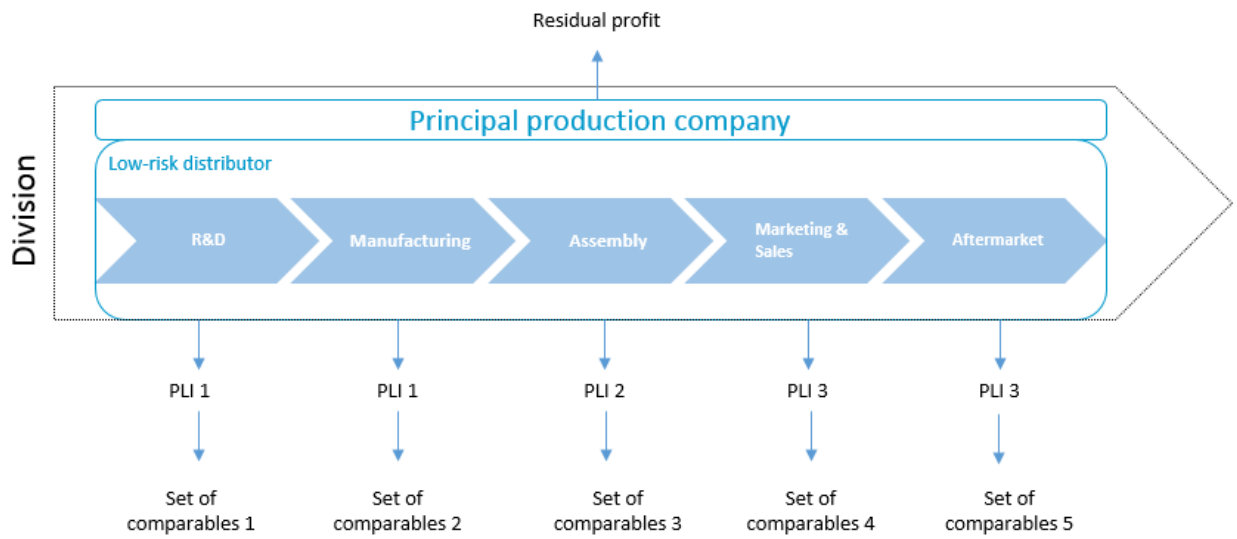
For administrative purposes, low-risk distributors are sometimes assigned responsibility for two or more activities of the value chain. Such low-risk distributors are referred to as ‘*multifunctional companies*’. The below example illustrates that multifunctional companies can be evaluated based on two or more transfer pricing policies being engaged in two or more value chain activities.

Example 3 – Different transfer pricing policies for multifunctional companies

The transfer pricing policies for multifunctional companies are developed in the same way as for low-risk distributors engaged only in one value chain activity (See Example 2). This implies that the multifunctional company is looked upon as two, or more, separate low-risk distributors, i.e. evaluated separately based on different transfer pricing policies for the respective value chain activity undertaken.³⁴ As a result, multifunctional companies engaged in two or more value chain activities are evaluated based on two or more transfer pricing policies when developed in accordance with the ALP.

³⁴ This is a result of the general difficulty to find comparables for multifunctional companies being involved in two or more activities of the value chain. Further, the Group’s management accounting system is structured around different activities of the value chain for control purposes, making it easier to monitor compliance with the transfer pricing policies based on this as well. It is also a way to create consistency in how transfer prices are set, evaluated and monitored across the Group.

Figure 12 - Different transfer pricing policies of a multifunctional company



Another dimension of how intra-group transactions are priced based on transfer pricing policies developed in accordance with the ALP is a consequence of the integration between the Group's operational- and legal structure. The below example illustrates that one low-risk distributor can be evaluated based on one transfer pricing policy separately for each divisional value chain:

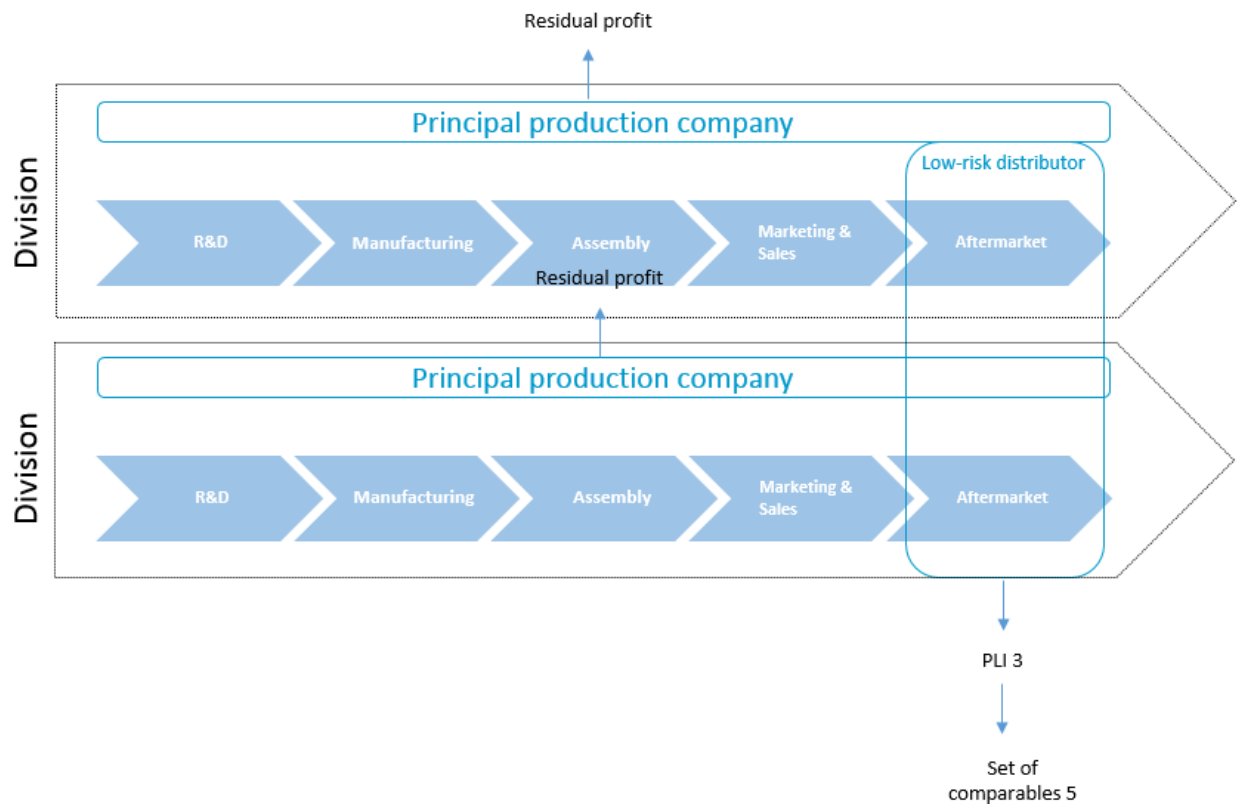
Example 4 – Separate evaluation of the same transfer pricing policy

Divisions conduct business through legal entities being either dedicated or shared with other divisions. This implies that one legal entity can contribute to either one or several activities of different divisional value chains. As a result, low-risk distributors engaged in the same value chain activities but for different divisions, must evaluate the applicable transfer pricing policies separately for transactions undertaken with each principal.³⁵

³⁵ This is because according to the transfer pricing policy based on TNMM, the principal should be entitled the residual of the consolidated profit made on the divisional product line and/or service offering.

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Figure 13 – Separate evaluation of the same transfer pricing policy for transactions undertaken within different divisional value chains



The empirical findings illustrate that application of the ALP to intra-group transactions of the Group triggers different transfer pricing policies according to which transfer prices are set depending on the value chain activities pursued by legal entities. Further, transfer pricing policies must be evaluated separately for intra-group transactions undertaken within each divisional value chain. This is a result of that the ALP seeks to adjust the distribution of the consolidated profit by pricing intra-group transactions according to the comparability factors.

How are transfer prices documented in the Country-by-Country report?

The outcome from different transfer pricing policies used to price intra-group transactions are documented in the first two tables in the CbC report.

The CbC report table (“table”) 1 is intended to provide a high-level overview of the global allocation of income, taxes paid and the location of business activities pursued, aggregating financial data by tax jurisdiction.

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Completing table 1 it was observed that the financial data provided by tax jurisdiction could be determined by two or more transfer pricing policies. This was the case in tax jurisdictions where the Group have two or more legal entities operating with different transfer pricing policies (see Example 1 and 2), and in tax jurisdictions where the Group have multifunctional companies (see Example 3).

The below figure illustrates how the financial data determined by different transfer pricing policies is aggregated by tax jurisdiction in table 1:

Figure 14 - Aggregation of financial data determined by different transfer pricing policies by tax jurisdiction

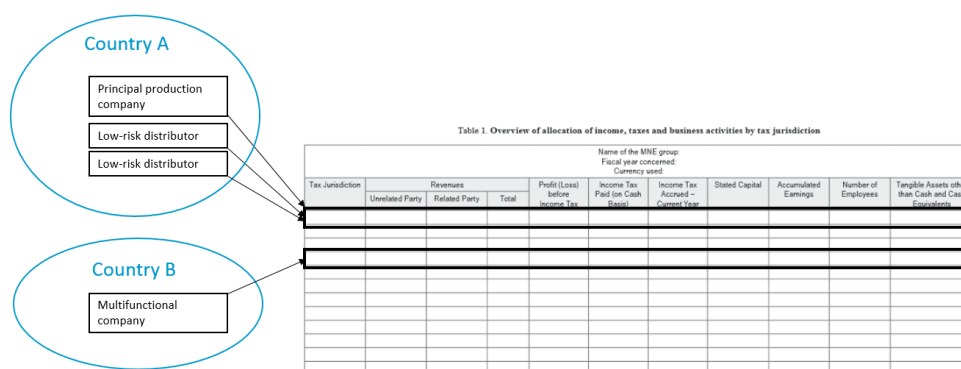


Table 2 is intended to provide a high-level overview of the nature of the main business activities carried out by legal entities in the relevant tax jurisdiction. The table lists all legal entities by tax jurisdiction, aggregating information on the indicators of business activities ticked in one or more appropriate boxes.

Completing table 2 it was observed that information on the indicators of business activities provided by legal entity could adhere to two or more, i.e. different, transfer pricing policies. This was the case for all multifunctional companies of the Group, being evaluated as two or more legal entities operating with different transfer pricing policies (see Example 3).

The below figure illustrates how the ticked indicators of business activities determining different transfer pricing policies are aggregated by legal entity in table 2:

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Figure 15 - Aggregation of business activities determining different transfer pricing policies by legal entity

Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

Name of the MNE group: Fiscal year concerned:													
Tax Jurisdiction	Constituent Entities Resident in the Tax Jurisdiction	Tax Jurisdiction of Organisation or Incorporation if Different from Tax Jurisdiction of Residence	Main Business Activity(ies)										
			Research and Development	Holding or Managing Intellectual Property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of Services to Subsidiary Parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding Shares or Other Equity Instruments
	1												
	2												
	3												
	1												
	2												
	3												

Country B

Multifunctional company

Further, it was also observed when completing table 2 that the pre-specified indicators of business activities do not correspond to the comparability factors used when developing transfer pricing policies in accordance with the ALP.

Table 8 below illustrates the difference between the comparability factors to be considered in developing transfer pricing policies in accordance with the ALP and the pre-specified indicators of business activities to be used when evaluating such transfer pricing policies in table 2 of the CbC report:

Table 8 - Comparability factors vs. Indicators of business activities

The comparability factors that need to be identified and analyzed when applying the ALP:	The pre-specified indicators of business activities that must be ticked in table 2 of the CbC report:
<ul style="list-style-type: none"> • The contractual terms of the transaction • The functions performed by each of the parties to the transaction, taking into account assets used and risks assumed, including how those functions relate to the wider generation of value by the MNE group to which the parties belong, the circumstances surrounding the transaction, and industry practices <ol style="list-style-type: none"> 1. Specifics to risk: Exercise control and financial capacity 2. Specifics to transactions involving intangibles: DEMPE³⁶ functions • The characteristics of property transferred or services provided • The economic circumstances of the parties and of the market in which the parties operate • The business strategies pursued by the parties 	<ul style="list-style-type: none"> • Research and Development • Holding or Managing Intellectual Property • Purchasing or Procurement • Manufacturing or Production • Sales, Marketing or Distribution • Administrative, Management, or Support Services • Provision of Services to Unrelated Parties • Internal Group Finance • Regulated Financial Services • Insurance • Holding Shares or Other Equity Instruments • Dormant • Other

Lastly, table 3 of the CbC report is intended to be used to provide any additional information, including any brief information or explanation considered necessary or that would facilitate the understanding of the compulsory information provided in table 1 and 2. Completion of table 3 is thus voluntary.

5.2.2.2 *Who is involved to set transfer prices?*

The process to set transfer prices is a shared responsibility between different functions of the Group. Expertise is required about how to develop transfer pricing policies in accordance with the ALP as well as the operational context in which they are to be applied. The Group Tax is responsible for developing and documenting transfer pricing policies in accordance with the ALP.

³⁶ i.e. Development, Enhancement, Maintenance, Protection and Exploitation

During the development and documentation process, Group Tax conduct site visits and maintain a continuous dialogue with employees at the legal entity. Employees at legal entities have detailed knowledge about the operational circumstances needed to be analyzed according to the comparability factors. Division management set transfer prices based on the transfer pricing policies developed and documented by Group Tax, and are responsible for implementing and monitoring transfer pricing policies in operations. The legal transfer pricing responsibility resides with the General Manager (“GM”) of each legal entity. By signing and submitting the income tax return, the GM confirms that the applicable transfer pricing policies are complied with.

Who is involved to complete the Country-by-Country report?

In the preparation and analysis conducted to complete the Group’s first CbC report, employees from different Group functions have been involved to contribute with different expertise. Going forward, the CbC report will be completed at the Group Tax department.

5.2.2.3 *What information is used to set transfer prices?*

Transfer prices are set based on the arm’s length benchmark range in combination with historical- and budgeted statutory financial statements, targets and other plans of the legal entities. Legal entities should comply with the transfer pricing policies in their statutory financial statements, as these are commonly used as basis for taxation. However, depending on the transfer pricing policy, different information from statutory financial statements are needed in conjunction with the arm’s length benchmark range when setting transfer prices. Statutory financial statements are based on local Generally Accepted Accounting Principles (“GAAP”).

When a legal entity is evaluated on a cost-based PLI (i.e. OPR/Operating costs), information is needed on what costs the mark-up should apply to, i.e. what costs directly or indirectly relate to the controlled transaction under review. Historical statutory financial statements along with budgets, targets and other plans of the legal entity are used to forecast the amount of those costs that the mark-up should be applied to.

When a legal entity is evaluated on a sales-based PLI (i.e. OPR/Sales), the items included in the profit indicators must be known (e.g. functional costs, other operating income and other operating expenses). Historical statutory financial statements along with budgets,

targets and other plans of the legal entity are used to forecast the amount of those items, in order to determine what price should be set to target the arm's length benchmark range.

What information is used to complete the Country-by-Country report?

According to the general instructions in Action 13, the same sources of data should be consistently used from year to year when completing the CbC report. The source of data may either be built bottom-up from separate entity statutory financial statements, or top-down from internal management accounts (i.e. internal consolidating financial statements).³⁷ The Group have chosen to aggregate existing internal management account data when completing the CbC report, as statutory financial statements are not readily available in the Group-wide reporting system and considered too costly and burdensome to collect in a timely manner. The top-down approach implies that the financial data compiled in table 1 of the CbC report will be based on International Financial Reporting Standards ("IFRS").

5.2.2.4 *When are transfer prices set (and evaluated)?*

Division management generally conduct a large review to set transfer prices at the beginning of every fiscal year. Larger reviews are also made when there are substantial or external reasons, including currency swings or changed purchase prices. However, setting transfer prices based on historical figures along with forecasted budgets, targets and other plans to target the arm's length benchmark range implies that the outcome depend on several unknown factors, such as price sensitivity, demand volatility, currency fluctuations and cyclical fluctuations. The unknown factors create variances to the forecasted outcome according to which transfer prices are set. As a result, legal entities run a risk of being completely off the arm's length benchmark range by year-end if not taking into account potential variances throughout the year. Corrections for variances to the forecasted outcome are accommodated through self-initiated adjustments. Self-initiated adjustments can take the form of interim transfer price adjustments, i.e. adjusting the transfer price set, or as a post-transaction adjustment, i.e. adjusting the actual outcome by initiating a separate invoice or credit to target the arm's length benchmark range by year-end. Post-transaction adjustments, although legally possible in many countries and initiated for compliance purposes, are less preferable in order to maintain transparency towards tax authorities in case of an enquiry

³⁷ The alternatives are expressed in the report as "consolidation reporting packages", "separate entity statutory financial statements", "regulatory financial statements", or "internal management accounts".

or audit. Business Controllers (“BCs”) at legal entities are expected to monitor their compliance with the arm’s length benchmark range, and to notify division management when interim adjustments, in either form, are necessary to remain compliant.

When are transfer prices evaluated in the Country-by-Country report?

It is recommended in Action 13 that the first CbC reports be required to be filed for MNE fiscal years beginning on or after 1st of January 2016, and that MNEs be allowed one year from the close of the fiscal year to which the CbC report relates to prepare and file. This implies that the Group will file its first CbC report for the fiscal year 2016 by latest 31st of December 2017. As a result, the Group have more than one year to prepare and analyze the information to be provided to tax authorities in the CbC report.

5.2.2.5 *How is conflict managed?*

Maintaining a structure approach to transfer pricing documentation on a contemporaneous basis has been a way to assure tax authorities that the ALP has been meaningfully considered, analyzed, and applied for all material intra-group transactions. The master file, local files and transfer pricing agreements are used by the Group to articulate a carefully evaluated basis for their transfer pricing arrangement, explaining the transfer pricing policies in the wider commercial context of the Group. Contemporaneous documentation has also been key to remain transparent at any moment if a fiscal transfer pricing risk assessment, audit or enquiry takes place, proving that intra-group transactions are priced according to the ALP.

How is conflict managed in Country-by-Country reporting?

Table 3 in the CbC report will include additional information or explanation considered necessary or that would facilitate the understanding of the compulsory information provided in table 1 and 2 in order to provide tax authorities with an informed report. It was observed when completing the CbC report that because of the data aggregation and non-use of comparability factors in table 1 and 2, further information might be needed to facilitate tax authorities understanding of the high-level information provided.

Interim recognitions Administrative Process

In this section we have summarized the main empirical findings from the in-depth case study related to the Group's administrative process in place to implement of transfer pricing policies and how the outcome from those policies are documented in the CbC report. The findings will be used in the analysis on the effects on the Group's MCS.

Inconsistencies

The empirical observations indicate that there are inconsistencies between how transfer pricing policies are developed in accordance with the ALP, and how they are to be evaluated based on the information provided in the CbC report. The inconsistencies are created as a result of the CbC report model template design.

