

EXECUTIVE SUMMARY

This project report focused in avoiding and resolving international transfer pricing (TP) disputes at Transfer Pricing Unit (TPU) by introducing an Advance Pricing Agreement (APA) mechanism. As cross-border transactions between Associated Enterprises (AEs) of Multi-National Enterprises (MNEs) with the globalization rapidly increased, leading to erode the tax base of a country and profit shifting through TP abuses, tax authorities confronted many challenges to assure a fair share of tax revenue demarcating the taxing rights of a country from cross-border transactions. Hence, in the Inland Revenue Department (IRD) context, the complex nature of TP and TP abuses and malpractices by the MNEs immensely caused the TP disputes in determining Arm's Length Price (ALP) and Transfer Pricing Methods (TPM) leading to estimated assessments, appeals and litigations. In this backdrop, implementation of this project was significantly considered to resolve TP disputes and to protect the tax revenue to the government fiscus from tax evasion and profit shifting by the MNEs.

Hence, the gravity of the problem(s) of this study was identified and analyzed by adopting many analytical approaches. To identify the Strengths, Weaknesses, Opportunities, and Threats of TPU, the SWOT analysis was executed. On this footing, the key problems of this study were detected as the increasing international TP disputes in terms of estimated assessments leading to appeals from 42% in 2014 to 73% in 2018 with an average rate of 61% gap posing a challenge on adversarial dispute resolution systems, and the insignificant number of TP audits executed amounting to a low average of 1.37% annually, showing an average gap of 95% for the above periods. The existence of TP disputes was also buttressed through the unstructured key person's interview conducted encompassing the senior tax officials of the IRD. The root causes of the TP disputes were identified through the fishbone cause and effect analysis and the main category labels or causes identified for the TP disputes were non-implementing the APA mechanism, lack of dispute resolution process, and inadequacy of awareness, training and development.

To uphold the originality of this project work, the theoretical underpinnings of the key variables correlated to the project problem of TP disputes identified through the cause and effect analysis were discussed in depth with literature survey findings. The theoretical framework encompassed TP disputes, APA mechanism, dispute resolution process, and

awareness, training and development, which were treated as components of the study framework developed aligning with the main category labels of the root cause analysis. These literatures immensely assisted for identifying the gravity of the problem, developing solutions and formulating recommendations. Thus, it was revealed that most of the TP disputes emerged from the uncertainty and unpredictability as to ALP and TPM and the unproductiveness of the traditional dispute resolution process. These literatures also found implementing the APA with its rollback process for resolving TP disputes.

Further, this study formulated the project objectives and executed the current problem analysis under each component for developing several solutions to meet the respective project objectives. Thus, the overall project objective was to attain 92% reduction of TP disputes from 61% to 5%. The specific objectives were designed as: PC 1 to reduce TP assessment cases from 61% to 11% contributing around 82%, PC 2 to increase the dispute resolution competency level from 5% to 85% contributing around 5%, and PC 3 to increase TP and APA expertise level from 45% to 75% contributing around 5%. Hence, the projected outputs and outcomes with appropriately made resource allocations were illustrated comprehensively showing the impact of this project in attaining the prescribed project objectives. The benefit-cost analysis found that the implementing of this project would be viable as the estimated benefits were greater than the estimated costs. The major solutions developed, inter alia, included the issuing of APA regulations with rollback process and APA Team, establishing the dispute resolution panel, and conducting awareness, training and development programmes on TP, APAs and dispute resolution.

The survey findings based on the literature and cause and effect analysis were used to formulate recommendations to implement the solutions developed. Accordingly, it was, inter alia, found that TP abuses by the MNEs, non-issuance of the APA rollback regulations, and non-forming the APA Team have caused around 80% of the existing TP disputes; and the non-establishment of dispute resolution panel caused around 10%; and lack of awareness and training also caused around 10% to the current problem of TP disputes. Therefore, it was, inter alia, robustly recommended of issuing APA regulations including rollback process, establishing an APA Team, introducing a model for cooperative compliance auditing, establishing dispute resolution panel, and executing awareness and training programmes for effectively avoiding and resolving TP disputes at TPU, in line with the international standard best practices (ISBPs) of other jurisdictions.