Overview of Amount B

OECD

Summary

The simplified and streamlined approach (Amount B) provides a framework to simplify the application of the arm's length principle to baseline marketing and distribution activities. It is expected to reduce transfer pricing disputes, compliance costs, and enhance tax certainty for tax administrations and taxpayers alike.
Jurisdictions can choose to adopt Amount B for in scope transactions for fiscal years commencing on or after 1 January 2025.

Steps in applying Amount B

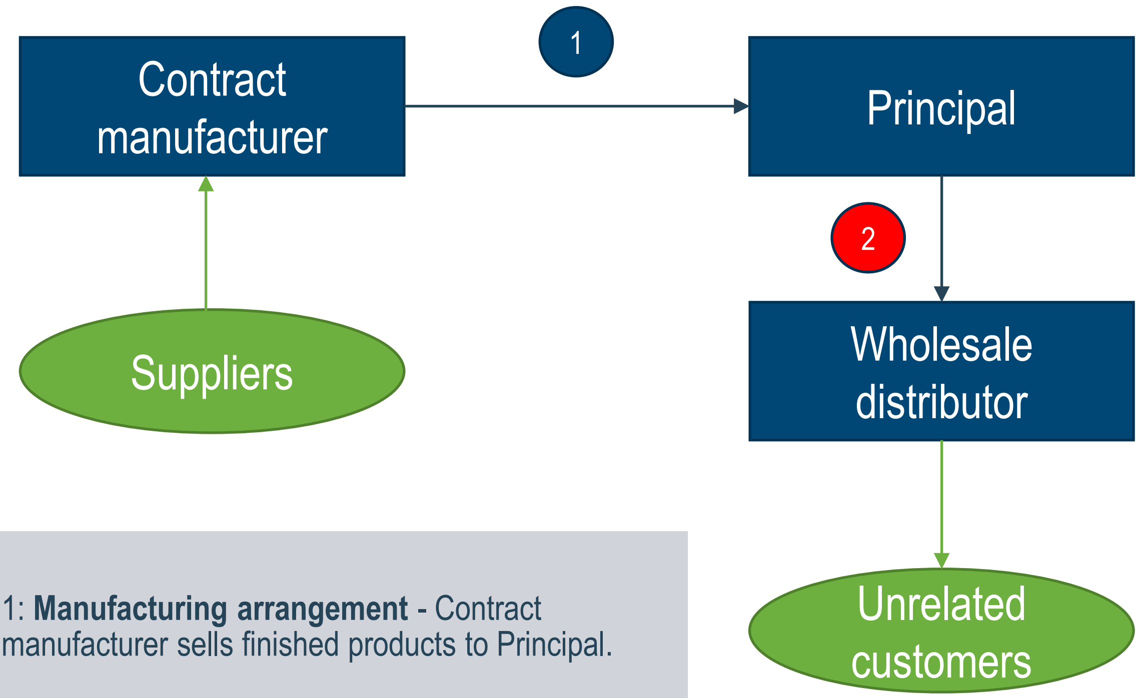
This factsheet illustrates the steps to be undertaken in order to apply the Amount B rules.

- **In Step 1,** the qualifying transactions as accurately delineated under Chapter I of the OECD Transfer Pricing Guidelines (TPGs) are assessed against a set of qualitative and quantitative criteria to determine their eligibility for Amount B.

- **In Step 2,** if a qualifying transaction is in-scope of Amount B, the transaction will be priced using the Amount B pricing framework, except where an internal CUP is available. The pricing framework consists of three steps - Step 2-1 application of the pricing matrix; Step 2-2 application of the operating expense cross-check; and Step 2-3 application of the data availability mechanism, where relevant.

Each of these steps is described in further detail below.

A typical example – Transaction "2" is a qualifying transaction



Related party transactions

1: **Manufacturing arrangement** - Contract manufacturer sells finished products to Principal.

2: **Distribution arrangement** – Principal sells finished goods to Distributor – who on-sells to unrelated customers.

December 2024

Step 1 Scoping

Summary

The purpose of Step 1 is to determine whether baseline marketing and distribution activities carried out by a tested party are in-scope of Amount B.

When a tested party is involved in a qualifying transaction (Step 1-1) that meets the scoping criteria (Step 1-2), then the transaction is in-scope of Amount B.

Step 1-1
- Identify qualifying transactions

Step 1-2
- Apply qualitative and quantitative scoping criteria

Step 1-1

- Identify qualifying transactions

- An accurate delineation of the qualifying transaction should be undertaken in accordance with Chapter I of TPGs.
- The following transactions are qualifying transactions:
  - **Buy-sell marketing and distribution transactions** for wholesale distribution of tangible goods to unrelated parties;
  - **Sales agency and commissionaire transactions** where the agent or commissionaire contributes to wholesale distribution of tangible goods to unrelated parties.