Data aggregation

As opposed to the transactional approach in the OECD Transfer Pricing Guidelines for application of the ALP, the CbC report aggregates information by tax jurisdiction in table 1 and by legal entity in table 2. The data aggregation would not have been a concern for an MNE with presence in tax jurisdictions through only one legal entity, applying only one transfer pricing policy. In such a scenario, it would be possible to compare the location of business activity in relation to the geographic location of where income is reported. However, such discerning of the location of business activity is not possible when the outcome of different transfer pricing policies are aggregated, as there is no way to trace the aggregated data to individual transfer pricing policies. Because the underlying assumptions of individual transfer pricing policies can be very different in a highly integrated organization, an aggregated outcome cannot be used to compare the location of business activity in relation to the geographic location of where income is reported.³⁸

The Group is concerned that tax authorities will evaluate the existence of transfer pricing risk based on the aggregated data determined by different transfer pricing policies in combination with

³⁸ For example, low-risk distributors bear low risks, perform limited functions and use limited assets. As such, their arm's length benchmark range of comparable unrelated distributors should generate low profits. The principal on the other hand, assumes the major business risks, being involved in basically the whole value chain themselves by performing the functions or by having developed the underlying concepts and strategies, and making unique contributions to the value chain through intangibles such as know-how and/or technology. The principal should therefore be entitled the residual of the consolidate profit (or loss) made on a divisional product line and/or service offering.

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aggregated data on indicators of business activities pertaining to separate intra-group transactions for which different transfer pricing policies apply.

“The report merges outcome for several legal entities by country. If you would report on a legal entity basis, the report would perhaps be more understandable for many multinational companies. However, for multinational companies like ours, with many legal entities that have multiple parts of one or several value chains, reporting on a legal entity basis would not help. The report must be even more specific, collecting data on a functional level. However, then country-by-country reporting would make a very complicated report.” (Group Head of Tax, February 2016)

The concern about data aggregation in CbC reporting has been recognized already with regards to how the data provided is intended to be used for economic and statistical analysis when evaluating BEPS. It is stated in Action 11 of the BEPS Action Plan that the ‘*aggregation of financial information in respect of entities within MNE groups can distort and limit the analysis of BEPS research*’³⁹. Data aggregation of information on business is also contradictory to the central concept of the ALP that, ‘*rather than the number of functions performed*’/.../‘*it is the economic significance of those functions in terms of their frequency, nature and value to the respective parties to the transactions that is important*’.⁴⁰

Non-use of comparability factors

The comparability analysis, based on the five comparability factors, ‘*is at the heart of the application of the arm’s length principle*’.⁴¹ However, neither comparability factors have been included in any table of the CbC report model template, though it is intended to be used as a tool for tax authorities to detect and evaluate potential misapplications of the ALP.

In order to evaluate the financial and taxation impacts based on the financial data provided in table 1 relative to the economic contributions made to the global value chain, information is needed on the underlying comparability factors used when developing transfer pricing policies in accordance

³⁹ Action 11 - 2015 Final Reports, OECD, p. 19, para 9

⁴⁰ Actions 8-10 - 2015 Final Reports, OECD, p.21, para 1.51

⁴¹ OECD Transfer Pricing Guidelines, para 1.6 Chapter I

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with the ALP. The Group is therefore concerned about that tax authorities will conduct transfer pricing risk assessments without considering such comparability factors.

“To be able to question if the correct transfer pricing policy has been applied, it would be necessary to have information about the five comparability factors per legal entity.” (Group Head of Tax, February 2016)

The non-use of comparability factors is a concern as it implies that the outcome from intra-group transactions priced in according to the ALP, but not evaluated accordingly. It is also contradictory to the revised guidance on application of the ALP provided in Action 8-10 of the BEPS Action Plan, introducing new concepts to be evaluated within the comparability factors⁴² in order to ‘secure outcomes that see operational profits allocated to the economic activities which generate them’⁴³.

Source of data

The option to complete the CbC report with internal management accounts significantly reduces the compliance burden placed on the MNEs, not having statutory financial statements readily available in group-wide reporting systems. However, such different sources of data can be prepared according to different accounting principles. This implies that differences between the data provided on financial- and taxable income (“book/tax income differences”) could be amplified if data from internal management accounts are based on accounting principles different from accounting principles underpinning local statutory accounts. This can generally be the case as the accounting principles underpinning statutory financial statements are commonly closer to local tax law when used as a basis for taxation.

The Group is concerned whether tax authorities will be able to interpret such book/tax income differences as the data from their internal management accounts are based on IFRS accounting

⁴² In the revised guidelines on the application of the ALP the functional analysis in relation to risk must determine how the associated enterprises that are parties to the transaction *operate* in relation to *assumption* and *management* of risks. Further, the revised guidance also determines that members should be compensated for functions performed, assets used and risks assumed in the DEMPE of intangibles.

⁴³ Actions 8-10 - 2015 Final Reports, OECD, p. 10

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principles. They believe that tax authorities are more familiar with local statutory reporting principles.

“There is a risk that it will be more difficult for tax authorities to interpret the outcome in the country-by-country report when based on our internal management accounts. They are not used to this kind of financial data.” (Group Head of Tax, February 2016)

There is a concern that amplified book/tax income differences could distort the information usefulness to tax authorities, as different sources of information can portray different pictures of MNEs’ financial profiles. This concern has also (as for data aggregation) been recognized already in Action 11, stating that: ‘*differences between tax return and financial account data represent an important limitation affecting the use of non-tax financial account information for analysis of tax policy issues generally and BEPS specifically*’⁴⁴.

Table 3 - the information mediator

The empirical observations indicate that because of the inconsistencies created by the CbC report model template design, additional information might be needed to facilitate tax authorities understanding of the picture conveyed in table 1 and 2. Because such information can only be provided in table 3 of the CbC report, there is a concern that the information needed provided in table 3 will turn into an extensive report.

Faced with challenges to interpret the information provided in the CbC report due to the inconsistencies created from the standardized model template design, the Group is concerned that the CbC report is an inadequate tool for tax authorities to be used to correctly identify transfer pricing risk and evaluate which cases merit a further investigation through an audit or enquiry.

“The standardized format could make it difficult for tax authorities to understand the transfer pricing arrangement because there will be many different variations depending on the MNE’s organization. Just because it works one way in one legal entity, it does not necessarily do so in others. As it looks right now, we are going to receive a lot of unnecessary questions from

⁴⁴ Action 11: 2015 Final Reports, OECD, p. 21, para 18

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tax authorities not being able to interpret the aggregated outcome, and it is going to take a lot of resources to provide everyone with explanations.” (Group Head of Tax, February 2016

It has been acknowledged in a report commissioned by the Forum on Tax Administration (“FTA”), discussing the practical steps tax administrations need to take to correctly identify transfer pricing cases that merit audit or enquiry, that transfer pricing risk assessments depend on a good commercial understanding of the specific business context in which related party transactions are being conducted. In the report, business advisers emphasized ‘*the need for tax administrations to develop an understanding of the specific business model of each taxpayer*’/.../‘*as tax administrations do not always place enough emphasis on the need to achieve a good understanding of how a business is run*’. The consideration was further echoed by tax specialists working in business, who also stressed ‘*the importance of understanding the business functions undertaken by different parts of a group of companies and how those interact before entering in to detailed examination of specific aspects*’.⁴⁵

The automatic exchange mechanism

The CbC report will be filed in the jurisdiction of tax residence of the ultimate parent entity, and shared automatically through the CbC MCAA between tax authorities in jurisdictions of the Group’s presence. This implies that tax authorities will be provided with information not only of legal entities operating in their particular jurisdiction, but also with information about their related parties located in other jurisdictions. The intension is to equip tax authorities with a tool necessary to evaluate the taxation impact of intra-group transactions undertaken by legal entities located in their jurisdiction with related parties located in other jurisdictions. However, each domestic system has its own specificities, reflecting their own position on transfer pricing (OECD, 2013), differing in both regulatory standards of transfer pricing and the way such standards are to be interpreted and applied by MNEs (Hansen et al. 1992; Durst 2002; Cools et al. 2008; Cools and Slagmulder 2009; Plesner Rossing 2013). In cases where the inconsistencies created from the CbC report model template design result in tax authorities initiating further enquiries and/or audits, there is a concern that subsequent transfer pricing adjustments can be initiated based on a different interpretation of the ALP according to a jurisdiction’s own legal specificities. Unless correspondingly adjusted for

⁴⁵ Dealing effectively with the challenges of transfer pricing, OECD 2012, p.26

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in the corresponding country, this implies an increased exposure to the risk of economic double-taxation⁴⁶.

The automatic exchange of CbC reports is also considered helpful as information that extends beyond the countries border is often needed in the case of a transfer pricing audit. An important consideration for tax authorities in deciding whether the case, or certain aspects of it, warrants a thorough transfer pricing audit or enquiry is to consider the potential scale of likely resource commitment, weighted against the potential additional tax revenue expected to be raised from the audit.⁴⁷ Considering that MNEs only with an annual consolidated group revenue above EUR750 million or a near equivalent amount in domestic currency are required to file a CbC report, the Group is concerned that the indication of materiality provided in the CbC report will make MNEs filing the report more attractive targets for further enquiries and audits.

“The accounting data provides an indication of the materiality of potential tax revenues to take home, increasing the desire to collect a bigger piece of the cake.” (Group Head of Tax, February 2016)

The fear of being an attractive target for transfer pricing audits and enquiries by tax authorities because of MNE size and success have been a concern also for other MNEs in the context of stricter fiscal transfer pricing tax rules (Cools, 2003).

Table 9 below summarizes the empirical findings regarding the Group’s administrative process:

⁴⁶ Double taxation is traditionally divided in to two kinds, juridical double taxation and economic double taxation. Juridical double taxation may be described as the imposition of comparable taxes by two or more tax jurisdiction on the same taxpayer in respect of the same taxable income or capital. Economic double taxation may be described as the imposition of comparable taxes by two or more tax jurisdictions on different taxpayers in respect of the same taxable income.

⁴⁷ Public consultation: Draft handbook on transfer pricing risk assessment 2013, p.9, The OECD

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Table 9 - Summary Empirical Findings Administrative Process

Administrative component ALP	Empirical observations ALP	Administrative component CbC report	Empirical observations CbC report
<ul style="list-style-type: none"> How are transfer prices set? 	<p>Transfer prices are set based on the transfer pricing policies developed in accordance with the ALP for intra-group transactions undertaken by legal entities. Application of the ALP is based on a comparability analysis consisting of five comparability factors.</p>	<ul style="list-style-type: none"> How are transfer prices documented in the CbC report? 	<p>The CbC report model template aggregates the financial data determined by different transfer pricing policies by tax jurisdiction in table 1, and the indicators of business activities pursued by legal entity in table 2. The indicators of business activities to be ticked per legal entity in table 2 do not correspond to the five comparability factors used when developing transfer pricing policies in accordance with the ALP.</p>
<ul style="list-style-type: none"> Who is involved to set transfer prices? 	<p>The process to set transfer prices is a shared responsibility between different functions of the Group, requiring expertise from Group Tax and legal entities whose intra-group transactions the transfer pricing policies are developed for.</p>	<ul style="list-style-type: none"> Who is involved to complete the CbC report? 	<p>In the preparation and analysis conducted to complete the Group's first CbC report, employees from different Group functions have been involved to contribute with different expertise. Going forward, the CbC report will be completed by Group Tax.</p>
<ul style="list-style-type: none"> What information is used to set transfer prices? 	<p>Transfer prices are set based on arm's length benchmark ranges in combination with historical- and budgeted statutory financial statements based on local GAAP, other plans and targets of the legal entities.</p>	<ul style="list-style-type: none"> What information is used to complete the CbC report? 	<p>Internal management accounts based on IFRS will be used to complete the CbC report.</p>
<ul style="list-style-type: none"> When are transfer prices set? 	<p>Transfer prices are set at the beginning of every fiscal year and complemented with self-initiated adjustments throughout the year in order to remain compliant with applicable transfer pricing policies by year-end.</p>	<ul style="list-style-type: none"> When are transfer prices evaluated in the CbC report? 	<p>The CbC report is required to be filed one year from the close of the fiscal year to which the CbC report relates.</p>
<ul style="list-style-type: none"> How is conflict managed? 	<p>Maintaining a structured approach to transfer pricing documentation on a contemporaneous basis is a way to assure tax authorities that the application of the ALP has been meaningfully considered, analyzed and applied for all material intra-group transactions.</p>	<ul style="list-style-type: none"> How is conflict managed in the CbC report? 	<p>Table 3 in the CbC report should include additional information or explanation considered necessary or that would facilitate the understanding of the compulsory information provided in table 1 and 2.</p>

5.2.3 Effects on MCS

The CbC report makes a means of stakeholder dialogue demonstrating the outcome of the transfer pricing policies applied. Tax authorities are intended to use the CbC report as a basis for decision-making on whether to grant accountability or if further investigation, through an enquiry or audit, should be initiated. This section outlines the empirical findings of the steps taken to comply with the new CbC reporting documentation requirement, and its impact on the MCS.

5.2.3.1 *Control of strategic uncertainties*

In order to be able to complete and file the first CbC report, the Group Tax department initiated a preparation and analysis. Due to the difficulties involved in interpreting the general instructions provided in the CbC report implementation package of Action 13, the process turned into a highly interactive process involving both internal and external expertise.

The analysis started with a top-down mapping procedure of the internal management accounts used to complete all compulsory data in table 1 and table 2. In this preparatory exercise, employees from Group Control and Accounting participated with their group reporting expertise to determine what source of data should be used in completing the template, and more specifically what group accounts to be included in each of the items of table 1 of the CbC report. They were also involved to interpret the definitions of the financial data requested, providing information about internal classifications of revenue, cash tax, stated capital and assets. Lastly, they assisted Group Tax to map, filter and aggregate the financial data for all legal entities to be included in table 2 of the CbC report, as well as their respective business activity classifications. The Group's Tax Specialist was involved during all meetings with Group Controlling and Accounting, and performed the reconciliation calculation of income tax accrued for the current year, to construct a figure reflecting only operations in the current year, i.e. excluding deferred taxes or provisions for uncertain tax liabilities. During this initial phase, a number of inconsistencies related to the CbC report model template design were identified, including data aggregation, non-use of comparability factors and data source.

New strategic uncertainties

The Group is concerned that the inconsistencies in CbC report model template design, in terms of data aggregation, non-use of ALP comparability factors and source of data, will create difficulties

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for tax authorities to interpret the data provided in the CbC report. The Swedish Tax Authority also acknowledged the foreseen difficulty created because of the model template design.

“In the final model template there is no connection between the reported outcome and individual transactions. This makes it difficult for all relevant authorities to interpret the information. If the final model template made visible the transactions between the various group companies, the country-by-country report would be more accurate as a tool for transfer pricing risk assessment.” (Transfer Pricing Specialist, Swedish Tax Authority, February 2016)

The risk that the information provided in the CbC report could be misinterpreted or misunderstood by tax authorities is a new uncertainty faced by the Group. It implies that tax authorities can make incorrect conclusions about the existence of transfer pricing risk based on the outcome provided in the CbC report. Incorrect conclusions about the existence of transfer pricing risk could in turn distort tax authorities’ decision about which cases merit further investigation through enquiries or audits, undermining the Group’s transfer pricing practices as a tax compliant MNE.

“Tax authorities will most likely find it difficult to interpret the information they are asking for in the CbC report designed by the OECD. For us, this means that it is not going to matter that we have applied the arm’s length principle according to the guidelines because we are going to receive questions, and potentially also audited, anyway!” (Group Head of Tax, February 2016)

New interactive controls

In order to prevent that tax authorities misinterpret or misunderstand of the information provided in the CbC report, Group Tax have discussed different actions that could be taken in order to increase tax authorities understanding of the compulsory information. Specifically, it has been considered it necessary to provide tax authorities with additional information through some kind of dialogue, ensuring tax authorities’ understanding of the picture conveyed by the outcome. It has been considered that such dialogue must reconcile the assumptions underlying the transfer pricing policies applied with the outcome presented in the CbC report. The reconciliation would provide

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tax authorities with a better commercial understanding of the specific business context in which the transfer pricing policies are developed. The reconciliation dialogue could mitigate the risk that tax authorities misunderstand or misinterpret the information, in turn preventing that future enquiries and/or audits are incorrectly initiated based on a transfer pricing risk assessment using the data provided in the CbC report.

However, such extensive dialogue is rather impracticable for Group Tax, as the Group has presence in numerous countries to which the CbC report is to be automatically exchanged. As a result, alternative prevention mechanisms, minimizing the inconsistencies created from the standardized CbC report model template design have been elaborated upon.

The first alternative mechanisms thought of was the source of data to be used to complete the CbC report. Because separate entity statutory financial statements based on local GAAP are generally closer to local tax law, aggregating separate entity statutory accounts information in the CbC report template could have been preferable to decrease some of the implied book/tax income differences. Calculating effective tax rate (“ETR”) differentials based on the information provided in the CbC report implies that book/tax differences may convey an incorrect presence of transfer pricing risk, leading to incorrect decisions as to whether a transfer pricing risk is worth proceeding a transfer pricing enquiry or audit, if not correctly adjusted for.⁴⁸ However, completing the CbC report using statutory financial statement data for legal entities of the Group would require production a reporting system that connects local reporting systems containing statutory financial statement data with the reporting systems at the Group level. This would in turn impose a huge administrative burden and therefore not considered a practically viable option.

“We will not complete the country-by-country report based on statutory accounts as such data is not readily available in our Group reporting system. If we were to complete it on statutory accounts, we would have to collect such data for all legal entities of the Group, which is practically impossible.”

(Group Head of Tax, February 2016)

⁴⁸ One of the key components of Action 11 is the development of indicators that can be used to identify the scale and economic impact of BEPS, consisting of metrics that can help portray the extent of practices that artificially segregate taxable income from the activities that generate it. One of such metrics is the ETR differential, setting the tax expense in relation to profit.

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Another hypothetical scenario thought of as a way to minimize the inconsistencies created from the standardized CbC report model template design was the restructuring of divisional value chain activities (Cools et al., 2008)⁴⁹. By restructuring value chain activities to become more homogenous on a jurisdiction basis, the number of separate and/or different transfer pricing policies could be reduced. Such hypothetical restructuring could make it possible to better compare the location of business activity in relation to the geographic location of where income is reported, as the aggregated data would be determined by the same or more similar transfer pricing policies.

However, the Group have decided to not restructure its activities in order to prevent that tax authorities misinterpret or misunderstand the outcome from separate and/or different transfer pricing policies. The reasoning behind such a decision is that it is not practically viable considering the Group's large number of geographically dispersed legal entities. Secondly, the Group Tax is of the opinion that the Group already have invested considerable time and resources to become transfer pricing tax compliant with the ALP and the current related documentation requirements (in terms of a master file and local files).

"We have already adjusted to become compliant with the rules, and it would be impossible to restructure activities of the Group so that they would not look strange in the template. It is the template developed by the OECD that must be changed if country-by-country reporting should fulfill its intended purpose."

(Group Head of Tax, February 2016)

As a result, the Group Tax department has considered another prevention mechanism that could form an alternative means of dialogue with tax authorities, improving their understanding of the picture conveyed in the CbC report:

1. Utilizing table 3 to facilitate understanding of the information

Table 3 of the CbC report has been considered an alternative means of dialogue with tax authorities, where any additional information can be provided. This implies that table 3 is the

⁴⁹ Cools et al. (2008) found that transfer pricing documentation requirements as part of MNEs' transfer pricing tax compliance can play an important role in the decision to restructure divisional activities. This role of transfer pricing documentation was found to be created from fact that 'by recognizing the same functions, wherever they were located geographically, the same transfer pricing method can be applied'.

only opportunity for the Group Tax department to facilitate tax authorities understanding of the compulsory information provided in table 1 and 2. By attaching the Group's master file in table 3 and information about any 'larger' book/tax income differences, tax authorities would be provided additional information that could facilitate a reconciliation to the comparability factors analyzed when developing the transfer pricing policies applied, and how those fit into the Group's wider business context. It would also facilitate the reconciliation of the financial income figure reported in the CbC report and the taxable income reported in the local financial statutory accounts. This option is currently under discussion, and is yet to be decided on.

