# OECD introduces Amount B framework to simplify transfer pricing guidelines



On February 19, 2024, the Organisation for Economic Cooperation and Development (OECD) made significant amendments to its transfer pricing guidelines by introducing a new framework termed “Amount B.” This framework provides a standardized method for determining the appropriate arm’s length remuneration for certain marketing and distribution activities, a move intended to standardise practices across international jurisdictions. The updated guidelines are set to come into effect for fiscal years beginning on or after January 1, 2025.

The modification seeks to enhance tax certainty and alleviate administrative burdens by establishing fixed returns for qualifying baseline marketing and distribution activities. As part of this initiative, the OECD has launched a “pricing automation tool” to simplify the calculations needed for remuneration relating to these transactions. However, the application of the streamlined Amount B approach will vary by country, as not all members of the OECD’s Inclusive Framework have chosen to adopt this new guideline.

Implementing the Amount B initiative addresses a pervasive issue faced by multinational corporations engaged in numerous intercompany transactions needing to comply with the arm's length principle. This principle dictates that transactions between related parties should be priced as if they were conducted between unrelated entities, requiring extensive benchmarking studies that can be burdensome, particularly for jurisdictions with limited resources. The OECD highlighted that between 30% and 70% of transfer pricing disputes in low-capacity jurisdictions revolve around marketing and distribution activities.

According to the OECD's February 2024 report, the Amount B framework, also known as the “simplified and streamlined approach” (SSA), was crafted in response to calls for reform in transfer pricing guidelines to alleviate the complexities of compliance with the arm’s length standard. The new rules will enhance tax certainty while reducing administrative costs and the potential for disputes by offering a straightforward pricing method for baseline marketing and distribution activities.

The SSA applies specifically to two categories of transactions: buy-sell marketing and distribution transactions, where a distributor purchases goods from a related party for third-party distribution, and sales agency transactions, where an entity facilitates another group company’s sales. Certain qualitative criteria must be met for transactions to qualify under Amount B, including performance ratios grounded in operating expenses relative to sales.

The OECD has introduced a Pricing Automation Tool, designed to calculate the remuneration for qualifying transactions with minimal input requirements. This tool uses historical financial data, including operating expenses and net revenues, to derive an appropriate "return on sales" percentage. These calculations are subject to an “Operating Expense Cross-Check” to ensure that the generated figures remain within predefined limits as established by the OECD.

While the OECD’s new guidelines represent a pivotal shift in transfer pricing standards, their implementation is not uniform across jurisdictions. The US Department of the Treasury announced in December 2024 that the U.S. government plans to propose regulations permitting American companies to adopt the SSA approach for tax years commencing after January 1, 2025. However, the proposed SSA would be optional, acting as a safe harbour for transactions involving U.S. taxpayers.

Contrastingly, other jurisdictions have taken varied stances on the adoption of the SSA. The Netherlands has indicated it will not implement the SSA but will acknowledge its application in jurisdictions with established double taxation treaties. Australia and New Zealand have also stated they will not adopt the SSA. Meanwhile, Canada, Brazil, and the United Kingdom remain in the evaluation stage, consulting stakeholders to ascertain the potential advantages of adoption. Japan’s private sector has exhibited support for the SSA's objectives, yet there has been no formal government endorsement. Singapore’s tax authorities similarly have not issued an official position on implementing Amount B.

Despite the mixed responses from various jurisdictions, OECD members have collectively pledged to undertake all reasonable measures to mitigate potential double taxation where applicable bilateral tax treaties exist. The OECD's guidelines emphasise that jurisdictions can be considered "covered" for the purposes of Amount B if they fall within specified groups of low- and middle-income nations and have expressed a willingness to implement the amounts in their domestic regulations.

As the tax landscape evolves with the introduction of Amount B, stakeholders are now navigating a complex web of compliance requirements and prospective benefits, reflecting the OECD’s attempt to simplify intercompany pricing mechanisms in an increasingly globalised economy.

Source: [Noah Wire Services](https://www.noahwire.com)

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