(Paragraphs 10-12 of the Amount B guidance)

Step 1-2

- Apply qualitative and quantitative scoping criteria

Qualitative scoping criteria

- **A qualifying transaction** must exhibit economically relevant characteristics that mean it **can be reliably priced using a one-sided transfer pricing method**, with the distributor, sales agent or commissionaire being the tested party
  - e.g., a tested party should **not**:
    - own **unique and valuable intangibles;** and
    - assume **economically significant risks.**
- A tested party should **not**:
  - Be involved in **excluded transactions** including:
    - Distribution of services;
    - Distribution of commodities;
    - Distribution of digital goods;
    - Distribution of retail sales above de minimis threshold (more than 20% of the total net revenue)
    - Non-distribution activities such as manufacturing, R&D and procurement, unless those non-distribution activities can be reliably segmented and separately priced using existing guidance in the TPGs.

Quantitative scoping criteria

- The tested party should not incur annual operating expenses lower than 3% or greater than upper bound of between 20% to 30% of its net revenues.
  - Jurisdictions can choose the upper bound of this criterion between 20% to 30%.
  - Operating expense intensity (OES) should be calculated on three-year weighted average basis:

$$\frac{\text{Operating expenses (Year X-3 + Year X-2 + Year X-1)}}{\text{Net revenues (Year X-3 + Year X-2 + Year X-1)}} = \text{OES on weighted average basis used for Year X}$$

(Paragraphs 13-14 of the Amount B guidance)

Step 2-1 Pricing Matrix

Summary

The purpose of step 2-1 is to determine the return on sales percent in the pricing matrix of Amount B:

Industry Grouping Factor Intensity	Industry Grouping 1	Industry Grouping 2	Industry Grouping 3
(A) OAS 45% or more, any level of OES	3.50%	5.00%	5.50%
(B) OAS 30% to 44.99%, any level of OES	3.00%	3.75%	4.50%
(C) OAS 15% to 29.99%, any level of OES	2.50%	3.00%	4.50%
(D) OAS less than 15%, OES 10% or more	1.75%	2.00%	3.00%
(E) OAS less than 15%, OES less than 10%	1.50%	1.75%	2.25%

Step 2-1-1
- Determine the relevant industry grouping

Step 2-1-2
- Determine the relevant factor intensity classification

Step 2-1-3
- Identify the range from the pricing matrix segment

Step 2-1-1

- Determine the relevant industry grouping

- Determine the relevant industry grouping of the products being distributed by the tested party
- Definition of "industry grouping" is available in the Definition Section of the Amount B guidance

(Paragraph 47a of the Amount B guidance)

Step 2-1-2

- Determine the relevant factor intensity classification

- Factor intensity classification is determined using operating expense intensity (OES) as calculated in Step 1-2 and net operating asset intensity (OAS).
- OAS should be calculated on a three-year weighted average basis:

$$\frac{\text{Net operating assets (Year X-3 + Year X-2 + Year X-1)}}{\text{Net revenues (Year X-3 + Year X-2 + Year X-1)}} = \text{OAS on weighted average basis used for year X}$$

- For further details on calculation of net operating assets, see illustrative Example 1 of the Amount B guidance.

(Paragraph 47b of the Amount B guidance)

Step 2-1-3

- Identify the range from the pricing matrix segment

- Using the information from Steps 2-1-1 and 2-1-2, identify the range from the pricing matrix.
- For example, if the applicable industry grouping is 2 and the factor intensity classification is C, the return on sales is 3.0% as illustrated below.

Industry Grouping Factor Intensity	Industry Grouping 1	Industry Grouping 2	Industry Grouping 3
(A) OAS 45% or more, any level of OES	3.50%	5.00%	5.50%
(B) OAS 30% to 44.99%, any level of OES	3.00%	3.75%	4.50%
(C) OAS 15% to 29.99%, any level of OES	2.50%	3.00%	4.50%
(D) OAS less than 15%, OES 10% or more	1.75%	2.00%	3.00%
(E) OAS less than 15%, OES less than 10%	1.50%	1.75%	2.25%

- The pricing matrix produces range of +/- 0.5%, so for this example, a return on sales between 2.5% to 3.5% would be acceptable for demonstrating compliance with step 2-1-3.
- For multiple industry grouping cases, see paragraph 47c and illustrative example 7 of the Amount B guidance.

(Paragraph 47c and 48 of the Amount B guidance)

Step 2-2 Operating expense cross-check

Summary

The purpose of Step 2-2 is to apply the operating expense cross check (OECC) which works as a corroborative check by assessing the return derived from the matrix by reference to the operating expense level of the tested party. Where the application of the return on sales net profit indicator produces a result outside of the pre-defined operating expense cap-and-collar range, the profitability of the tested party will be adjusted.