In this way table 3 could function as a prevention mechanism towards incorrectly initiated enquiries and/or audits in the case of a transfer pricing risk assessment. A representative from the Swedish Tax Authority confirmed the importance of using table 3 as a means of dialogue with tax authorities.

“It is up to the multinational companies to explain so that tax authorities understand, since they are the ones having the information. When something is difficult to explain, a crucial factor of indication, tax authorities initiate further investigations. As a consequence, there is a risk that table 3 becomes extremely long. This is rarely seen as a problem by tax authorities, detailed explanations are rather welcomed.” (Transfer Pricing Specialist, Swedish Tax Authority, February 2016)

In addition to the foreseen difficulties for tax authorities to interpret the information provided in the CbC report, the Group Tax department believes that their own difficulties to interpret the general instructions of the CbC report model template makes another uncertainty. The difficulties to interpret the general instructions implies a risk that the information provided is not correspondent to the information requested by tax authorities. Without the sufficient information needed, tax authorities may have difficulties to perform a proper transfer pricing risk assessment. In order to minimize this risk, Group Tax have utilized a prevention mechanism beyond the Group's organizational borders.

2. Trying to see around corners through inter-organizational networking

Being concerned about their own understanding of the vague definitions in the general instructions of the compulsory information to be provided the CbC report, Group Tax have started to attend various inter-organizational group meetings with transfer pricing and tax specialists from other MNEs also subject to the new documentation requirement. The inter-organizational networking have been utilized to discuss how to interpret the definitions provided and what accounts to include in each respective item of table 1 and 2. By sharing experiences and learning from others, the objective has been to precede tax authorities with regards to what information they are actually asking for, with an overall objective to prevent incorrectly initiated further enquiries and/or audits from a transfer pricing risk assessment based on information provided in the CbC report. The Group Head of Tax explained the importance of acquiring information outside the Group.

“We are currently facing significant changes in the global tax environment, especially as a result of the BEPS project. Remaining up to date with the on-going developments requires specialist competence. This must be acquired outside the Group in various networks.” (Group Head of Tax, February 2016)

The empirical findings suggest that the Group must correct for the inconsistencies created by the standardized CbC report model template design in order to ensure tax authorities ability to interpret the information provided in the CbC report. Further, they must also ensure their own ability to interpret the general instructions provided in Action 13, so that the information requested corresponds to the information provided in the CbC report model template. The considerations of using table 3 as means of a dialogue with tax authorities and the increased attendance on meetings and forums outside the Group's organization are two preventions mechanisms developed to control for the uncertainty of tax authorities imitating further enquiries or audits from a transfer pricing risk assessment based on the information provided in the CbC report.

Considering that the CbC report is to be used by tax authorities to evaluate the existence of transfer pricing risk in the Group's transfer pricing arrangement, the actions taken by the Group Tax department are in line with the conceptual approach of stakeholder management theory. The theory implies that managers cannot ignore the picture conveyed about the implied level of performance about its transfer pricing tax compliance, as tax authorities have legal claim on the Group's taxation

decision. The Group must therefore take strategic action to deal with the picture conveyed about its transfer pricing tax compliance in order to manage the relationship to tax authorities, i.e. assuring tax authorities that their legal claim has been given consideration and are reconciled into the Group's transfer pricing practices (Carroll, 1991). The empirical findings also confirm the findings of Plesner Rossing (2013), that *'the tax knowledge base linked to an increasingly ambiguous tax environment is widely dispersed'*, and that *'organizational learning in the tax department about tax-related cause-and-effect relationship was driven to a wide extent by the information accessed through inter-organizational network collaboration'*.

5.2.3.2 Control of risks to be avoided

Subsequent new exposure to the risk of double-taxation

The risk of misinterpretations and misunderstanding of the information provided in the CbC report to tax authorities, as well as the risk for misinterpretations and misunderstandings of the general instructions provided Group Tax department, in turn creates a subsequent risk of double taxation and reputational damage in the case of a public announcement.

The Group believes the subsequent exposure to the risk of double taxation, and reputational damage in the case of a public announcement, is further amplified by the CbC MCAA, allowing for the automatic exchange of CbC report. This is because tax authorities may differ in terms of both regulatory standards of transfer pricing and the way such standards are to be interpreted and applied by MNEs. This implies an increased risk that transfer pricing adjustments be performed by tax authorities on such grounds in the case of a further enquiry and/or audit. Unless correspondingly adjusted for in the related jurisdiction, the same taxable profit could be taxed twice. Further, because such transfer pricing adjustment are generally announced to the public, there is also an implied subsequent risk of reputational damage. A representative from the Swedish Tax Authority confirmed the concern related to the amplified risk exposure.

"Tax authorities interpret the OECD Transfer Pricing Guidelines differently, and still, they will share the information with each other. Initially, this will certainly cause a lot of problems for MNEs as they must inform tax authorities that the interpretation made is appropriate. This may not be so easy in all countries." (Transfer Pricing Specialist, Swedish Tax Authority, February 2016)

New boundaries

Because applications of the ALP often builds on judgments made from both MNEs and tax authorities, the Group has a structured approach in place to ensure that applications are carefully and consistently evaluated and documented. These are primarily controlled for in three of the Group's internal documents: the '*Business Code of Practice*', the '*Operational Management*' and the Group Tax Policy. However, conflicts regarding how the ALP is to be interpreted in different jurisdictions have been considered increasingly difficult to control for as a result of the automatic exchange of CbC report. This implies that despite having internal documents in place to ensure a consistent and carefully evaluated application of the ALP, the structured approach to application of the ALP has been considered insufficient to control for the new risk exposure of double-taxation and reputational damage. As a result, Group Tax has considered new controls that could prevent any conflicts regarding the interpretation of the ALP in the course of a further enquiry and/or audit:

3. More restrictive use of post-transaction adjustments

Post-transaction adjustments are commonly used to correct for variances to the forecasted outcome according to which transfer prices are set. Being initiated throughout the year, the adjustments are used to control for compliance with the applicable transfer pricing policy, i.e. arm's length benchmark range, at year-end. Even though post-transaction adjustments are generally legally allowed and issued only for compliance purposes, post-transaction adjustments entail separate invoices and/or credits that could be questioned by tax authorities in the case of an enquiry or audit, requiring an explanation to the underlying transfer pricing policy to which the post-transaction adjustment adhere. The experience by Group Tax is that such questioning is more common for large one-off transactions, as opposed to smaller and more frequent post-transaction adjustments made throughout the year. Explaining the underlying transfer pricing policy to which a post-transaction adjustment adhere, there is always a risk that tax authorities may not accept the transfer pricing policy developed based on its own legal specificities to the ALP.

“Corrections of variances from the benchmark through post-transaction adjustments could be questioned by tax authorities. In such cases, it must not only be explained to which transfer pricing policy the adjustment relates, but also what is the underlying transfer pricing policy. The underlying transfer

pricing policy may not always be accepted by tax authorities, having a different idea about how the ALP should be interpreted and applied to a particular situation.”(Group Head of Tax, February 2016)

Recognizing that large one-off post-transaction adjustments could alert tax authorities attention to the underlying transfer pricing policy applied, and that there is a risk that the underlying policy is not accepted in such cases, Group Tax has considered to look over the routines regarding the use of post-transactions adjustments for compliance monitoring purposes. Being more restrictive in the utilization of post-transaction adjustments for compliance monitoring purposes is considered a way to mitigate that transfer pricing policies are questioned, thereby a way to mitigate the increased exposure to the risk of double-taxation and the reputational damage.

In addition to tax authorities’ different interpretations of the ALP, there is also a concern that the risk of double-taxation can be triggered by the CbC report functioning as an incentive for tax authorities to initiate further enquiries and/or audits, providing an indication of materiality of potential tax revenues to be collected. By initiating a further enquiry and/or audit based on information in the CbC report, tax authorities may subsequently interpret the ALP in their own favor.

As a result, the Group Tax department has considered it necessary to develop new controls to prevent that tax authorities be able to make such claims according to their own interpretation of the ALP:

4. Demonstrating the control mechanisms in place

The Group has always supported voluntary international ethical guidelines, including the OECD Transfer Pricing Guidelines, and used it as a central guiding policy for its transfer pricing practices. However, following the increased risk exposure due to conflicting interpretations of the ALP as well as the implied tax revenue materiality, the Group has found it necessary to demonstrate its already ambitious interpretation made of the ALP. In order to demonstrate the Group’s commitment to the OECD Transfer Pricing Guidelines, different parts of the Business Code of Practice have been explicitly outlined as a new ‘*statement of materiality and significant audiences*’. As part of the materiality statement, it

is explicitly outlined that the Group's commitment to the Business Code of Practice goes beyond the requirements of legal compliance in the favor of such international ethical guidelines. The materiality statement has been communicated through the Group's annual report, thereby targeting a wider stakeholder group as opposed to only tax authorities.

In addition to the more restrictive use of post-transaction adjustments and external communication of the Group's adherence to the OECD Transfer Pricing Guidelines, the Group's executive management has considered it necessary to also interact with different stakeholders to the Group through a materiality mapping process. This is seen as a way to gain accountability for the priority placed on its risk management activities related to the tax payable.

5. Interaction upon the risk management framework

The risk management framework involves a risk mapping exercise developed to mitigate Group-wide risks by identification and quantifications of risk mitigating factors and potential opportunities to control for acceptable levels of risks. In order to gain accountability for priority placed upon risk management processes with regards to taxation risks for non-compliance with international tax norms and laws, the Group has recently started to use the risk management framework as a materiality mapping exercise in its consultation with key stakeholders. Such key stakeholders include representatives from the society, employees, customers, business partners and shareholders, including NGOs, unions, key investors, civil society and business advocacy groups. The newly initiated materiality mapping exercise has been explained and presented in the Group's annual report.

“[The Group's] Business Code of Practice defines its five key stakeholders, and each group was consulted for the materiality mapping process/.../ The materiality process identified the priorities for the success of [the Group's] long-term strategy to create value for all stakeholders.” (Annual Report, 2015)

The empirical observations indicate that the uncertainty caused from the CbC report the model template design and general instructions, and the subsequent risk exposure to double taxation and reputational damage amplified by the exchange mechanism, interfere not only with the Group's relationship to tax authorities but also with other stakeholder relationships of the Group. This is because a public announcement of a transfer pricing risk adjustment reaches other stakeholders to

the Group than tax authorities. The consideration is reflected in the newly publically announced statement of materiality, where the Group defines a wider scope of ‘*significant audiences*’. Again, according to the conceptual approach of stakeholder management theory, this implies that the Group must take strategic action to deal with the picture conveyed about its transfer pricing tax compliance not just to manage its relationship with tax authorities but also with other stakeholders (Carroll, 1991). As a suggestion, the more restrictive use of post-transaction adjustments, the publically disclosed statement of materiality as well as the newly introduced interactive use of the risk management framework can all be viewed as prevention mechanisms initiated by the Group to manage its relationships to tax authorities as well as the relationships with other stakeholders.

5.2.3.3 *Control of critical performance variables*

New routines

Preparation and analysis of the CbC report is a new reporting and filing routine conducted by Group Tax. The reporting exercise involves completion of the CbC report table 1 and 2 according to the general instructions provided in the implementation packages of Action 13, as well as identifying any inconsistencies created in the data provided as a result of the CbC report model template design. Any inconsistencies that could make it difficult for tax authorities to interpret the information provided must identified internally in order to consider what inconsistencies should be provided additional explanations in table 3.

The process is carried out by conducting a detailed review of how the information is aggregated into table 1 and table 2 of the CbC report, and whether table 2 conveys a fair picture of aggregated financial data in table 1. Further, ‘*profit before income tax*’ is reconciled with ‘*income tax paid on cash basis*’ and ‘*income tax accrued current year*’ in order to identify if there are any material differences as a result of local tax rules that should be provided additional explanations in table 3. Specifically, the comparison made between legal entities’ weighted average tax and their actual tax in the monthly and quarterly reporting process is analyzed.

“Country-by-country reporting is intended to be used to question whether appropriate transfer pricing policies have been developed and complied with.

We have hired competent staff in order to ensure that the outcome of our transfer pricing policies looks reasonable and ties up with our documentation,

*thereby being one step ahead of tax authorities.” (Group Head of Tax,
February 2016)*

Further, the more restrictive use of post-transaction adjustments have implications for the current routines surrounding the compliance monitoring process. An attempt to minimize the amount and frequency of large one-off post-transaction adjustments implies that variances to the arm's length benchmark range be corrected for more frequently through interim transfer price adjustments. This implies that the Group has had no satisfactory alternative but to cope with the exercise to try to calculate transfer prices according to a forecasted outcome beforehand. Because of the many uncertain factors involved in forecasting an outcome according to which transfer prices are set to be compliant with the arm's length benchmark range, the compliance monitoring process becomes an extremely time-consuming and resource intensive task for all employees involved in setting transfer prices. The exercise is further complicated by the fact that divisional product lines and/or service offerings generally consists of countless different articles that are priced according to different rate factors⁵⁰ that must be reviewed individually when transfer prices are to be changed. Further, interim transfer price adjustments only apply to future sales, creating lagging adjustment effects in the compliance monitoring process. Interim transfer price adjustments also create a subsequent revaluation effect of the inventory that must be booked over the yearly inventory turnover.

“Interim transfer price adjustments are complex to perform in practice and takes 2-3 months to come into effect. Also, the 12 month effect from the inventory revaluation must be considered.” (Market Analyst, March 2016)

Since business controllers at legal entities are the ones best placed to foresee any variances to the forecasted outcome according to which transfer prices are set, discouraging post-transactions adjustments would imply that they have to monitor more closely any emergent variances and notify division management when interim transfer price adjustments are necessary. Due to the complexity involved in calculating the individual transfer price adjustment for different articles, and due to the subsequent lagging adjustment- and inventory revaluation effects, business controllers and division

⁵⁰ Articles are priced according to different rate factors that together forms the final price to be charged by a legal entity.

controllers alike are likely going to spend more time on the compliance monitoring process if the use of post-transaction adjustments for compliance purposes becomes increasingly restricted.

The empirical observations indicates that the prevention mechanisms developed as a result of the CbC report model template design and automatic exchange mechanism results in additional an compliance burdens for the Group, have to spend more time and resources primarily on two routine administrative processes. The first routine requiring more time and resources spent is the completion of table 3. The second routine requiring more time and resource spent is a more frequent control of the compliance status through interim transfer price adjustments. This implies that the Group is willing to place an even higher priority upon its transfer pricing practices in order to ensure that an appropriate picture is conveyed to tax authorities in the CbC report. The empirical observations confirm previous research on the effects on MCS design and use when MNEs are faced with new transfer pricing documentation requirements. It has been shown that an increased compliance pressure tend to result in more restrictive controls at the expense of otherwise operationally more optimal practices (Cools 2003; Cools et al. 2008; Cools and Slagmulder 2009). As a suggestion, the inconsistencies and automatic exchange mechanism of CbC reporting imply an increased administrative burden to convey an appropriate picture of the transfer pricing practices pursued, that the Group is willing to take for the benefit of stakeholder management.

5.2.3.4 *Control of core values*

The future power of the ALP

Being part of the OECD and G20 BEPS Project, the CbC report reflects newly emerging attitudes and norms in relation to tax fairness that MNEs are expected to embrace. The Group have experienced an increased interest and awareness from a broader group of stakeholders regarding its tax payable, and that their expectations and knowledge regarding its relation to the application of the ALP are rarely homogeneous.

The first way in which Group Tax has experienced an increased focus on their tax payable through the application of the ALP is due to many jurisdictions seeking to strengthen a weak fiscal position after the recent global financial crisis. Attempting to overcome sovereign debt crisis and the slow recovery with increased focus on MNE tax payables, the experience is that many countries are eager to interpret the ALP in their favor. The result is an increased amount of tax disputes in the global tax environment.

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“Many countries and tax authorities are aggressive and want as much as possible [of the Group’s tax payable] because of their poor economy.” (Group Head of Tax, March 2016)

Another way in which Group Tax has experienced an increased focus on the Group’s tax payable through the application of the ALP is that non-OECD countries’ tend to differ on their view of where value is created in MNE Groups’ global value chains. This is because non-OECD countries generally advocates taxation according to the source principle⁵¹ at the expense of countries advocating taxation based on residence and the OECD books of rules, with the implication that non-OECD countries tax systems have resulted in many cases of international double taxation and a lot of court cases around the globe. The Group Head of Tax shared the logic behind non-OECD countries being advocates of the source principle.

“The BRIC countries generally have very large markets and are unhappy with how little emphasis is put on this when the consolidated profit is distributed according to the arm’s length principle developed by OECD.” (Group Head of Tax, March 2016)

A third way in which Group Tax has experienced an increased focus on their tax payable through the application of the ALP is from NGOs, journalists and civil society, tending to address complex tax issues in a simplistic manner and accusing transfer pricing rules based on the ALP as the cause of these complex tax issues. The experience is that the focus on MNEs’ tax payables has turned into a level of discussion that is not attuned to its nuances and complexities.

“Journalists are very aggressive and do not understand tax laws. Even if companies do everything by the book, they still receive negative publicity in media. It's very upsetting.” (Group Head of Tax, March 2016)

The empirical observations suggest that large MNEs have come under increased scrutiny for their implementation of tax structures, including transfer pricing arrangements that are entirely legal but nonetheless perceived as unfair. This implies a risk that stakeholders feel preceded by MNEs, and

⁵¹ The source principle implies that income should be taxed where it is earned and rests on the view that the country which provides the opportunity to generate income or profits should have the right to tax it, as oppose to the residence principle where the income is taxed where the person who receives it is normally based.

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as a result expand their definition of what constitutes ‘*aggressive tax planning*’ to empower their claim towards MNEs tax payable (Hill and Jones, 1992)⁵². This implies that there is a risk that the idea of what constitutes a fair share of tax among different stakeholders to the Group overlaps.

The CbC report is intended to function as a tool for tax authorities of different jurisdictions to ensure that MNEs leave behind a fair share of tax in their jurisdiction of presence, i.e. controlling for the taxable income left behind in the jurisdictional legal entities making contributions to the Group’s global value chain.

“CbC reporting is a much needed tool towards the goal of ensuring that companies pay their fair share of tax.” (OECD Automatic Exchange Portal, January 2016)

However, because the CbC report will be distributed to tax authorities with different standards of how the ALP is to be interpreted and applied by tax authorities and MNEs alike, Group Tax believes that the CbC report itself does not constitute an appropriate tool to manage overlapping ideas of what constitutes a fair share of tax. Further, being disseminated directly to tax authorities, the CbC report fails to recognize the interests of a broader group of stakeholders (Longhorn, 2015).

In order to manage the Group’s relationships with the different stakeholders, Group Tax believes that it will be of great importance to inform and unify divergent views on what constitutes a fair share of tax, as well as to provide its broader group of stakeholders, comprising different levels of tax knowledge, information about how the ALP has been applied. Group Tax, who possesses specialist tax knowledge of tax rules and regulations has become, and is considered to remain, an important mediator in its different stakeholder relationships.

