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Transfer Pricing, Tax Treaties and International Agreements Division, at the OECD Centre for Tax Policy and Administration.

Sent by email to: taxpublicconsultation@oecd.org

Dear Sir/Madam

BDO comments on the OECD Public Consultation Document
Revisions to Chapter VII of the OECD Transfer Pricing Guidelines – Special Considerations for Intra-Group Services

BDO welcomes the opportunity to comment on the OECD Public Consultation Document on proposed revisions to Chapter VII of the OECD Transfer Pricing Guidelines: Special Considerations for Intra-Group Services.

BDO is an international network of public accounting, tax and advisory firms that perform professional services under the name of BDO. BDO firms provide professional services in 169 countries and territories, with over 94,900 people working from 870 offices worldwide.

We support the OECD's objective of modernising the guidance and aligning it more closely with the analytical framework contained elsewhere in the Transfer Pricing Guidelines. Intra-group services are central to how modern multinational enterprise groups operate, yet they remain an area where taxpayers and tax administrations frequently encounter practical challenges, particularly around evidence, benefit, allocation and the interaction between central and local functions.

Against that backdrop, we consider the proposed revisions both timely and useful. The clearer structure, stronger focus on accurate delineation and expanded practical examples should promote more consistent application of the arm's length principle across jurisdictions.

Our principal comment is that the final guidance should avoid creating, or being interpreted as creating, an increasingly exacting standard of proof for intra-group services. While a greater emphasis on evidence is appropriate, it should not result in taxpayers being required to produce ever more granular operational documentation where such detail does not materially improve the reliability of the transfer pricing outcome.

This is not simply a compliance burden concern. If the guidance encourages tax administrations to request additional layers of proof, taxpayers may face escalating and divergent expectations across jurisdictions, driving administrative costs, distorting outcomes and increasing the likelihood of disputes without necessarily improving arm's length results.

In our view, the final guidance should place greater emphasis on proportionality, reasonable evidence and commercial practicality. It should also recognise that many centralised service activities are undertaken because groups reasonably expect them to provide a benefit, and that a sensible allocation methodology will often be the most practical way to reflect that anticipated benefit.

We have developed these points further in the attached response and would welcome participation in further discussions as the OECD continues this work.

Yours faithfully

Paul Daly

Paul Daly
Partner, Global Transfer Pricing Leader

BDO response

Executive summary

BDO welcomes the proposed revision of Chapter VII and supports the OECD's objective of aligning the guidance on intra-group services with the broader transfer pricing framework. The revised draft offers a more coherent structure, integrates accurate delineation more directly into the analysis and introduces practical examples that should help taxpayers and tax administrations apply the guidance more consistently.

The central issue for the final guidance is not whether intra-group services should be properly evidenced or whether taxpayers should explain the basis for service charges. The more important question is how the guidance can improve certainty without creating an evidential 'arms race' in which each layer of documentation invites a further request for more detailed proof.

In our view, the final Chapter VII should be anchored in four complementary principles:

- Proportionality – evidence and documentation should reflect the value, risk and materiality of the service arrangement;
- Commercial practicality – guidance should recognise how multinational groups actually organise and evidence centralised service functions;
- Reasonable approximation – allocation methodologies should be accepted where they sensibly reflect anticipated benefit; and
- Dispute prevention – guidance should discourage increasingly exacting proof requirements that do not improve pricing outcomes.

These principles are consistent with the arm's length standard and are essential if the revised Chapter VII is to operate effectively across diverse jurisdictions, business models and tax administration practices.

1. The overall direction is welcome

BDO supports the OECD's decision to update and modernise Chapter VII. Services are now central to multinational operating models, often delivered through shared service centres, regional management teams, global platforms, centres of excellence and other centralised functions. The existing guidance has not always provided enough practical support for the analysis of these arrangements.

The draft appropriately links intra-group services more closely to accurate delineation and the broader principles in Chapters I, II and III. This should help avoid treating services as a standalone category subject to different transfer pricing standards and clarify the distinction between whether a service exists and how it should be priced.

We agree with that direction. However, the final guidance should emphasise that a more structured analysis does not require uniform depth of evidence or transaction-by-transaction analysis in every case. Many service arrangements are routine, recurring and relatively low risk. In those cases, the level of analysis should remain proportionate to the likely transfer pricing significance of the arrangement.

2. Avoiding an escalating evidential standard

A theme running through the draft is the importance of evidencing that services have been performed, that benefits have been or may be expected to be received, and that allocation methodologies are appropriate. BDO supports the need for evidence. Transfer pricing outcomes should reflect the commercial reality of the arrangements and taxpayers should be able to explain how service charges were determined.

The concern is that some elements of the draft could be interpreted as creating an increasingly exacting standard of proof. For example, where central IT support is provided, it may be reasonable to examine service records or tickets demonstrating that support activity occurred. However, if the guidance encourages a further comparison between central IT support and local IT support in each case, followed by evidence explaining why each activity was distinct, the analysis can quickly become disproportionately granular.

Such depth may be appropriate where the amounts involved are material, arrangements are unusual or duplication is a genuine risk. But it should not become the default expectation for routine service arrangements. Otherwise, documentation becomes an administrative burden rather than a tool for improving the reliability of the arm's length outcome.

If the final guidance does not clearly articulate limits around reasonableness and proportionality, tax administrations may interpret the same examples differently. Some may regard them as illustrative and others may treat them as a minimum standard. In practice, this creates a risk that taxpayers are squeezed between competing demands from different jurisdictions, each seeking a higher level of proof than the other.

The final guidance should state clearly that evidence is meant to support a reasonable conclusion about commercial reality, not exhaust every possible source of operational data.