Step 2-2-1
- Compute the equivalent return on operating expense

Step 2 2-2-2
- Determine the applicable cap-and-collar rates

Step 2-2-3
- Compare the equivalent return on operating expense against the cap and collar and make an adjustment if cap or collar are triggered

Step 2-2-1

- Compute the equivalent return on operating expense

- OECC applies after Step 2-1 as a corroborative check.
- Compute equivalent return on operating expense:
    - For this purpose, operating expense of the current year (Year X) is used.

$$\frac{\text{Return on sales under Step 2-1}}{\text{Operating expense in Year X}} = \text{Equivalent return on operating expense}$$

(Paragraphs 52a of the Amount B guidance)

Step 2-2-2

- Determine the applicable cap-and-collar rates

- Cap rates are determined using the factor intensity classification as calculated in Step 2-1-2 and the jurisdiction where the tested party is located.
- Alternative cap rates apply for qualifying jurisdictions.
- For example, if the factor intensity classification of the tested party is "C" and the jurisdiction where the tested party is located is a qualifying jurisdiction, the cap rate is 70% as illustrated below.

	Operating expense cap-and-collar range		
Factor intensity	Default cap rates	Alternative cap rates for qualifying jurisdictions	Collar rate
High OAS (A)	70%	80%	10%
Medium OAS (B+C)	60%	70%	
Low OAS (D+E)	40%	45%	

(Paragraphs 52b of the Amount B guidance)

Step 2-2-3

- Compare the equivalent return on operating expense against the cap and collar and make an adjustment if cap or collar are triggered

- If the equivalent return on operating expense determined in step 2-2-1 exceeds the cap determined in step 2-2-2 or falls below the collar, the return on sales will be adjusted under the OECC.
- For this purpose, operating expense of the current year (Year X) is used. The adjusted return on sales under OECC can be derived as follows:

$$\frac{\text{Operating expense in Year X} \times \text{Cap or collar rate}}{\text{Net revenues in Year X}} = \text{Adjusted return on sales under OECC}$$

- For example, if the net revenue of a tested party is 300 and the operating expense of that party is 15 in year X, and assuming the equivalent return on operating expense as calculated in Step 2-2-1 exceeds a cap rate of 70% as determined in Step 2-2-2, the adjusted return on sales under the OECC is 3.5% ((15 x 70%)/300)

(Paragraphs 52c and d of the Amount B guidance)

Step 2-3 Data Availability Mechanism

Summary

Step 2-3 applies the data availability mechanism (DAM) which provides for upward adjustments to the return derived from the pricing matrix in certain cases. The mechanism is intended to account for cases where there is no or insufficient data in the global dataset for a particular tested party jurisdiction upon which to validate the appropriateness of the Amount B pricing matrix coupled with evidence that that jurisdiction could be reasonably considered a 'higher risk' jurisdiction.

Step 2-3-1
- Check the applicability of DAM

Step 2-3-2
- Calculate the adjusted return on sales

Step 2-3-1

- Check the applicability of DAM

- DAM applies after Step 2-1 and 2-2.
- Check if the jurisdiction where the tested party is located is a qualifying jurisdiction.

(Paragraph 53 of the Amount B guidance)

Step 2-3-2

- Calculate the adjusted return on sales

- Where the tested party is located in a qualifying jurisdiction as determined under step 2-3-1, an upward adjustment will be made to the return determined under Step 2-1 and Step 2-2 where applicable.
- An adjusted return on sales under DAM can be derived as follows:

Return under Step 2-1 and 2-2 + (Net risk adjustment % × OAS calculated in step 2-1-2) = Adjusted return on sales under DAM

- The net risk adjustment % is determined by reference to the sovereign credit rating of the qualifying jurisdiction as follows:

Sovereign Credit Rating Category		Net risk adjustment %[39]
Investment grade	BBB+	0.0%
	BBB	0.0%
	BBB-	0.3%
Non-investment grade	BB+	0.7%
	BB	1.2%
	BB-	1.8%
	B+	2.8%
	B	3.8%
	B-	4.9%
	CCC+	5.9%
	CCC	7.5%
	CCC- (or lower)	8.6%

- For example, if the return calculated under Step 2-1 and 2-2 is 3.0%, the sovereign credit rating of the jurisdiction where the tested party is located is B, and the OAS of the tested party calculated in step 2-1-2 is 30%, then the adjusted return on sales under DAM is 4.14% (3% + (3.8% x 30%)).
- It should be noted that the OAS for the purpose of DAM calculation is capped at 85%.

(Paragraph 54 of the Amount B guidance)