⁵² Hill and Jones (1992) proposed a modification of the mainstream agency theory to also accommodate theories of power differentials between managers and stakeholders. Power differential is a condition of unequal dependence between the parties to an exchange. If the markets that surround the firm are inefficient, as occurs when alternative contracting opportunities with agents are limited, the existence of power differentials between principals and agents must be admitted. This is important because power differentials can materially affect both the content of principal-agent contracts and the structure of governance mechanisms policing those contracts. The authors argued that power differentials in the favor of managers at the expense of external stakeholders provide external stakeholders with an incentive to develop new institutional structures, to serve the function of monitoring and enforcing the terms of implicit contracts. The function of institutional structures is thus to correct for the divergence of interests between managers and their external stakeholders, some enshrined into legislation and others operating for profit or non-profit purposes.

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Being the generally accepted international standard for taxation of MNEs, the Group's ambitious commitment to ALP has been recognized as a critical means of mechanism that must be used to unify different stakeholders' expectations and knowledge with regards to the Group's application of the ALP and its linkage to the tax payable. The ambitious commitment to the ALP could be used as a central guiding policy for tax authorities and other external stakeholders on the one hand, and providing purpose to the Group's employees on the other. Internally, it has been viewed as a potential way to provide better purpose to the employees having to spend more time and resources on the compliance monitoring process following the prevention mechanisms developed, or considered to be developed, as a result of inconsistencies created by the CbC report model template design.

As a step in the direction to make the ambitious commitment to the ALP a central guiding policy, the Group has considered it necessary to present the Group's code of ethics in a way that makes them aware of how their intra-group transactions have a multidimensional effect on the society at large. The Group's Tax Policy Document, stating that the Group is a '*good corporate citizen*' in combination with the '*Business Code of Practice*' outlining the ambitious commitment to the ALP, has been considered two important documents to assure tax authorities that the Group's interpretation and application of the ALP is the most accurate for the intra-group transactions at hand. It could also provide better purpose to the outcome provided in the CbC report and filed to tax authorities. As for tax authorities, Group Tax believes that the two documents can make employees aware of how their effort brought to the compliance monitoring process creates value, i.e. how the pricing of intra-group transactions have a multidimensional effect on the society at large.

“Whereas the Business Code of Practice helps employees to understand the Group's spirit and commitments to stakeholders, the Operational Management helps employees to interpret and implement the business code of practice.” (Annual report 2015)

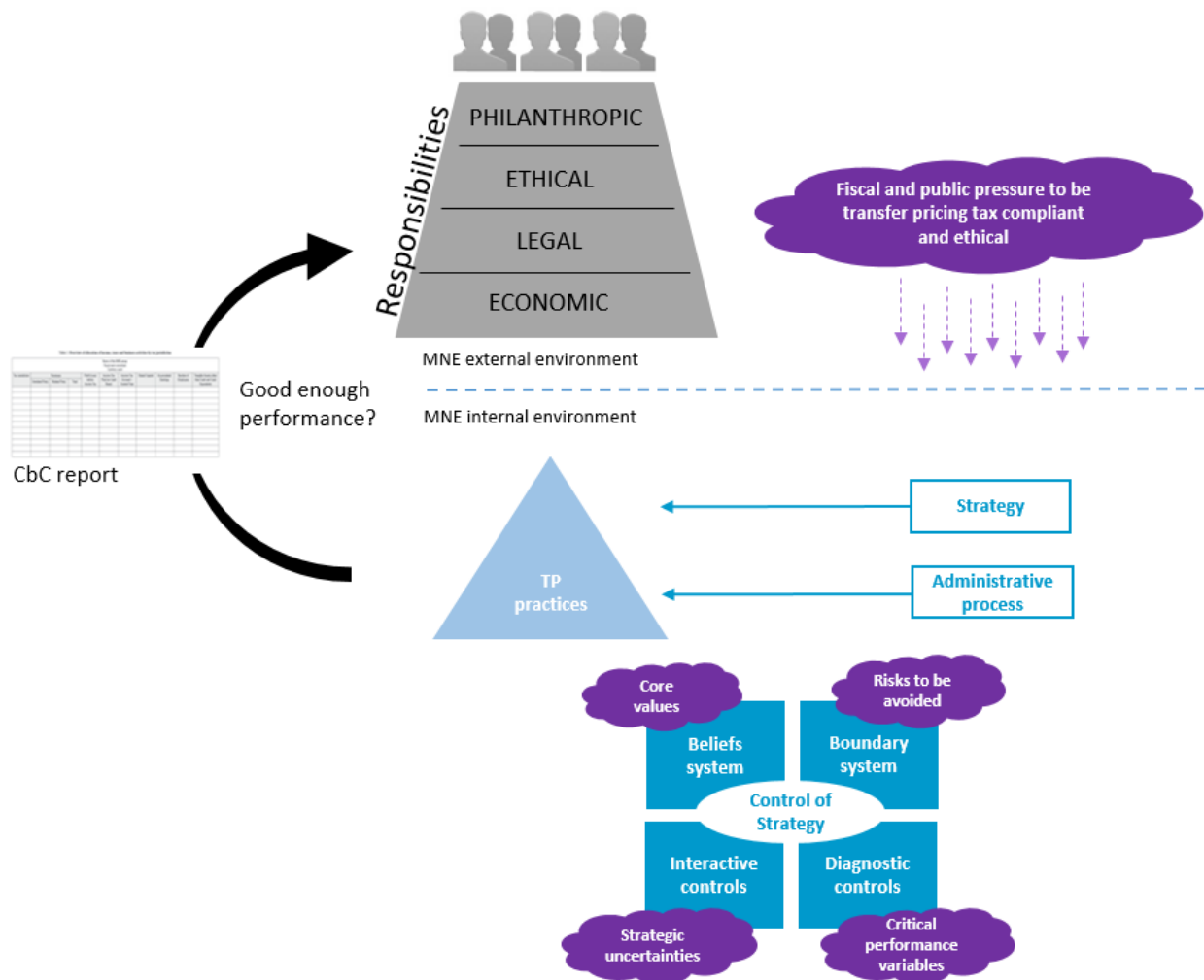
The empirical observations indicate that a broader group of stakeholders that have triggered newly emerging attitudes and norms in relation to taxes along with the OECD and G20 BEPS Project. Even though values and norms tend to be broad enough to allow many different stakeholders to commit (Simons, 1994), a broad group stakeholders still constitutes several individual relationships

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that must be managed by the Group. In order for stakeholders' perceptions about the Group's tax performance to not become squeezed by overlapping expectations across such individual relationships, the empirical observations suggest that being able to frame the application of ALP in such a way that the entire range of business responsibilities are embraced is of critical importance (Carroll, 1991). Potentially, such framing of the ALP may be the only means of uniting divergent views of what constitutes a fair share of tax, allowing for a wider foundation to which different stakeholders can commit while individual relationships can still be maintained.

Figure 16 below illustrates the theoretical frame of reference used to present and analyze the empirical findings:

Figure 166 - Theoretical frame of reference



Interim Recognitions Effects on MCS

In this section we have summarized the main empirical findings from the in-depth case study related to the effects on the Group's MCS as a result of the steps taken to comply with the new transfer pricing documentation requirement.

The empirical findings suggest that the inconsistencies between how transfer pricing policies are developed in accordance with the ALP, and how they are to be evaluated based on the information provided in the CbC report, creates a multidimensional, time-ordered sequence effect on the components of Group's MCS. The most direct impact was observed by a new strategic uncertainty, that the information provided in the CbC report could be misinterpreted and misunderstood by tax authorities. The uncertainty implies an unpredictability of when and if transfer pricing risk assessments based on information in the CbC report will result in further enquiries or audits, potentially undermining the Group's transfer pricing tax compliant practices and systems already in place.

The unpredictability of when and if transfer pricing risk assessments based on information in the CbC report will result in further enquiries or audits in turn creates an increased potential risk of double taxation and reputational damage. This subsequent risk exposure is amplified by the CbC reporting automatic exchange mechanism, as each domestic system has its own specificities, differing in both regulatory standards of transfer pricing and the way such standards are to be interpreted and applied by MNEs.

The increased uncertainty of when and if transfer pricing risk assessments based on information in the CbC report will result in further enquiries or audits, and the subsequent increased exposure to the risk of double taxation and reputational damage, has triggered new controls within the Group company. The new controls have shown to appear in different forms of prevention mechanisms:

Effects from increased unpredictability

As a result of the inconsistencies, the Group has considered it necessary to provide tax authorities with additional explanations about any inconsistencies that could make it difficult for tax authorities to interpret the information provided in table 3. In this way, table 3 has been considered a critical means of dialogue that can be used to prevent that tax authorities initiate further enquiries and/or full audits as a result of misinterpretations or misunderstandings of the information provided in the CbC report, facilitating tax

authorities' understanding of the information conveyed. The information in table 3 is also considered necessary to facilitate a reconciliation between the information provided in the CbC report table 1 and 2 and the information already provided in the master file and local files in the case an enquiry and/or audit is initiated. Further, concerned about their own ability to interpret the vague definitions of the general instruction provided in Action 13, the Group has also considered it necessary to precede tax authorities with regards to what information they are actually asking for by learning from other MNEs how they interpret the general instructions provided. For this purpose, inter-organizational networking with other MNE tax specialists, tax advisors and other industry organizations have been critical to share experiences and discuss how to mitigate the risk for own misinterpretations and misunderstandings. The strategic actions taken by the Group is a way to manage its relationships with tax authorities, controlling for the picture conveyed about its transfer pricing tax compliance in the CbC report.

Effects from subsequent risk exposure

As a result of the subsequent risk exposure to double-taxation and reputational damage, the Group has considered it necessary to restrict the use of post-transaction adjustments in the compliance monitoring process. A more restrictive use of large, one-off post-transaction adjustments could prevent that the underlying transfer pricing policies to which the post-transaction adjustment adhere are questioned by tax authorities in the case a further enquiry or audit is initiated. The increased exposure to potential conflicts with tax authorities around the interpretations of the ALP has triggered different parts of the Business Code of Practice to be publically communicated, demonstrating the Group's ambitious commitment to the OECD Transfer Pricing Guidelines and the ALP. In addition, the Group has considered it necessary to also interact with its stakeholder through a materiality mapping process in order to gain accountability for the priority placed on its risk management activities related to taxes. Recent results from such materiality mapping exercise have shown that taxes, among other factors, is considered to have a high impact on the Group's long-term strategy to create value for all stakeholders. The strategic actions taken by the Group is a way to manage its relationship with tax authorities as well as with other stakeholders, controlling for the picture conveyed about its transfer pricing tax compliance.

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New routines following prevention mechanisms

The new controls initiated as means of preventions mechanisms against the increased uncertainty and risk exposure has made the compliance monitoring process a more resource intensive and time-consuming process. Identifying consistencies and prepare the additional information to be provided in table 3 is a new routine that cannot be done in a mechanical manner but rather requires detailed oversight in order identify the inconsistencies that must be explained. Further, the increasingly restrictive use of post-transaction adjustments implies that reviews of the transfer pricing compliance status must be conducted more frequently throughout the year, requiring operational employees to spend more time to forecast and calculate the necessary interim transfer price adjustments that must be made to control for compliance with the arm's length benchmark range. Willing to initiative routines increasing the administrative burden, implies that the Group place an even higher priority upon its transfer pricing practices for the benefit of stakeholder management.

The future power of the ALP to unite

The increased interest and awareness about the Group's tax payable from a broader stakeholder group following the BEPS Project initiative reflects newly emerging attitudes and norms in relation to taxes that the Group is expected to embrace. With a broader base of stakeholders, there is an increased risk that the idea of what constitutes a fair share of tax among different stakeholders to the Group overlaps. Presenting the Group's code of ethics in a way that makes them aware of how their intra-group transactions have a multidimensional effect on the society is necessary to safeguard the perceived fairness of the Group's tax payable. Reinforcing the application of the ALP using the Tax Policy Document in combination with the '*Business Code of Practice*' is a way to unite a broader group of stakeholders across an entire range of business responsibilities covered.

In order to be able to generalize and be able to gain insight as to whether our findings are representative for a larger group of MNEs subject to the new CbC reporting documentation requirement, all Swedish MNEs subject to the new CbC reporting documentation requirement were contacted for the next phase of the research. The findings from the in-depth case study analysis have been used as a basis for the industry survey.

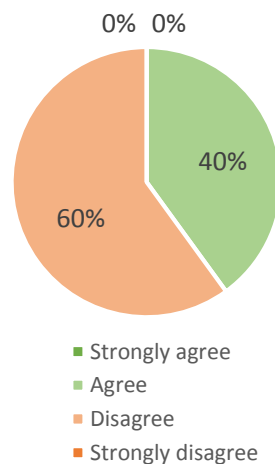
5.3 Industry Survey

In this section we present the results from the industry survey, making comparisons to the empirical findings from the in-depth case study. The attempt has been to investigate if we are able to generalize any of our empirical findings related to how the steps taken to comply with the new CbC reporting documentation requirement impacts MNEs' MCSs.

5.3.1 Strategy

We started asking the survey respondents to what extent they believe that BEPS through transfer mispricing is occurring today. 60% disagreed that BEPS is occurring through MNE transfer mispricing today, whereas 40% agreed that BEPS is occurring through MNE transfer mispricing today. None of the MNE survey respondents strongly agreed nor strongly disagreed that BEPS through MNE transfer mispricing is occurring today. The results are presented in Diagram 1 below:

Diagram 1 – Whether the MNE survey respondents believe that BEPS is occurring through transfer mispricing today



The results indicate that there are divergent views of the extent to which BEPS through MNE transfer mispricing is occurring today. Further, the open survey comments indicates that there is also a divergent view of the extent to which BEPS through MNE transfer mispricing is occurring today between the BEPS Project participants on the one hand, and MNEs on the other. One of the reasons for such divergent views appears to be room for different interpretations of existing tax rules, and more specifically the ALP. A few selected open survey comments are summarized in Figure 17 below:

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Figure 17 - Selected open survey comments



"Obviously BEPS is occurring in many multinationals, but the vast majority does not engage in conscious base erosion and profit shifting. However, the rules are complex and assessments may differ between companies and tax authorities and also between different tax authorities. "



"Of course I can only answer for us but my understanding is that Swedish big corporations have generally built up processes to ensure that prices are arm's length."



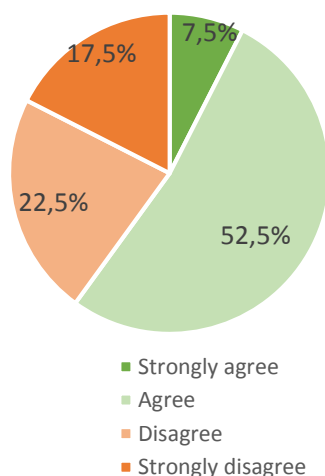
"To a small extent in relation to total sales globally. However, a very large extent for some individual groups regarding royalties and similar based only on my own perception."



"The individual transactions maybe properly priced but still questioned as transfer of profits. "

During recent years, BEPS through MNE transfer mispricing have to a larger extent been viewed as a CSR question, where MNEs are considered to have a responsibility that extends beyond that of simply adhering to current tax laws and regulations. 60% of the MNE survey respondents strongly agreed or agreed with this development within their own organization, whereas 40% disagreed or strongly disagreed. The results are presented in Diagram 2 below:

Diagram 2 – Whether BEPS through MNE transfer mispricing is regarded as a corporate social responsibility beyond that required by law within their organization



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The results indicate that a majority of the MNEs treat BEPS through MNE transfer mispricing as a responsibility beyond that required by law within their organization. The open survey comments indicate that MNEs perceive that stakeholders view BEPS through MNE transfer mispricing as a responsibility beyond that required by law. The MNE survey respondents also expressed a concern about different expectations and level of knowledge regarding MNE's tax payable and its relation to the application of the ALP among such stakeholders. A few selected open survey comments are summarized in Figure 18 below:

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Figure 18 - Selected open survey comments



"Our policy is to follow the current tax law and regulations and to pay the right amount of tax. We do not engage in some form of aggressive tax planning but at the same time we do not pay more tax than what we are obliged to according to law. However, we are very active in the CSR in general."



"Although we might not consider ourselves to have a responsibility that extends beyond the law, we acknowledge that our stakeholders might have this view why we need to adjust ourselves to the reality we operate in and the external pressure we have."



"We have officially included tax in our CSR and publishes 'the tax footprint' on a yearly basis in connection to the annual report."



"The CSR people do not know what transfer mispricing is but CSR still have a large impact on how we view tax planning generally."



"Even the employees' view is an important factor - nobody wants to be employed by a company that does not look to its social responsibility, even when it comes to taxes."



"Generally, it is no longer enough to follow tax law, companies must be good corporate citizens. It applies to all CSR areas."



"Lack of journalists' knowledge and increased interests to get more readers and selling more magazines that to actually present correct facts. Utilization of loss carryforwards is a typical example of being portrayed as a tax evader in media."



"We have a strong focus on CSR issues as we work to take responsibility for our business far beyond only the tax law."

Result and Analysis

We also asked the MNE survey respondents about any external factors that affect their organization's transfer pricing practices. The results indicate that the perceived MNE tax performance among a broader group of stakeholders have the potential to affect MNE transfer pricing practices. A few selected open survey comments are summarized in Figure 19 below:

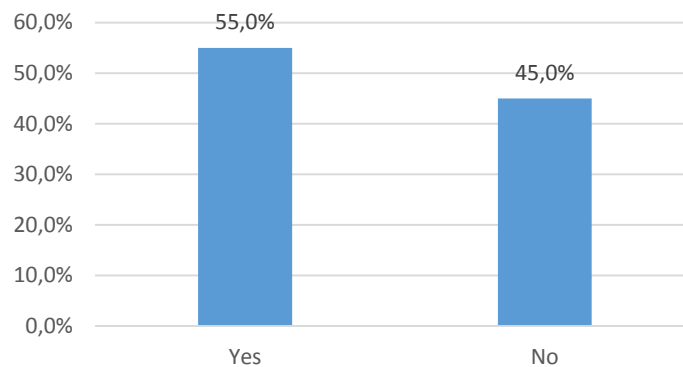
Figure 19 - Selected open survey comments



We continued asking if the MNE survey respondents believe that CbC reporting will become part of external CSR reporting in the future. 55% of the MNE survey respondents answered that they believe that CbC reporting will become part of external CSR reporting, whereas 45% answered that they do not believe in such a development. The results are presented in Table 11 below:

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Table 11 - Will CbC reporting become part of external CSR reporting?



The MNE survey respondents expressed a concern about making CbC reporting, as developed by the OECD in Action 13, part of external CSR reporting. The concern appears to be related to the risk that the wider audience lack tax knowledge and the risk that competitors will misuse the information. A few selected open survey comments are summarized in Figure 20 below:

Figure 20 - Selected open survey comments



5.3.2 Administrative process

In order to understand if the inconsistencies observed at the case company as a result of the CbC report model template design (data aggregation, non-use of comparability factors and the source of data) is also a case for other MNEs subject to the CbC report documentation requirement, we asked questions about their application of the ALP.