3. Learning from the low value-adding services framework

The continued inclusion of the low value-adding services framework is important because it reflects a practical proposition: many centralised activities are undertaken by multinational groups for expected commercial benefit, and can often be charged using simplified, allocation-based approaches.

BDO is not suggesting expansion of the low value-adding services regime or creation of new safe harbours. However, the underlying logic has broader relevance. There are common categories of centralised activity where groups generally perform the functions for a perceived business benefit and where a broad allocation method can provide a reasonable reflection of anticipated benefit.

Examples may include routine IT support, finance and accounting support, human resources administration, legal support, procurement assistance, compliance support and similar central functions. These activities may not always fall within the low value-adding services regime and should still be analysed on their facts. But the guidance could acknowledge that, absent contrary evidence, such activities are commonly undertaken for bona fide commercial reasons and are generally capable of providing economic or commercial value to group members.

Acknowledging this would not reverse the burden of proof or prevent tax administrations from challenging unsupported charges. It would simply avoid a starting point where taxpayers must prove from first principles that every routine activity is capable of providing value.

4. The benefit test should be applied without hindsight

BDO welcomes the clearer distinction between the benefit test and pricing. Whether a service was provided is separate from whether the charge is arm's length. This distinction is important and should be preserved in the final guidance.

We also support the recognition that benefits may be expected rather than immediately realised. In practice, many services enhance capability, reduce risk, improve systems, support governance or preserve commercial value. Benefits may arise over time and may be affected by subsequent changes in market conditions, business priorities or implementation outcomes.

The final guidance should emphasise *ex ante* analysis: whether a reasonable independent party in comparable circumstances would have regarded the activity as capable of providing economic or commercial value. Failure of expected benefits to materialise should not, in itself, mean that no service was rendered.

This is particularly important for transformation projects, technology programmes, integration activities and strategic initiatives. These activities may be commercially rational when undertaken, even if they later change direction, are delayed or do not produce the expected outcome. Applying hindsight risks converting commercial underperformance into a denial of benefit.

5. Allocation methodologies should remain practical and flexible

The expanded discussion of direct and indirect charging approaches is helpful. Taxpayers should be able to explain their allocation keys and why they provide a reasonable basis for charging costs among group members.

However, the final guidance should avoid implying that direct charging is inherently preferable in all circumstances. Central and regional functions often support multiple entities simultaneously and costs cannot always be traced precisely to individual recipients. In such cases, indirect charging is not a convenience—it is the only practical means of applying the arm's length principle.

The guidance should therefore recognise that more than one allocation key may produce a reliable result. The question should be whether the selected methodology is reasonable, consistently applied and provides a sensible approximation of anticipated benefit. Pursuit of theoretical precision should not displace practical reliability.

This point is relevant for both taxpayers and tax administrations. Excessive focus on marginally more precise allocation keys can lead to disputes that consume significant resources without materially affecting outcomes. The final guidance should encourage the resolution of such issues based on reasonableness and materiality.

6. Documentation should be proportionate and evidence should be assessed in the round

BDO supports the inclusion of additional documentation guidance. Better documentation can reduce uncertainty and assist both taxpayers and tax administrations. However, the final guidance should avoid creating the impression that there is a prescribed set of documents that taxpayers must maintain for every service transaction.

Evidence may take many forms—agreements, invoices, cost centre reports, allocation models, management reports, service catalogues, internal communications, project records, governance materials, meeting notes, tickets from operational systems or other contemporaneous business records. The relevant evidence depends on the nature of the service and how the group operates.

The final guidance should state explicitly that evidence should be assessed in the round. The question is whether contemporaneous evidence reasonably supports the conclusion that services were performed, benefits could be expected and the charging methodology is appropriate. Taxpayers should not be expected to maintain exhaustive operational evidence for all services irrespective of value, risk or materiality.

7. Shareholder activities and mixed-purpose activities

The distinction between shareholder activities and chargeable services remains challenging. BDO welcomes the OECD's focus on this area and encourages further guidance.

Modern central functions such as governance, risk management, internal controls, regulatory compliance, ESG, technology standards, data security or strategic transformation often serve both group-level objectives and operating entity needs. Characterising these activities as wholly shareholder or wholly service-related may not reflect commercial reality.

The final guidance should include additional examples of mixed-purpose activities and acknowledge that a single central activity may have both chargeable and non-chargeable elements. Where practicable, those elements should be separated rather than forcing an all-or-nothing characterisation.

8. Stock-based compensation

BDO welcomes the OECD's request for comments on stock-based compensation. Divergent jurisdictional approaches create uncertainty and potential double taxation.

Further guidance is needed on when stock-based compensation should be included in the service cost bases, how it should be measured, and whether treatment should vary depending on the nature of the services or the role of the employing entity. Guidance would also be helpful on how such costs should be treated where the employees performing the services participate in centrally designed and administered incentive arrangements.

The objective should be greater consistency and fewer disputes in an area where divergent domestic approaches can produce outcomes difficult to reconcile through ordinary documentation.

Concluding observation

The proposed revisions are positive and timely. They modernise Chapter VII and align the treatment of intra-group services with the broader OECD transfer pricing framework.

The remaining challenge is ensuring that greater analytical rigour does not create avoidable controversy. In BDO's view, the final guidance will be most effective if proportionality is a central organising principle. Taxpayers should support their service arrangements with reasonable contemporaneous evidence, but the guidance should not encourage ever-more granular proof without corresponding improvements in the reliability of the transfer pricing outcome.

A commercially grounded, proportionate approach best supports the OECD's objectives of consistency, administrability and dispute prevention.