5.3.2.1 Application of the ALP

Data aggregation

We started investigating MNEs' transfer pricing arrangements, asking to what extent they operate through only one legal entity, applying only one transfer pricing policy. The results indicate that such a hypothetical situation is rarely the case. A majority of the MNEs surveyed have a global presence in different jurisdictions operating through (1) two or more legal entities located in the same country applying different transfer pricing policies for their intra-group transactions (57,5%), and (2) through one legal entity applying two or more transfer pricing policies for different intra-group transactions (52,5%). The results are presented in Table 11 and 12 below:

Table 10 - MNEs operating through two or more legal entities located in the same country applying different transfer pricing policies for their intra-group transactions

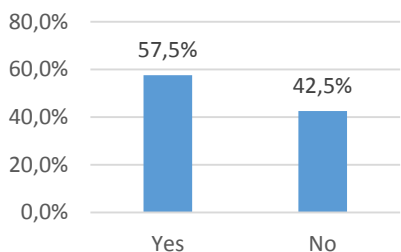
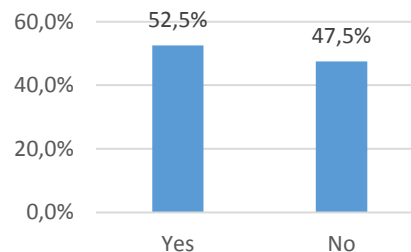


Table 12 – MNEs operating through one legal entity applying two or more transfer pricing policies for different intra-group transactions was shown to be significant



The extent to which the MNEs operate either with (1) two or more legal entities located in the same country applying different transfer pricing policies for their intra-group transactions, or (2) through one legal entity applying two or more transfer pricing policies for different intra-group transactions was shown to be significant. 72,8% answered that their MNE have two or more legal entities located in the same jurisdiction applying different transfer pricing policies to a medium- or large extent, and 85% answered that their MNE have legal entities applying two or more transfer pricing policies (multifunctional companies) to a medium- or large extent. The results are presented in Table 13 and 14 below:

Result and Analysis

Table 13 – The extent to which MNEs operate through two or more legal entities located in the same country applying different transfer pricing policies for their intra-group transactions

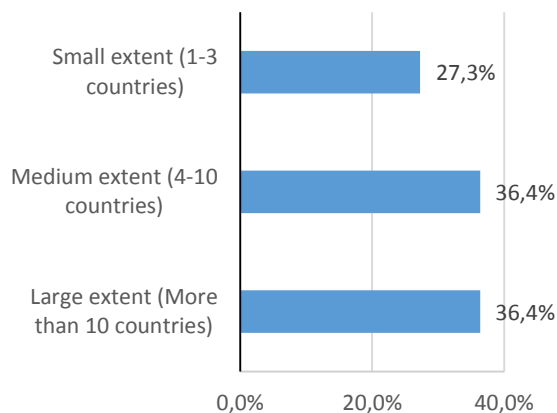
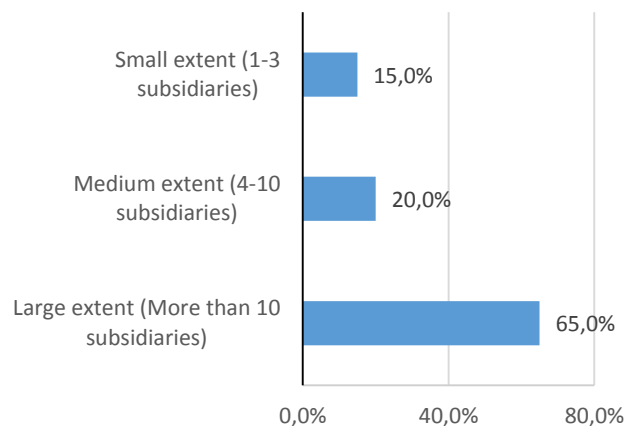


Table 14 – To what extent MNEs operating through one legal entity applying two or more transfer pricing policies for different intra-group transactions was shown to be significant



The voluntary comments to the above questions further indicate that the reason for the highly integrated transfer pricing arrangement is a result of the transactional approach inherit in the application of the ALP in combination with an integrated organizational structure, operating through highly integrated global value chains. Several of the MNE survey respondents elaborated on their integrated transfer pricing arrangement in the open commentary field, a few of which are summarized in Figure 21 below:

Figure 21 - Selected open survey comments



The insights confirms the empirical observations from the in-depth case study that the application of ALP in a globally integrated organization triggers several different transfer pricing policies undertaken by different legal entities. This in turn integrates MNE Groups' transfer pricing arrangements.

As in our case company, potential difficulties for tax authorities to interpret the aggregated data in the CbC report appears to be a concern also for several MNE survey respondents. A few selected open survey comments are summarized in Figure 22 below:

Figure 22 – Selected open survey comments

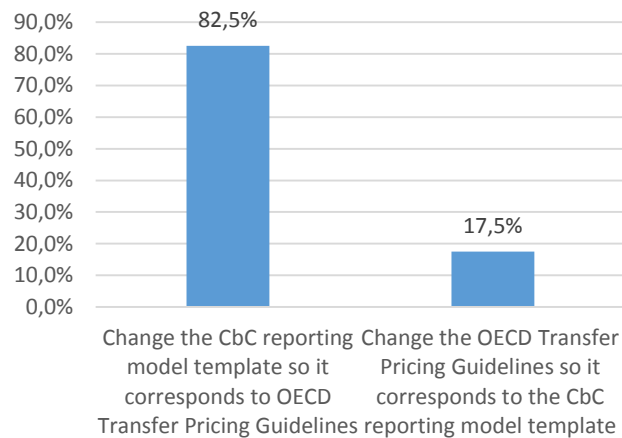


Non-use of comparability factors

We proceeded asking about the difference between the comparability factors used when developing transfer pricing policies in accordance with the ALP, and the pre-specified indicators of business activities in the CbC report. Specifically, the MNE survey respondents were asked about two alternatives that could increase the consistency. 82,5% answered that the pre-specified indicators of business activities in the CbC report model template should be corrected to increase the consistency between the comparability factors inherit in the ALP and the pre-specified indicators of business activities, whereas 17,5% answered that the comparability factors used when developing transfer pricing policies in accordance with the ALP should be corrected. The results are presented in Table 15 below:

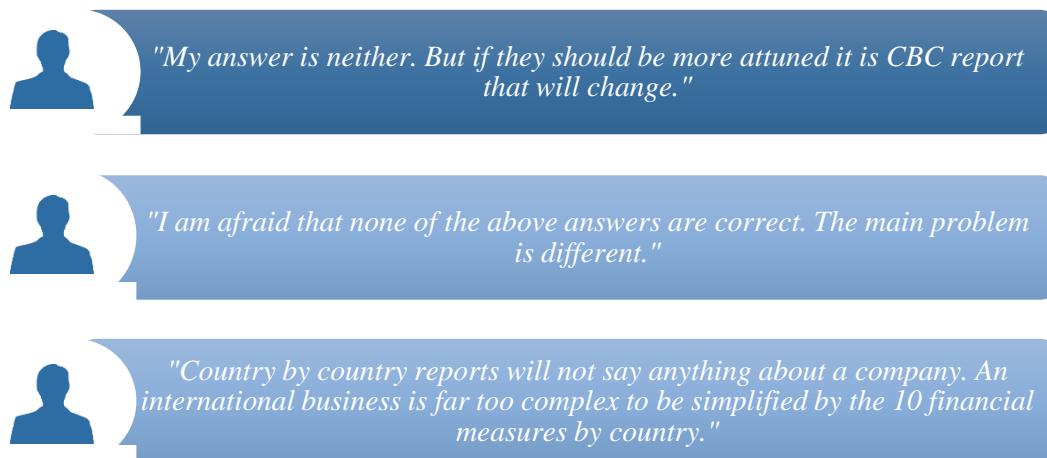
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Table 15 – How to increase the consistency between the comparability factors (Application of ALP) and the indicators of business activities (CbC report model template)



The voluntary comments to the above question indicate that MNEs are more worried about data aggregation as opposed to the non-use of comparability factors in the CbC report model template. A few selected open survey comments are summarized in Figure 23 below:

Figure 23 - Selected open survey comments

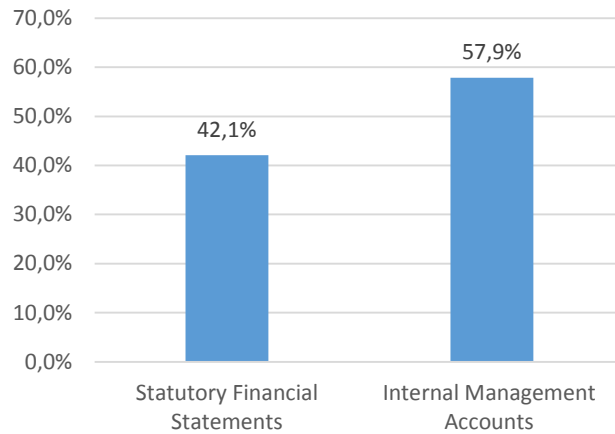


Source of data

In the last question based on the inconsistencies observed in the in-depth case study, we asked MNE survey respondents what source of data they intend to use when completing the CbC report. 42,1% answered that they will use statutory financial statements, whereas 57,9% answered that they will use internal management accounts. Table 15 below presents the results:

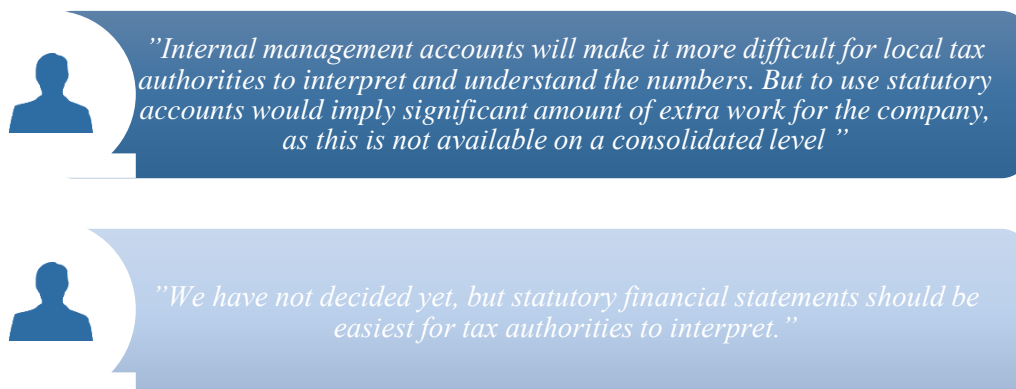
Table 15 – Source of data to be used when completing the CbC report

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As in our case company, the MNE survey respondent expressed that completion of the CbC report using statutory financial statements would imply a significant administrative burden when not having statutory financial statements readily available in the group-level reporting systems. However, completing the CbC report using internal management accounts was shown to be a concern also for the MNE survey respondents, as it could imply difficulties for tax authorities to interpret internal management accounts data. A few selected open survey comments are summarized in Figure 24 below:

Figure 174 - Selected open survey comments



Other

In addition to questions about the inconsistencies observed in the in-depth case study, created from the CbC report model template design, we also encouraged the MNE survey respondents to elaborate upon any other considerations with regards the CbC report model template design that could affect the ability of tax authorities to interpret the information provided. A few selected open survey comments are summarized in Figure 25 below:

Figure 25 - Selected open survey comments



The additional MNE survey respondents highlight a general the concern about the complexity of transfer pricing practices on the one hand, and the standardized format of the CbC report model template on the other. The results point towards the potential difficulty faced by tax authorities to interpret the information provided by MNEs in the CbC report in relation to the commercial context in which the ALP has been applied when developing transfer pricing policies. The results also point to concerns about how the information provided will be used in relation to one another when assessing transfer pricing risk. Further, the MNE survey respondents also expressed concerns about their own ability to interpret the definitions provided in the general instructions in Action 13.

The results confirm the findings in the in-depth case study that there is a risk for misinterpretation and misunderstanding both by tax authorities and MNEs du to the CbC report model template

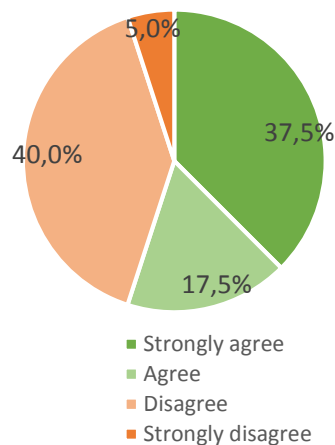
design. This implies that there is an increased unpredictability of when and if tax authorities will initiate further enquiries and/or audits based on the information provided in the CbC report in a transfer pricing risk assessment.

5.3.3 Effects on MCS

In order to understand if the inconsistencies observed at the case company, confirmed by the industry survey, also have impact on the MCSs, we asked general questions about actual and potential actions taken by the MNE survey respondents' organization as a result of the new CbC reporting documentation requirement.

We started investigating to what extent MNEs have started to prepare and analyze their CbC report. A vast majority of 55% strongly agreed or agreed that they have started to prepare and analyze its CbC report, whereas 45% disagreed or strongly disagreed. The results are presented in Diagram 3 below:

Diagram 3 – Whether MNEs have started to prepare and analyze their first CbC report



The results indicate that there is a great variation in the extent to which MNEs have started to prepare and analyze its first CbC report. A few selected open survey comments give an indication of the reason to the variation observed, summarized in Figure 26 below:

Figure 26 - Selected open survey comments

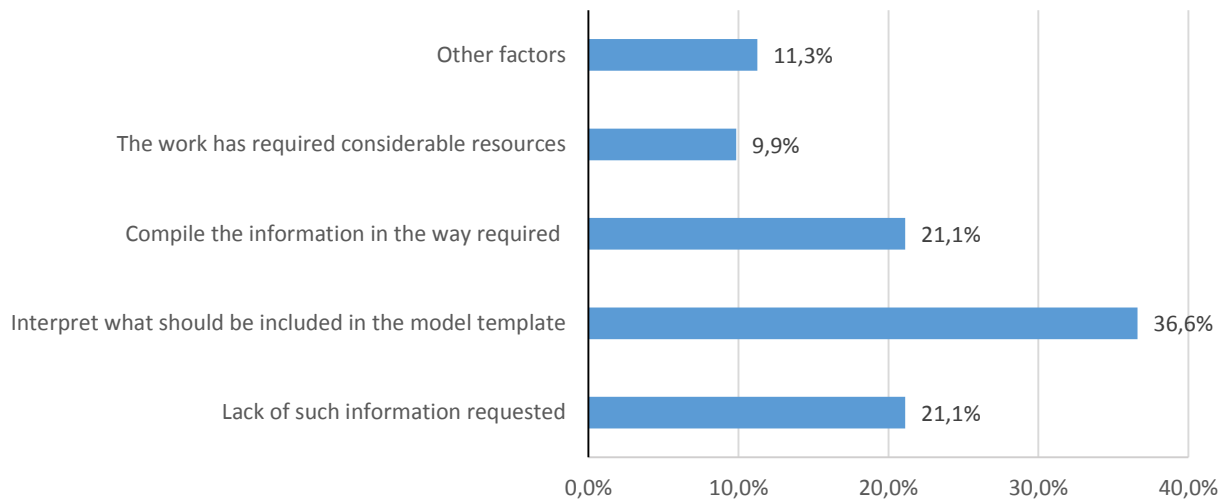


The results indicate that the degree to which MNEs have started to prepare and analyze their first CbC report are related to the complexity of their transfer pricing arrangements. Operating with global presence only in a few countries, the integration of global value chain activities, as well as the number of intra-group transactions carried out, are generally smaller in number and magnitude. Consequently, it appears as if those MNEs are less concerned about the outcome provided in the CbC report, spending less time and resources on preparation and analysis of the final report. In turn, the preparation and analysis of the first CbC report have likely not turned into a highly interactive exercise, within and beyond organizational borders, as has shown to be the case in the in-depth case study.

However, the vast majority of the surveyed MNEs have started to prepare and analyze their first CbC report. In order to understand if the exercise have evolved into new processes and controls, or impacted the existing processes and controls in place, we continued asking if any difficulties had been acknowledged. 36,6% answered that interpretation of the general instructions provided in with the CbC report in Action 13 had been a difficult task. Other primary difficulties appears to have been compilation of the information requested (21,1%) and the non-availability of such information (21,1%). Table 16 below presents the results:

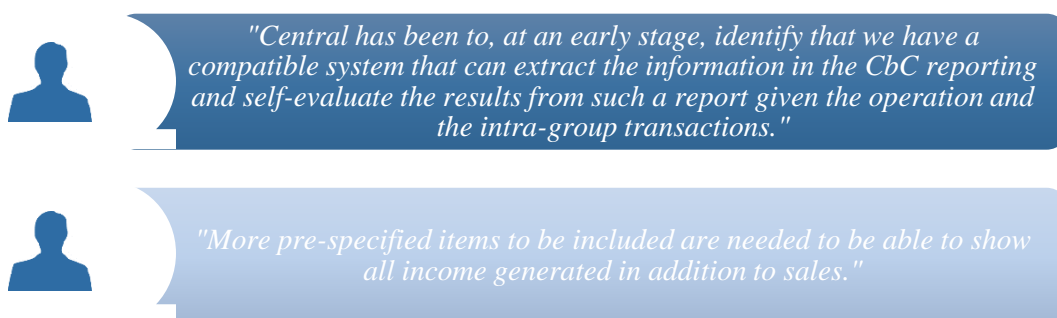
Table 16 - Difficulties identified in preparing and analyzing the first CbC report

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A few selected survey comments give an indication of how the preparation and analysis have affected the MNEs' existing controls in place, summarized in Figure 23 below:

Figure 23 - Selected open survey comments



The results confirm the empirical findings in the in-depth case study that any inconsistencies that could make it difficult for tax authorities to interpret must be identified internally in order to consider what inconsistencies should be provided additional explanations in table 3.

We continued asking to what extent the MNE survey respondents believe that tax authorities will be able to use the information provided in the CbC report as an effective tool for selecting what cases merit further enquiry and/or audit. 62,5% strongly agreed or agreed with that tax authorities will be able to use the information provided in the CbC report to select cases for further enquiry or audit, whereas 37,5% strongly disagreed or disagreed. We also asked to what extent the MNE survey respondents believe that CbC reporting implies an increased risk that their organization will be investigated through further enquiry and/or audit as a result of the CbC reporting initiative. 60% strongly disagreed or disagreed that CbC reporting implies an increased risk that their organization

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will be investigated through a further enquiry and/or audit, whereas 40% strongly agreed or agreed.

The results are summarized in Diagram 4 and 5 below:

Diagram 4 - Whether tax authorities will be able to use the CbC report to select cases for further transfer pricing enquiry and/or audit

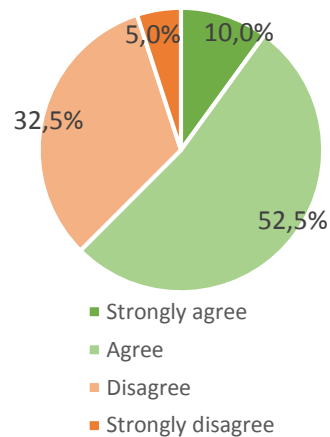
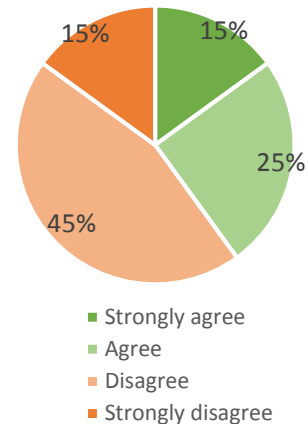


Diagram 5 - Whether CbC reporting implies an increased risk that their organization is investigated through further enquiry and/or audit



The results are somewhat contradictory to the previous open comments made about the concerns related to the inconsistencies as a result of the CbC report model template design. However, the voluntary comments provided in relation to the above questions indicate that MNE survey respondents believe that the information is not sufficient for transfer pricing risk assessment purposes, but that tax authorities will still use it as a basis for initiating further enquiries and/or audits. A few selected open survey comments are summarized in Figure 26 below:

Figure 26 - Selected open survey comments



"I do not think that information will be sufficient to make informed judgments but I do not believe that it will prevent authorities from using the information as an excuse to initiate audits."



"High turnover, low profits, few employees are all factors in light of the ongoing discussion can attract attention and questions, even though there are comprehensive explanations why. Tax authorities certainly have problems to understand the business reasons and explanations, which has already been shown countless times. "



"They will not understand what they are provided and they will attack everyone based on a mistaken belief that their country will always be harmed by any company. Tax audits and incorrectly initiated tax reassessments will increase exponentially."



"We believe the understanding of the above two effects are relatively well known to the authorities. The big risk is that many countries will consider themselves treated unfairly and that everyone want to have as much of the pie as possible. As a result we expect that the audits will increase, especially in countries with less sophisticated and / or more aggressive authorities (Southern Europe, China etc.)"



"Because CbCr will only cover one-year data there is a risk that tax authorities make incorrect conclusions based on the information provided. Furthermore, the information is to some extent inflexible as there are usually fully logical explanations for why the outcome looks like it does but CbCr will rarely capture these logical explanations. "



"Probably the biggest threat is that authorities will receive too much information that they do not know how to interpret. The companies will in this scenario to get a lot of questions, some more or less unqualified, giving rise to various investigation with unclear purpose and goals. There is a risk that investigations get stuck, or taken further to litigation implying unnecessary loss of time for business (and the authorities). This leads to improper use of resources for all. Hopefully this will fix in the future, it presents a major risk factor."

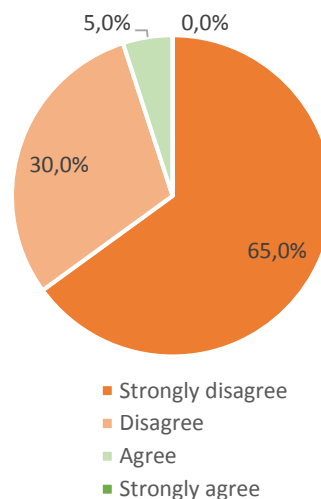
The survey comments indicate that the inconsistencies in the CbC report model template is a concern as it creates unpredictability about when and if tax authorities will initiate further enquiries and/or audit from a transfer pricing risk assessment based on information provided in the CbC report. The MNE survey respondents have expressed their belief that such unpredictability will be

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created mainly due to difficulties for tax authorities to interpret and understand the information provided in the CbC report. The results are in line with the concern acknowledged within the case company.

We continued asking to what extent the MNE survey respondents believe that CbC reporting implies a lower risk of double taxation. 65% of the MNE survey respondents strongly disagreed that CbC reporting implies a lower risk of double taxation, and 30% disagreed. Only 5% of the MNE survey respondents agreed that CbC reporting implies a lower risk of double taxation. Diagram 6 below presents the results:

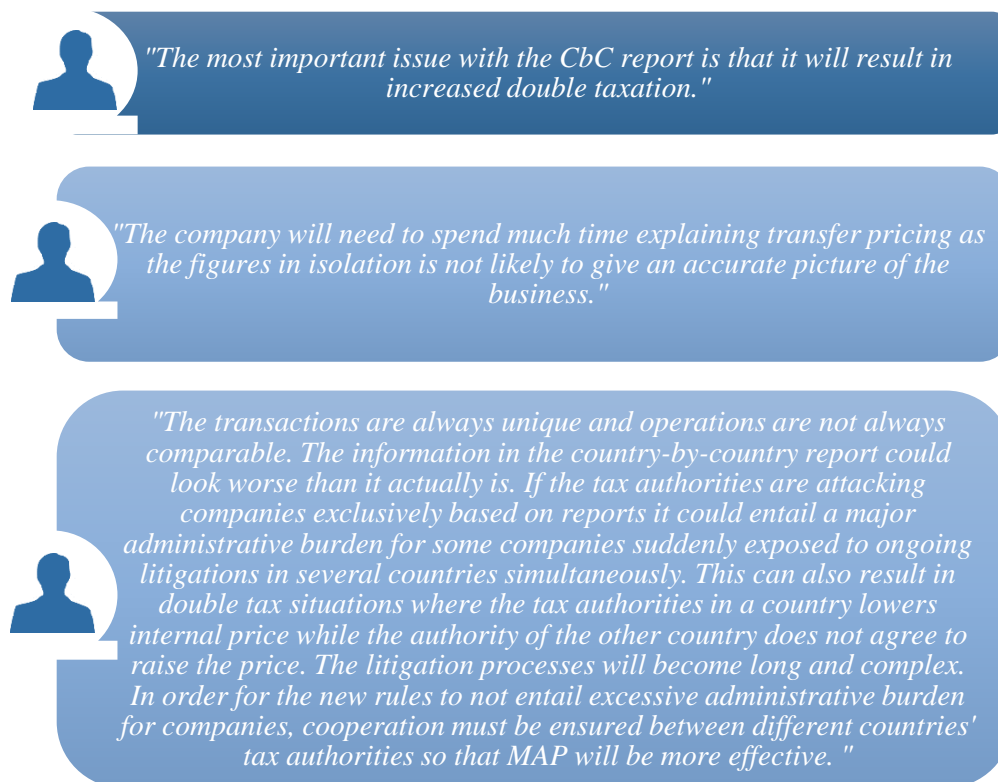
Diagram 6 – CbC reporting implies a lower risk for international double taxation



The findings confirm the concerns raised by our case company that the increased uncertainty regarding when and if tax authorities will initiate further enquiries and/or audits based on the CbC report implies a subsequent increased risk exposure to double taxation. The voluntary comments provided in relation to this question confirm that MNEs will likely have to spend time and resources to new administrative routines in order to control for the increased uncertainty and risk exposure as a result of the CbC report model template design. A few selected open survey comments are summarized in Figure 26 below:

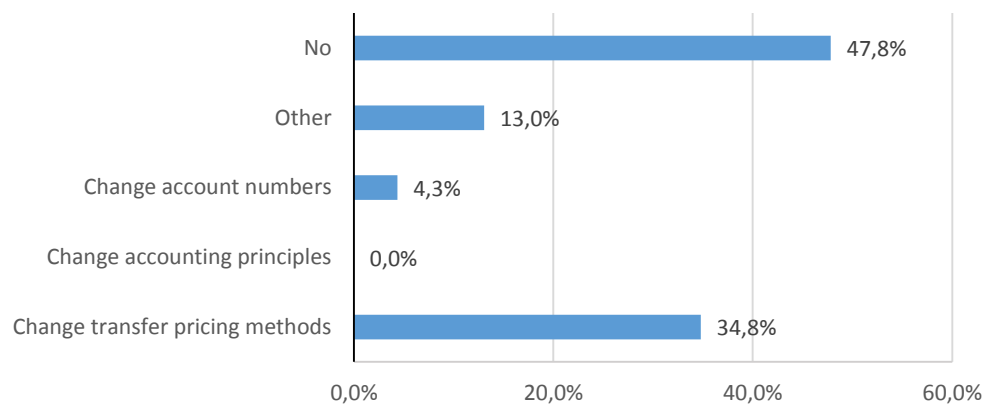
Result and Analysis

Figure 26 - Selected open survey comments



We continued to ask if the MNE survey respondents believe that their company will take any actions to increase the consistency between the comparability factors and the indicators of business activity provided in the CbC report. 47,8% answered that they do not believe that their MNE will take any action to improve such consistency. However, 34,8% considered making changes to their transfer pricing arrangement in the future. Table 17 below presents the results:

Table 17 – Foreseen potential actions considered to be taken in order to increase the consistency between the comparability factors and the pre-specified indicators of business activities in the CbC report



Result and Analysis

The results indicate that the vast majority of the surveyed MNEs do not consider to take any of the above suggested actions to increase the consistency between the comparability factors and pre-specified indicators of business activities in the CbC report. The results are in line with the in-depth empirical case study findings, and many of the MNE survey respondents appear to be of the same opinion as the case company that they have already invested considerable time and resources to become transfer pricing tax compliant with the ALP and the current related documentation requirements.

A few additional comments indicate the actions taken, or considered to be taken, by MNEs to control for the new unpredictability, summarized in Figure 27 below:

Figure 27 - Selected open survey comments

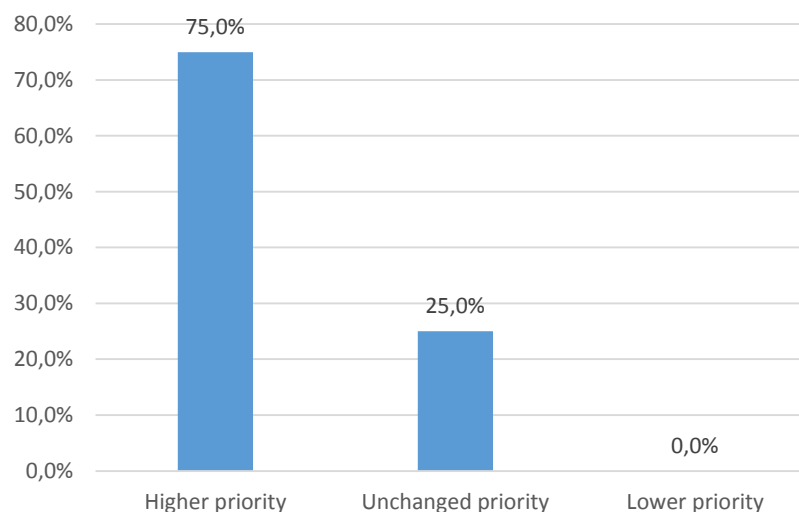


Result and Analysis

The results confirm our in-depth empirical case study findings that MNEs consider it necessary to take strategic actions to correct for the inconsistencies created from the CbC report model template design. One strategic action considered is to provide tax authorities with additional explanations in table 3 in order to facilitate a reconciliation to the comparability factors analyzed when developing the transfer pricing policies applied, and to the taxable income reported in the local financial statutory accounts. Another strategic action considered appears to be restructuring of global value chain activities in order to streamline the transfer pricing policies applied on a jurisdictional level, thereby better controlling for the picture conveyed to tax authorities in the CbC report. Such considered restructuring of activities are not in line with the in-depth case study findings, considered practically not viable.

The last question asked was about whether transfer pricing had received a changed priority within the MNE survey respondents' organization during the last couple of year. 75% answered that that transfer pricing had received a higher priority within their organization during the last couple of years, whereas 25% answered that it had received an unchanged priority. Table 18 below presents the results:

Table 18 - transfer pricing has received a changed priority in MNEs during recent years



The results confirm the in-depth empirical case study findings that MNEs are willing to increase the administrative burden related to their transfer pricing tax compliance practices. Together with the concerns acknowledged in relation to the CbC report model template design, the results indicate that also other MNEs are preparing for the new CbC report documentation requirement by placing

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an even higher priority upon its transfer pricing practices for the benefit of stakeholder management.

6. Concluding Discussion

This section outlines our conclusions made in this study.

The CbC report adds a new dimension to transfer pricing documentation. As part of OECD's BEPS project, CbC reporting has been initiated as step in the direction towards ensuring transparency for tax authorities while promoting increased certainty and predictability for MNEs. The working parties of OECD have recognized that tax authorities would benefit from new information to complete the picture of the activities pursued by MNE groups and their related parties, particularly information making it possible to identify the financial and taxation impacts of the activities pursued relative to the economic contributions made to the global value chain. The incomplete picture has often resulted in BEPS behaviors not being transparent for identification and quantification. The implementation of CbC reporting extends the scope of information to be collected, aggregating tax jurisdiction-wide information relating to the global allocation of income, taxes paid and certain indicators of business activities among tax jurisdictions in which MNE groups operate. The aggregated data is expected to provide a complete view of the largest MNEs' global activities for the first time, improving high-level transfer pricing risk assessments and enhancing statistical analysis. Further, the standardized model template is expected to maintain consistent reporting rules across countries as a means of limiting taxpayer compliance cost.

However, based on the empirical findings from the in-depth case study, we find that that because of how the CbC report model template has been designed to (1) aggregate data, (2) make non-use of comparability factors and (3) allow for the use of internal management accounts as a data source, inconsistencies are created. The inconsistencies derive from differences between how transfer pricing policies are developed in accordance with the ALP, and how the outcome from those transfer pricing policies are to be evaluated based on the information requested in the CbC report. The findings were confirmed by the results from our industry survey, and suggest that the inconsistencies could undermine the intended usefulness of transparency for tax authorities, in turn creating uncertainty and unpredictability for MNEs.

Concluding Discussion

We find that the highly integrated organization in combination with the transactional approach inherit in the application of the ALP data creates inconsistencies in how the compulsory data is aggregated by tax jurisdiction in table 1 and by legal entity in table 2 of the CbC report. We also find that the only instance where there are no concerns for data aggregation is when MNEs operate in tax jurisdictions through only one legal entity, applying only one transfer pricing policy. The second inconsistency is created from the fact that neither comparability factors have been included in any table of the CbC report even though the comparability factors must be used to develop transfer pricing policies in accordance with the ALP. The third inconsistency is created as many MNEs will use internal management accounts data to complete the CbC report, as opposed to local statutory financial statements generally used as a basis for taxation.

The empirical findings from the in-depth case study suggest that the inconsistencies create a multidimensional, time-ordered sequence effect on all components of MCSs. The multidimensional impact is in line with the conclusions of (Plessner Rossing 2013), who found that the development of a functional tax strategy in response to uncertainty in the tax environment, creating transfer pricing risk for MNEs, influenced all four control levers of the LOC framework. The findings of multidimensional and time-ordered sequence effects are also in line with the conclusions made by Cools et al., (2008), whom found that the process of transfer pricing tax compliance spread through the organization, with immediate effects on design and organizing controls, and subsequent effects on planning controls.

The most direct impact was observed by a new strategic uncertainty that tax authorities misinterpret and misunderstand the information requested in the CbC report, creating an unpredictability of when and if transfer pricing risk assessments based on the CbC report will result in further enquiries or audits. If tax authorities cannot properly evaluate whether to grant accountability to the outcome presented in the CbC report, the CbC report model template design undermines transfer pricing tax compliant MNEs' transfer practices and systems already in place. In this way, the inconsistencies inherit in the CbC report model template design interfere with MNEs' relationships with tax authorities. In order to manage the relationships with tax authorities, the inconsistencies must be corrected for through various strategic actions controlling for the picture conveyed in the CbC

Concluding Discussion

report. The strategic actions taken evolved in the form of prevention mechanisms, utilizing table 3 of the CbC report as means of dialogue and utilizing inter-organizational networks.

The unpredictability in turn creates an increased risk exposure to double taxation and reputational damage, amplified by the CbC reporting automatic exchange mechanism. Because tax authorities differ in terms of both regulatory standards of transfer pricing and the way such standards are to be interpreted and applied by MNEs, conflicts regarding how the ALP is to be interpreted in different jurisdictions is a new risk to be avoided. In this way, the unpredictability interfere not only with the Group's relationship to tax authorities but also with other stakeholder relationships of the Group. In order to manage the relationship with the broader group of stakeholders, the unpredictability must be controlled for through various strategic actions preventing any conflicts regarding the interpretation of the ALP. The strategic actions taken evolved in the form of prevention mechanisms, considering a more restrictive use of post-transaction adjustments, a publically disclosed statement of materiality as well as the newly introduced interactive use of the risk management framework.

The prevention mechanisms in turn creates additional compliance burden, requiring more time and resources to be spent on routine critical performance variables. The first routine requiring more time and resources spent is the completion of the CbC report, specifically table 3. The second routine requiring more time and resource spent is more frequent reviews of the compliance status in order avoid large one-off post-transaction adjustments. This reflects the case company's willingness to place an even higher priority upon its transfer pricing practices for the benefit of its stakeholder management.

Despite the creation and preparation of processes and controls initiated to control for the increased unpredictability and risk exposure, the BEPS Project brings increased interest and awareness of tax fairness and MNE tax payables among a broad group of stakeholders. Due to the heterogeneous expectations and knowledge about taxation rules, specifically application of the ALP and its linkage to the tax payable, there is a risk for overlapping views of what constitutes tax fairness. An ambitious commitment to the ALP makes a new core value that must be framed in a way that the entire range of business responsibilities are embraced, in order to unify divergent views on what constitutes a fair share of tax so that individual stakeholder relationships with overlapping expectations can be managed.

Concluding Discussion

Many of the above empirical findings from the in-depth case study were confirmed by the results in the industry survey. The results from industry survey indicate that a majority of the Swedish MNEs subject to the new CbC reporting documentation requirement have highly integrated organizations, and are intending to use internal management accounts to complete the CbC report. At the same time, many of the surveyed MNEs expressed their concern about that tax authorities will be equipped with the CbC report for transfer pricing risk assessment purposes. The surveyed MNEs also expressed a concern about whether tax authorities will be able to interpret the information provided, and the implied unpredictability of when and if tax authorities will initiate further enquiries and/or audits based on the information provided in the CbC report. There was an even greater concern expressed for the implied risk exposure of double taxation, and that the CbC report will not be able to promote certainty and predictability for MNEs.

Further, the industry survey results indicate that there is a willingness among MNEs to take strategic action to control for the increased unpredictability and risk exposure, although an implied frustration about such additional efforts given the already transfer pricing tax compliant practices in place. The willingness is reflected in a higher priority placed on transfer pricing within MNE organizations, investing more time and resources in transfer pricing compliance practices for the benefit of the picture conveyed in the CbC report, as well as for the tax performance conveyed to a wider group of stakeholders with varying degrees of tax knowledge and views of tax fairness.

Taken together, the empirical findings from the in-depth case study and the results from the industry survey provide a remarkable insight:

The standardized common CbC report model template according to which the CbC report much be reported and filed to tax authorities is not able to convey an appropriate picture of MNEs transfer pricing tax compliant practices, which is compensated for through preparation of prevention mechanisms for the benefit of stakeholder management. The prevention mechanisms are time-consuming and resource intense, and at many times hindering the optimal use of the MCS (Cools 2003). Our analysis indicates that, although the CbC report will currently only be disseminated to tax authorities, MNEs decisions of selecting control mechanism and how to use them are to a large extent determined by a broader group of stakeholders' perception about MNE performance on legal-, ethical-, and philanthropic responsibilities, i.e. on all dimensions of CSR. It is therefore of great concern that the CbC report is not able to convey an appropriate picture of the implied level

Concluding Discussion

of performance of the transfer pricing practices pursued, especially considering the recent developments towards making the CbC report publically available⁵³.

Previous research point to alternative models that could be used for similar public policy objectives such as BEPS.

In an evaluation of appropriate implementation mechanisms for CbC reporting documentation requirement, it was acknowledged that the Model tax Convention is not an ideal implementation mechanism as: *‘there is potential for countries to require varying forms of CbC reports due the different interpretations of the conventions guidelines, which may result in increased compliance costs for multinational entities and substantially decrease the comparability between the reports prepare by different multinational entities’* (Longhorn, 2015).

Further, by requiring information to be reported according to policies rather than particular items of information, the working parties of the OECD could introduce transparency on the substance but leave it to a broader group of stakeholders to monitor the degree to which a MNE fulfils social expectations (Buhmann, 2013). The insight is worthwhile to be considered by the OECD and national tax authorities. They should realize that requiring information to be compiled according to a standardized common model template, imposes a cost on MNEs in terms of compensating strategic actions in order to manage a wider range of stakeholder relationships.

6.1 Contributions and Remarks

This paper contributes to the limited existing literature on CbC reporting as a transfer pricing documentation requirement. By providing an MNE perspective on the steps taken to comply with the new CbC reporting documentation requirement, we have outlined how MNEs prepare through the creation of processes and controls for the new compliance requirement. In this way, we add to the existing contingency-based MCS theory, acknowledging that the new CbC reporting documentation requirement have significant impact on MNEs MCSs.

⁵³ On April 12th 2016, the European Commission proposed an initiative of public tax transparency reporting requirements for the largest multinationals operating in the EU, in line with CbC reporting (European Commission, 2016) but with the difference of being disseminated to the public instead of directly to tax authorities.

Concluding Discussion

Whilst previous academic studies have either investigated different phenomena of transfer pricing tax compliance by conducting a qualitative case study or quantitative methodology, this paper employs a unique hybrid methodological approach with the aim of analytical generalization.

This research may provide further insight to ongoing deliberations and associated studies of the OECD CbC report model template and other studies on CbC reporting initiatives.

Finally, this study not only provides new insights regarding the practical implications of complying with the new CbC report documentation requirement, but also questions whether the benefits of requesting country-based information exceed the costs of related compliance and implementation. MNEs are currently facing practical difficulties involved in preparing CbC report templates and are struggling to prepare reconciliation public financial statements, legal entity books and local tax returns.

6.2 Implications

Enhanced stakeholders scrutiny and reputational risk will force companies to continuously re-evaluate their transfer pricing decisions. Strategic focus on jurisdictional reporting and documentation of business activities, including transfer pricing, will be critical to managing the increased tax controversy resulting from transparency initiatives. MNEs need to respond in a clear and thoughtful way to a much wider base of stakeholders than ever before, including not only tax authorities and governments, but also regulators, investors, non-governmental organizations (NGOs), the media and the public.

Considering the inconsistencies identified in the CbC report model template design, we would like to take the opportunity to express some implications for its intended use as a tool for transfer pricing risk assessment:

More complete indicators of global MNE activity is needed

It should be noted that the profit rate measures and profit rate differentials calculated based on the information in the CbC report can be very different from arm's length pricing measures based on functions, risks and assets of MNE legal entities or comparable uncontrolled prices (CUP). This is because the indicators of business activity in table 1 and 2 are not correspondent to the comparability factors inherent in the application of the ALP.

Concluding Discussion

This implies that calculations of profit rates and profit rate differentials based on measures of business activity as defined in the CbC report model template may not be properly adjusted for the functions, risks and assets central to arm's length pricing. With an incomplete indicator of business activity in the denominator, the profit flows are not related to real measures of economic activity. This makes it difficult to distinguish between shifts in profits among countries that reflect changes in real economic activity, and BEPS-related transfers of profits that are not in response to changes in the location of real economic factors, labor and capital, that produce the income. As a result, the profit rates calculated in the CbC report may convey an incorrect presence of transfer pricing risk, leading to incorrect decisions as to whether a transfer pricing risk is worth proceeding a transfer pricing enquiry or audit.

For example, information on Tangible Assets other than Cash and Cash Equivalents are included, whereas the value of intangible assets (which is a major contributor to world-wide income) are excluded. Transactions involving intangibles has been identified as one of three key since misallocations of the profits generated by valuable intangibles has contributed to BEPS. Further, intangibles are not limited to intellectual property, such as patents, trademarks and copyrights, but also include other important items, such as trade names, brands, assembled workforce, and managerial systems. The other intangible assets are important to take into account when considering the sources of real business activity and value creation.

Additional analysis of tax return information is needed

Calculating ETR differentials based on the information obtained in the CbC report model template, it should be noted that the relative measure is based on different sources of information, financial accounts information and tax accounts information (Income Tax Paid on Cash Basis). The different sources of information can portray different pictures of the MNE's financial profile.

For instance, differences in book/tax income differences can be large, and the country of taxation can differ from the firm's country of incorporation. Book/tax differences can arise in several situations. Three examples of book/tax income differences include:

- 1) Permanent exemptions of intra-group dividends, and timing differences, such as accelerated tax depreciation,

Concluding Discussion

- 2) Different tax residence of the company compared to the country of incorporation, distorting the location of reported profits and the measure of the tax rates, and
- 3) The actual tax variable compared to the tax expense
 - a. Cash income tax reflect tax from current and prior years and potentially interests and penalties, and sometimes amounts that would not ordinarily be regarded as tax on profits
 - b. The tax expense is an accrual measure of tax associated with current year income including both current and deferred income tax expense

This implies that calculations of ETR differentials based on measures of global allocation of income and taxes as defined in the CbC report model template may not be properly adjusted for tax rate differences that reflect the impact of current-law provisions. With a mismatch between financial accounts information and tax accounts information in the information reported on global allocation of income and taxes, the tax flows are not related to real economic activity. This makes it difficult to distinguish between BEPS and real economic effects of current law corporate income tax features. As a result, the ETR differentials calculated in the CbC report may convey an incorrect presence of transfer pricing risk, leading to incorrect decisions as to whether a transfer pricing risk is worth proceeding a transfer pricing enquiry or audit.

6.3 Limitations of the study

Like all theoretical research, this paper is subject to some limitations.

The preparation and analysis to complete a CbC report was only conducted at one Swedish MNE, i.e. the case company. As a result, the empirical observation made in the in-depth case study may be subject to unique conditions and circumstances. However, by conducting an industry survey, distributed to other Swedish MNEs subject to the same transfer pricing documentation requirement, we aimed at overcoming this limitation.

Further, the findings of this paper are limited to the fact that the first CbC report is yet to be filed during 2017 (for fiscal year 2016) implying that some of the steps taken to comply with the new CbC reporting documentation requirement, and the subsequent effects on MNEs' MCS, might not yet be identifiable.

6.4 Suggestions for future research

CbC reporting represents an ever changing landscape, and remains the most contested area of the OECD BEPS Project and consequently offers worthwhile additional future research.

Future research can be conducted using different methods and methodologies to capture different dimensions of the steps taken by MNEs to comply with the CbC reporting documentation requirement and its impacts on the MCS. Future academic studies can also be undertaken in a similar methodological manner as this paper, but in other countries or in specific industries.

It may also be worthwhile for future research to track the development of the OECD CbC report model template and consider any upcoming developments in the CbC reporting, such as the recent public tax transparency reporting requirement by the European Commission.

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Appendix

Appendix 1: Country-by-Country Report model template - general instructions

The CbC report model template developed by the OECD includes three tables. Table 1 consists of an overview of allocation of income, taxes and business activities by tax jurisdiction.

Table 1

When completing the template, the reporting MNE should consistently use the same sources of data from year to year. It may choose to use data from its consolidation reporting packages, from separate entity statutory financial statements, regulatory financial statements, or internal management accounts.⁵⁴

Tax jurisdiction

In the first column of the template, the parent company should list all of the tax jurisdictions in which subsidiaries, ‘Constituent Entities’ of the MNE group are resident for tax purposes.⁵⁵

Revenues

In the three columns of the template under the heading Revenues, the Reporting MNE should report: (i) the sum of revenues of all the subsidiaries of the MNE group in the relevant tax jurisdiction generated from transactions with associated enterprises; (ii) the sum of revenues of all the subsidiaries of the MNE group in the relevant tax jurisdiction generated from transactions with independent parties; and (iii) the total of (i) and (ii).⁵⁶

⁵⁴ It is not necessary to reconcile the revenue, profit and tax reporting in the template to the consolidated financial statements. If statutory financial statements are used as the basis for reporting, all amounts should be translated to the stated functional currency of the Reporting MNE at the average exchange rate for the year stated in the Additional Information section of the template. Adjustments need not be made, however, for differences in accounting principles applied from tax jurisdiction to tax jurisdiction.

⁵⁵ A tax jurisdiction is defined as a State as well as a non-State jurisdiction which has fiscal autonomy. A separate line should be included for all Constituent Entities in the MNE group deemed by the Reporting MNE not to be resident in any tax jurisdiction for tax purposes. Where a Constituent Entity is resident in more than one tax jurisdiction, the applicable tax treaty tie breaker should be applied to determine the tax jurisdiction of residence. Where no applicable tax treaty exists, the Constituent Entity should be reported in the tax jurisdiction of the Constituent Entity’s place of effective management. The place of effective management should be determined in accordance with the provisions of Article 4 of the OECD Model Tax Convention and its accompanying Commentary.

⁵⁶ Revenues should include revenues from sales of inventory and properties, services, royalties, interest, premiums and any other amounts. Revenues should exclude payments received from other Constituent Entities that are treated as dividends in the payor’s tax jurisdiction.

Appendix

Profit (Loss) before Income Tax

In the fifth column of the template, the parent company should report the sum of the profit (loss) before income tax for all the subsidiaries resident for tax purposes in the relevant tax jurisdiction.⁵⁷

Income Tax Paid (on Cash Basis)

In the sixth column of the template, the parent company should report the total amount of income tax actually paid during the relevant fiscal year by all the subsidiaries resident for tax purposes in the relevant tax jurisdiction.⁵⁸

Income Tax Accrued (Current Year)

In the seventh column of the template, the Reporting MNE should report the sum of the accrued current tax expense recorded on taxable profits or losses of the year of reporting of all the Constituent Entities resident for tax purposes in the relevant tax jurisdiction.⁵⁹

Stated Capital

In the eighth column of the template, the Reporting MNE should report the sum of the stated capital of all the Constituent Entities resident for tax purposes in the relevant tax jurisdiction.⁶⁰

Accumulated Earnings

In the ninth column of the template, the Reporting MNE should report the sum of the total accumulated earnings of all the Constituent Entities resident for tax purposes in the relevant tax jurisdiction as of the end of the year.⁶¹

⁵⁷ The profit (loss) before income tax should include all extraordinary income and expense items.

⁵⁸ Taxes paid should include cash taxes paid by the Constituent Entity to the residence tax jurisdiction and to all other tax jurisdictions. Taxes paid should include withholding taxes paid by other entities (associated enterprises and independent enterprises) with respect to payments to the Constituent Entity. Thus, if company A resident in tax jurisdiction A earns interest in tax jurisdiction B, the tax withheld in tax jurisdiction B should be reported by company A.

⁵⁹ The current tax expense should reflect only operations in the current year and should not include deferred taxes or provisions for uncertain tax liabilities.

⁶⁰ With regard to permanent establishments, the stated capital should be reported by the legal entity of which it is a permanent establishment unless there is a defined capital requirement in the permanent establishment tax jurisdiction for regulatory purposes.

⁶¹ With regard to permanent establishments, accumulated earnings should be reported by the legal entity of which it is a permanent establishment.

Appendix

Number of Employees

In the tenth column of the template, the Reporting MNE should report the total number of employees on a full-time equivalent (FTE) basis of all the Constituent Entities resident for tax purposes in the relevant tax jurisdiction.⁶²

Tangible Assets other than Cash and Cash Equivalents

In the eleventh column of the template, the Reporting MNE should report the sum of the net book values of tangible assets of all the Constituent Entities resident for tax purposes in the relevant tax jurisdiction.⁶³

The CbC report model template of table 1 is presented below:

⁶² The number of employees may be reported as of the year-end, on the basis of average employment levels for the year, or on any other basis consistently applied across tax jurisdictions and from year to year. For this purpose, independent contractors participating in the ordinary operating activities of the Constituent Entity may be reported as employees. Reasonable rounding or approximation of the number of employees is permissible, providing that such rounding or approximation does not materially distort the relative distribution of employees across the various tax jurisdictions. Consistent approaches should be applied from year to year and across entities.

⁶³ With regard to permanent establishments, assets should be reported by reference to the tax jurisdiction in which the permanent establishment is situated. Tangible assets for this purpose do not include cash or cash equivalents, intangibles, or financial assets.

Figure 5 – OECD Country-by-Country Report Model Template

Annex III to Chapter V

Transfer pricing documentation – Country-by-Country Report

A. Model template for the Country-by-Country Report

Table 1. Overview of allocation of income, taxes and business activities by tax jurisdiction

[illegible]

Table 2 consists of a list of all the subsidiaries of the MNE group included in each aggregation per tax jurisdiction.

Table 2

Constituent Entities Resident in Tax Jurisdiction

The parent company should list, on a tax jurisdiction-by-tax jurisdiction basis and by legal entity name, all the subsidiaries of the MNE group which are resident for tax purposes in the relevant tax jurisdiction.⁶⁴

⁶⁴ As stated above with regard to permanent establishments, however, the permanent establishment should be listed by reference to the tax jurisdiction in which it is situated. The legal entity of which it is a permanent establishment should be noted.

Appendix

Tax Jurisdiction of Organization or Incorporation if Different from Tax Jurisdiction of Residence

The Reporting MNE should report the name of the tax jurisdiction under whose laws the Constituent Entity of the MNE is organized or incorporated if it is different from the tax jurisdiction of residence.

Main Business Activity(ies)

The Reporting MNE should determine the nature of the main business activity(ies) carried out by the Constituent Entity in the relevant tax jurisdiction, by ticking one or more of the appropriate boxes.

The CbC report model template of table 2 and 3 is presented below:

Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

Name of the MNE group: Fiscal year concerned:														
Tax Jurisdiction	Constituent Entities Resident in the Tax Jurisdiction	Tax Jurisdiction of Organisation or Incorporation if Different from Tax Jurisdiction of Residence	Main Business Activity(ies)											
			Research and Development	Holding or Managing Intellectual Property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of Services to Unrelated Parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding Shares or Other Equity Instruments	Other ¹
	1.													
	2.													
	3.													
	1.													
	2.													
	3.													

1. Please specify the nature of the activity of the Constituent Entity in the "Additional Information" section.

Table 3. Additional Information

Name of the MNE group: Fiscal year concerned:
<i>Please include any further brief information or explanation you consider necessary or that would facilitate the understanding of the compulsory information provided in the Country-by-Country Report.</i>

Appendix 2: Interviews

Case company	Head of Group Accounting
Case company	Head of Group Tax
Case company	Senior Tax Manager
Case company	Vice President, Business Area A
Case company	Vice President, Business Area B
Case company	Vice President, Business Area C
Case company	Vice President, Business Area D
Case company	Division Controller A
Case company	Division Controller B
Case company	Manager Group Controlling
Case company	Controller
Case company	Transfer Pricing Specialist
Case company	Senior Tax Manager
Case company	Group Treasurer
Case company	Financial Controller
Case company	Vice President Group Controller
Case company	Market Analyst
Swedish Tax Authority	Transfer Pricing Specialist
Swedish Tax Authority	Senior Tax Advisor Transfer Pricing
Confederation of Swedish Enterprise	Head of Tax Department
Confederation of Swedish Enterprise	Accounting Specialist
Confederation of Swedish Enterprise	Financial Reporting Specialist

Appendix 3: Industry Survey Questionnaire

Country-by-Country Reporting

Vi distribuerar denna enkät, bestående av 18 frågor, för att undersöka:

- 1) Tillämpningsaspekter på mallen för land för land-rapportering utformad av OECD, och
- 2) Hur multinationella företag påverkas av att skattemyndigheter använder informationen i land för land-rapporterna som ett verktyg för riskanalys av multinationella företags internprissättning.

Enkätsvaren kommer hanteras konfidentiellt och inget resultat i rapporten kommer kunna kopplas till ett enskilt företag. Endast författarna (Michaela och Olivia), och vid behov behörig examinator vid Handelshögskolan, kommer att ha tillgång till enkätsvaren.

Som tack för att ni deltar har ni möjlighet att ta del av undersökningens resultat genom att fylla i en mailadress i slutet av enkäten.

Vid frågor angående enkäten eller vårt examensarbete är ni välkomna att kontakta oss: Michaela Appelkvist, 22428@student.hhs.se Olivia Konradsdotter, 22663@student.hhs.se

Enkäten är avsedd att besvaras av en eller flera personer med kunskap i skatter och internprissättning på multinationella företag, som träffas av den nya land för land-rapporteringen. Vänligen ange vilka roller den eller de personer har som medverkat i att besvara denna enkät. Flera alternativ är möjliga.

1. Skattechef (1)
2. Transfer Pricing chef (2)
3. Ekonomichef (7)
4. Redovisningschef (3)
5. Tax Controller (4)
6. Tax Analyst (5)
7. Annat (6) _____

Generellt om BEPS

Q1 OECD har i BEPS-projektet uppmärksammat att baserodering och vinstförflyttning bland annat sker via felprissättning av internttransaktioner i multinationella koncerner. Sverige har nu i likhet med ett stort antal andra länder undertecknat ett avtal om utbyte av land för land-rapporter på skatteområdet.

Land för land-rapportering innebär bland annat att stora multinationella företag ska redovisa sin affärsverksamhet för varje stat som de finns i. De länder som har undertecknat avtalet förväntar sig att få ett värdefullt redskap i arbetet för att se till att skatt betalas i rätt stat och på rätt sätt. Skattemyndigheterna kommer att kunna utbyta information i land för land-rapporteringen med varandra och använda den i sitt arbete med riskanalyser av företagens internprissättning för att välja ut vilka företag att granska.

I vilken utsträckning tror ni att det förekommer baserodering och vinstförflyttning via felprissättning av internttransaktioner i multinationella koncerner idag?

- Mycket stor utsträckning (1)
- Stor utsträckning (2)
- Liten utsträckning (3)
- Inte alls (4)

Answer If OECD har i BEPS-projektet uppmärksammat att baserodering och vinstförflyttning bland annat sker v... Mycket stor utsträckning Is Selected Or OECD har i BEPS-projektet uppmärksammat att baserodering och vinstförflyttning bland annat sker v... Stor utsträckning Is Selected Or OECD har i BEPS-projektet uppmärksammat att baserodering och vinstförflyttning bland annat sker v... Liten utsträckning Is Selected Or OECD har i BEPS-projektet uppmärksammat att baserodering och vinstförflyttning bland annat sker v... Inte alls Is Selected

Valfri kommentar

Q2 På senare tid har baserodering och vinstförflyttning via felprissättning av internttransaktioner lyfts fram som en 'Corporate Social Responsibility' (CSR) fråga, där

Appendix

multinationella företag anses ha ett ansvar som går utöver deras skyldighet att följa gällande skattelagstiftning.

I vilken utsträckning överensstämmer detta med utvecklingen i ert företag?

- Mycket stor utsträckning (Utveckling mot ett mycket mer långtgående ansvar än att följa gällande skattelagstiftning) (2)
- Stor utsträckning (3)
- Liten utsträckning (4)
- Inte alls (Ingen utveckling, ansvaret är att följa gällande skattelagstiftning) (5)

Answer If På senare tid har baserodering och vinstförflyttning via felprissättning av internttransaktioner I... Mycket stor utsträckning (Vi har ett mycket mer långtgående ansvar än att följa gällande skattelagstiftning) Is Selected Or På senare tid har baserodering och vinstförflyttning via felprissättning av internttransaktioner I... Stor utsträckning Is Selected Or På senare tid har baserodering och vinstförflyttning via felprissättning av internttransaktioner I... Liten utsträckning Is Selected Or På senare tid har baserodering och vinstförflyttning via felprissättning av internttransaktioner I... Inte alls (Vårt ansvar är att följa gällande skattelagstiftning) Is Selected

Valfri kommentar

Answer If På senare tid har baserodering och vinstförflyttning via felprissättning av internttransaktioner I... Mycket stor utsträckning (Vi har ett mycket mer långtgående ansvar än att följa gällande skattelagstiftning) Is Selected Or På senare tid har baserodering och vinstförflyttning via felprissättning av internttransaktioner I... Stor utsträckning Is Selected Or På senare tid har baserodering och vinstförflyttning via felprissättning av internttransaktioner I... Liten utsträckning Is Selected

Tror ni att någon eller några av följande faktorer påverkat en sådan utveckling i ert företag? Flera alternativ är möjliga.

8. Stor osäkerhet i tillämpning av skattelagar (1)
9. Risk för att konfidentiell eller annan känslig information kommer allmänheten till kännedom (2)
10. Granskningar av journalister (4)
11. Allmänhetens intresse (Politiker, aktivistgrupper) (7)
12. Nya lagar, regler och rekommendationer på skatteområdet (8)
13. Andra faktorer, och i sådana fall vilka? (9) _____

Specifikt om OECDs rekommendationer gällande tillämpning av armlängdsprincipen

Q3 Många länder har antagit OECDs rekommendationer (OECD Transfer Pricing Guidelines) och infört armlängdsprincipen för prissättning av internttransaktioner. Innan vi kommer in på de nya dokumentationskraven för internprissättning som föreslagits i Action 13 i BEPS-projektet har vi några generella frågor om hur ni tillämpar armlängdsprincipen vid prissättning av internttransaktioner.

Har er koncern flera dotterbolag belägna i samma land som tillämpar olika internprissättningsmetoder?

- Ja, i sådana fall, vad är anledningen till det? (Till exempel olika bolag för olika typer av verksamheter, bolag tillkomna via förvärv etc.) (1) _____
- Nej (2)

Answer If Många länder har antagit OECDs rekommendationer (OECD Transfer Pricing Guidelines) och infört armlängdsprincipen för prissättning av internttransaktioner. Innan vi kommer in på de nya dok... Ja, i sådana fall, vad är anledningen till det? (Till exempel olika bolag för olika typer av verksamheter, bolag tillkomna via förvärv etc.) Is Selected Or Många länder har antagit OECDs rekommendationer (OECD Transfer Pricing Guidelines) och infört armlängdsprincipen för prissättning av internttransaktioner. Innan vi kommer in på de nya dok... Nej Is Selected

Valfri kommentar

Answer If Många länder har antagit OECDs rekommendationer (OECD Transfer Pricing Guidelines) gällande tillä... Ja, i sådana fall, vad är anledningen till det? (Till exempel olika bolag för olika typer av verksamheter, bolag tillkomna via förvärv etc.) Is Selected

I vilken utsträckning har er koncern flera dotterbolag belägna i samma land som tillämpar olika internprissättningsmetoder?

- Stor utsträckning (Mer än 10 länder) (1)
- Medelstor utsträckning (4-10 länder) (2)
- Liten utsträckning (1-3 länder) (3)

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Q4 En annan dimension på föregående fråga är: Har er koncern dotterbolag som tillämpar olika internprissättningsmetoder för olika internttransaktioner?

- Ja, i sådana fall, vad är anledningen till det? (Till exempel skillnad mellan operativ- och legal struktur, konsoliderade verksamheter etc.) (1) _____
- Nej (2)

Answer If En annan dimension på föregående fråga är: Har er koncern dotterbolag som tillämpar olika internprissättningsmetoder för olika internttransaktioner? Ja, i sådana fall, vad är anledningen till det? (Till exempel skillnad mellan operativ- och legal struktur, konsoliderade verksamheter etc.) Is Selected Or En annan dimension på föregående fråga är: Har er koncern dotterbolag som tillämpar olika internprissättningsmetoder för olika internttransaktioner? Nej Is Selected

Valfri kommentar

Answer If En annan dimension på föregående fråga är: Har er koncern ett dotterbolag som tillämpar olika int... Ja, i sådana fall, vad är anledningen till det? (Till exempel skillnad mellan operativ- och legal struktur, konsoliderade verksamheter etc.) Is Selected

I vilken utsträckning har er koncern dotterbolag som tillämpar olika internprissättningsmetoder för olika internttransaktioner?

- Stor utsträckning (Mer än 10 dotterbolag) (1)
- Medelstor utsträckning (4-10 dotterbolag) (2)
- Liten utsträckning (1-3 dotterbolag) (3)

Specifikt om de nya dokumentationskraven gällande internprissättning som föreslagits i Action 13

Appendix

Q5 Nu övergår vi till frågor om de nya dokumentationskraven för internprissättning gällande land för land-rapportering.

I vilken utsträckning har ert företag påbörjat förberedelse och analys för att kunna göra en land för land-rapportering?

- Mycket stor utsträckning (1)
- Stor utsträckning (2)
- Liten utsträckning (3)
- Inte alls (4)

Answer If Nu övergår vi till frågor gällande de nya dokumentationskraven för internprissättning gällande la... Mycket stor utsträckning Is Selected Or Nu övergår vi till frågor gällande de nya dokumentationskraven för internprissättning gällande la... Stor utsträckning Is Selected Or Nu övergår vi till frågor gällande de nya dokumentationskraven för internprissättning gällande la... Liten utsträckning Is Selected Or Nu övergår vi till frågor gällande de nya dokumentationskraven för internprissättning gällande la... Inte alls Is Selected

Valfri kommentar

Q6 Vilka svårigheter har ni uppmärksammat i detta arbete? Flera alternativ är möjliga.

14. Avsaknad av sådan information som efterfrågas i mallen för land för land-rapportering (2)
15. Tolka vad som ska ingå i respektive post i mallen för land för land-rapportering (3)
16. Sammanställa informationen på det sätt som efterfrågas i mallen för land för land-rapportering (4)
17. Arbetet har tagit stora resurser i anspråk (5)
18. Andra faktorer, och i sådana fall vilka? (6) _____

Answer If Vilka svårigheter har ni uppmärksammat i detta arbete? Insamling av information i mallen för land för land-rapportering Is Selected Or Vilka svårigheter har ni uppmärksammat i detta arbete? Tolka vad som ska ingå i respektive post i mallen för land för land-rapportering Is Selected Or Vilka svårigheter har ni uppmärksammat i detta arbete? Sammanställning av informationen i mallen för land för land-rapportering Is Selected Or Vilka svårigheter har ni uppmärksammat i detta arbete? Resursbrist Is Selected Or Vilka svårigheter har ni uppmärksammat i detta arbete? Andra faktorer, och i sådana fall vilka? Is Selected

Valfri kommentar

Appendix

Q7 Enligt instruktionerna gällande upprättandet av land för land-rapporterna som föreslagits i Action 13 har företag möjlighet att välja mellan olika redovisningskällor. Vilken källa kommer ni använda vid upprättandet av land för land-rapporterna?

- Statutory financial statements (2)
- Internal management accounts (used in the consolidated financial statements) (4)

Answer If Enligt instruktionerna gällande upprättandet av land för land-rapporterna i Action 13 har företag möjlighet att välja mellan nedanstående redovisningskällor. Vilken källa kommer ni använda vid uppr... Consolidation reporting packages Is Selected Or Enligt instruktionerna gällande upprättandet av land för land-rapporterna i Action 13 har företag möjlighet att välja mellan nedanstående redovisningskällor. Vilken källa kommer ni använda vid uppr... Statutory financial statments Is Selected Or Enligt instruktionerna gällande upprättandet av land för land-rapporterna i Action 13 har företag möjlighet att välja mellan nedanstående redovisningskällor. Vilken källa kommer ni använda vid uppr... Regulatory financial statements Is Selected Or Enligt instruktionerna gällande upprättandet av land för land-rapporterna i Action 13 har företag möjlighet att välja mellan nedanstående redovisningskällor. Vilken källa kommer ni använda vid uppr... Internal management accounts Is Selected

Valfri kommentar

Q8 Land för land-rapportering innebär att skattemyndigheter runt om i världen för första gången kommer få en samlad bild av hur mycket skatt koncerner betalar i förhållande till redovisat resultat i de länder där de är verksamma. I vilken utsträckning anser ni att detta innebär en ökad risk att er koncern blir föremål för skatterevision eller förfrågan från skattemyndigheter? Gör bedömningen med beaktande av nedanstående information:

1) Det finns skillnader mellan redovisat resultat och skattepliktigt resultat som beror på redovisnings- och/eller skatteregler

2) Det finns skillnader i tidpunkten för betald skatt och redovisad skatt, till exempel avseende upptaxering för tidigare år eller vid utnyttjande av förlustavdrag

- Mycket stor utsträckning (1)
- Stor utsträckning (2)
- Liten utsträckning (3)
- Inte alls (4)

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Answer If Land för land-rapportering innebär att skattemyndigheter runt om i världen för första gången komm... Mycket stor utsträckning Is Selected Or Land för land-rapportering innebär att skattemyndigheter runt om i världen för första gången komm... Stor utsträckning Is Selected Or Land för land-rapportering innebär att skattemyndigheter runt om i världen för första gången komm... Liten utsträckning Is Selected Or Land för land-rapportering innebär att skattemyndigheter runt om i världen för första gången komm... Inte alls Is Selected

Valfri kommentar

Q9 Vid tillämpning och utvärdering av armlängdsprincipen finns det i OECDs Transfer Pricing Guidelines fördefinierade jämförelsefaktorer* som ska beaktas. Motsvarande jämförelsefaktorer är

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begränsade till ett antal andra finansiella poster och indikatorer på ekonomisk aktivitet** i mallen för land för land-rapportering som föreslagits i Action 13.

I vilken utsträckning tror ni att skattemyndigheterna kommer att kunna använda informationen i land för land-rapporterna för att avgöra vilka bolag att granska (i syfte att vidare undersöka om internprissättningen i ett visst enskilt fall är förenlig med armlängdsprincipen)?

*Jämförelsefaktorer:

- 1) Contractual terms of the transaction at hand,
- 2) Functions performed taking into account assets used and risks assumed,
 - a) Specifics to risks (Control and Financial capacity)
 - b) Specifics to transactions involving intangibles (Development, Enhancement, Maintenance, Protection and Exploitation functions)
- 3) Characteristics of property and/or services transferred,
- 4) The economic circumstances of the parties and of the market in which the parties operate, and
- 5) Business strategies pursued by each of the parties to the transaction.

**Finansiella poster och indikatorer på ekonomisk aktivitet:

Tabell 1 - all items are reported in amounts

- 1) Allokering av intäkter (Revenues, Profit/ILoss before Income Tax),
- 2) Indikatorer på betald skatt (Income Tax Paid on Cash Basis, Income Tax Accrued Current Year),
eller
- 3) Särskilda indikatorer på ekonomisk aktivitet (Stated Capital, Accumulated Earnings, Number of Employees, Tangibles Assets other than Cash and Cash Equivalents).

Tabell 2 - all items are reported by box-ticking

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- 1) Research & Development
- 2) Holding or managing Intellectual Property
- 3) Purchasing or procurement
- 4) Manufacturing or production
- 5) Sales, marketing or distribution
- 6) Administrative, management or support services
- 7) Provision of services to unrelated parties
- 8) Internal group finance
- 9) Regulated financial services
- 10) Insurance
- 11) Holding shares or other equity instruments
- 12) Dormant
- 13) Other
 - Mycket stor utsträckning (1)
 - Stor utsträckning (2)
 - Liten utsträckning (3)
 - Inte alls (4)

Answer If Vid tillämpning och utvärdering av armlängdsprincipen finns det i OECDs Transfer Pricing Guidelin... Mycket stor utsträckning Is Selected Or Vid tillämpning och utvärdering av armlängdsprincipen finns det i OECDs Transfer Pricing Guidelin... Stor utsträckning Is Selected Or Vid tillämpning och utvärdering av armlängdsprincipen finns det i OECDs Transfer Pricing Guidelin... Liten utsträckning Is Selected Or Vid tillämpning och utvärdering av armlängdsprincipen finns det i OECDs Transfer Pricing Guidelin... Inte alls Is Selected

Valfri kommentar

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Q10 Med beaktande av informationen i föregående fråga, vilka problem bedömer ni kan uppstå då skattemyndigheterna ska använda informationen i land för land-rapporteringen för att välja ut vilka företag att granska? Specificera gärna.

Q11 I syfte att förbättra samstämmigheten mellan jämförelsefaktorerna (som ska beaktas vid tillämpning och utvärdering av armlängdsprincipen) och informationen i land för land-rapporterna (som ska beaktas vid avgörandet av vilka företag som ska väljas ut för granskning), skulle du föredra att:

- 1) Ändra på mallen för land för land-rapporteringen så att den överensstämmer med OECDs Transfer Pricing Guidelines, eller (1)
- 2) Ändra på OECDs Transfer Pricing Guidelines så att de överensstämmer med mallen för land för land-rapportering? (2)

Answer If I syfte att förbättra samstämmigheten mellan jämförelsefaktorerna (som ska beaktas vid tillämpnin... 1) Ändra på mallen för land för land-rapporteringen så att den överensstämmer med OECDs Transfer Pricing Guidelines, eller Is Selected Or I syfte att förbättra samstämmigheten mellan jämförelsefaktorerna (som ska beaktas vid tillämpnin... 2) Ändra på OECDs Transfer Pricing Guidelines så att de överensstämmer med mallen för land för land-rapportering? Is Selected

Valfri kommentar

Q12 Finns det andra saker i mallen för land för land-rapportering som föreslagits i Action 13 ni tror kan påverka nyttan av land för land-rapportering som ett verktyg för riskanalys av internprissättning? Specificera gärna.

Specifikt om hur multinationella företag påverkas av de nya dokumentationskraven

Q13 Tror ni att multinationella koncerner kommer att vidta några åtgärder för att öka samstämmigheten mellan jämförelsefaktorerna (som ska beaktas vid tillämpning och utvärdering av armlängdsprincipen) och informationen i land för land-rapporterna (som ska

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beaktas vid avgörandet av vilka företag som ska väljas ut för granskning), och i sådana fall, vilka? Flera alternativ är möjliga.

19. Ändra modeller för internprissättning (1)
20. Ändra redovisningsprinciper (2)
21. Ändra kontoplanen (3)
22. Annat, specificera gärna (4) _____
23. Nej, företag i allmänhet kommer inte att vidta några åtgärder. Specificera gärna varför (5)

Answer If Tror ni att företag i allmänhet kommer att vidta några åtgärder för att öka samstämmigheten mella... Ändra modeller för interprissättning Is Selected Or Tror ni att företag i allmänhet kommer att vidta några åtgärder för att öka samstämmigheten mella... Ändra redovisningsprinciper Is Selected Or Tror ni att företag i allmänhet kommer att vidta några åtgärder för att öka samstämmigheten mella... Ändra kontoplanen Is Selected Or Tror ni att företag i allmänhet kommer att vidta några åtgärder för att öka samstämmigheten mella... Annat, specificera gärna Is Selected Or Tror ni att företag i allmänhet kommer att vidta några åtgärder för att öka samstämmigheten mella... Nej, företag i allmänhet kommer inte att vidta några åtgärder. Specificera gärna varför Is Selected

Valfri kommentar

Q14 Tror ni att land för land-rapportering kommer bli en del av extern CSR-rapportering?

- Ja (1)
- Nej (3)

Answer If Tror ni att land för land-rapportering kommer bli en del av extern CSR-rapportering? Ja Is Selected Or Tror ni att land för land-rapportering kommer bli en del av extern CSR-rapportering? Nej Is Selected

Valfri kommentar

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Q15 Har arbetet med internprissättning fått en ändrad prioritet inom er organisation under de senaste åren?

- Högre prioritet (1)
- Oförändrad prioritet (2)
- Lägre prioritet (3)

Answer If Har arbetet med internprissättning fått en ändrad prioritet inom er organisation under de senaste... Högre prioritet Is Selected Or Har arbetet med internprissättning fått en ändrad prioritet inom er organisation under de senaste... Oförändrad prioritet Is Selected Or Har arbetet med internprissättning fått en ändrad prioritet inom er organisation under de senaste... Lägre prioritet Is Selected

Valfri kommentar

Q16 Anser ni att yttre faktorer (till exempel medial uppmärksamhet, politiskt intresse, aktivistgruppers engagemang, påverkan på företagets rykte etc.) driver förändring i ert arbete med internprissättning?

- Ja, i sådana fall, är det några faktorer som driver mer förändring? Specificera gärna vilka.
(1) _____
- Nej (2)

Answer If Anser ni att yttre faktorer (till exempel medial uppmärksamhet, politiskt intresse, aktivistgrupp... Ja, i sådana fall, är det några faktorer som driver mer

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förändring? Specificera gärna vilka. Is Selected Or Anser ni att yttre faktorer (till exempel medial uppmärksamhet, politiskt intresse, aktivistgrupp... Nej Is Selected

Valfri kommentar

Q17 I vilken utsträckning instämmer ni med följande påståenden?

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	Inte alls (1)	Liten utsträckning (2)	Stor utsträckning (4)	Mycket stor utsträckning (5)
Land för land-rapportering innebär minskad risk för internationell dubbelbeskattning (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Land för land-rapportering innebär ökad transparens av de multinationella företagens verksamhet (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Land för land-rapportering innebär en ökad administrativ börda för multinationella företag (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Land för land-rapportering kommer stävja internationell skatteplanering (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Land för land-rapportering innebär ökad osäkerhet på det globala skatteområdet (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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Land för land-rapportering innebär bättre riskanalys för skattemyndigheterna och därmed färre onödiga skatterevisioner (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Land för land-rapportering innebär ökad risk för skatterevisioner (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Answer If I vilken utsträckning instämmer ni med följande påståenden? Land för land-rapportering innebär ökad risk för internationell dubbelbeskattning Is Displayed Or I vilken utsträckning instämmer ni med följande påståenden? Land för land-rapportering innebär ökade administrativa kostnader Is Displayed Or I vilken utsträckning instämmer ni med följande påståenden? Land för land-rapportering innebär ökad osäkerhet på det globala skatteområdet Is Displayed Or I vilken utsträckning instämmer ni med följande påståenden? Land för land-rapportering innebär ökad risk för skatterevisioner Is Displayed Or I vilken utsträckning instämmer ni med följande påståenden? Land för land-rapportering innebär bättre riskanalys för skattemyndigheterna och därmed färre onödiga skatterevisioner Is Displayed

Valfri kommentar

Q18 Vad tror ni kommer innebära mest merarbete med land för land-rapportering för er organisation?

Rangordna, genom att dra och släppa, följande alternativ: 1=mest merarbete, 4=minst merarbete

- _____ Implementering av land för land-rapportering (1)
- _____ Svara på följdfrågor från skattemyndigheter (2)
- _____ Assistera och/eller administrera fler revisioner (3)
- _____ Upprätta nya och/eller ändrade internprissättningsmetoder (4)

Answer If Vad tror ni kommer innebära mest merarbete angående land för land-rapportering för er organisatio... Implementering av land för land-rapportering Is Displayed Or Vad tror ni kommer innebära mest merarbete angående land för land-rapportering för er organisatio... Svara på följdfrågor från skattemyndigheter Is Displayed Or Vad tror ni kommer innebära mest merarbete angående land för land-

rapportering för er organisatio... Assistera och/eller administrera fler revisioner Is Displayed Or Vad tror ni kommer innebära mest merarbete angående land för land-rapportering för er organisatio... Upprätta nya och/eller ändrade internprissättningsmetoder Is Displayed Or Vad tror ni kommer innebära mest merarbete angående land för land-rapportering för er organisatio... Andra alternativ, specificera gärna Is Displayed

Valfri kommentar

Optional) Vänligen ange en e-mail adress för att få en anonym sammanställning av undersökningens resultat: