

Case Study IV: Intra group Management and Administrative Services: Divisional Organisation and Management Fees

Modul 4

Facts:

German-based **Techno Ltd** is a globally operating company with production, sales and service companies in major markets. All such production, sales and service companies are legally owned **directly** or **indirectly** via **country or regional holding structures**.

Techno Ltd employs businesswise a **Matrix organisation** with a **Divisional Organisation** having the following 3 business lines:

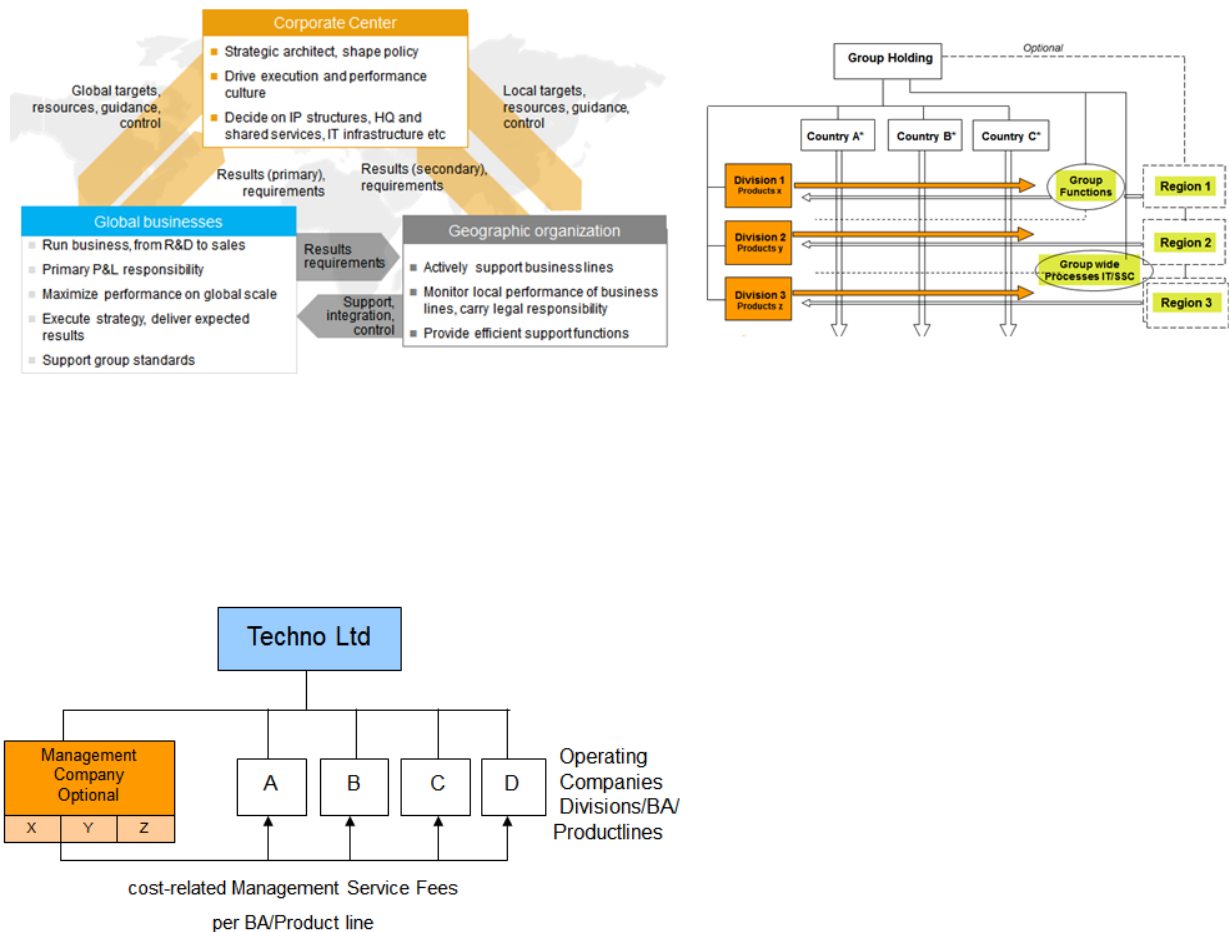
- A – Technologies
- B – Technologies
- C – Technologies

Each of the **Division** is subdivided in so-called **Business Areas** (“BAs”), being globally responsible **product lines**.

The **Division** Management Teams and the **BA** Management Teams are **employed by or engaged** via a German based **Management Company of Techno Ltd**.

The chart shows the structures for the Matrix Organisation and Management Services:

Matrix Organization and Example of Management Services (illustrative)



The questions:

Services of Business Divisions and Business Area Management Teams (so called “Management Fees”)

Techno Ltd asks for advice on how to charge out for the services rendered by its Business Division/Business Area Management Teams using an allocation model based on

- (i) a **cost sharing arrangement** or
- (ii) **bilateral agreements** using an **indirect method**.

In both cases **sales minus intra-group purchases** (as proxy for own value added) should be used as allocation key for the distribution/allocation of the charges.

Data:

The following data are available for the 2 BAs in the Division “A-Technologies” for the year 2017:

- Budgeted Costs for the **Division** Management Team: 2 MUSD/year to be split 1/3 to BA X und 2/3 to BA Y
- Budgeted Costs for Management Teams: **BA X**: 4 MUSD / **BA Y**: 10 MUSD
- Budgeted Value added to be used for cost allocation in BA Y: 10 BUSD (split Germany: 1000, China 2000, Finland 500, UK 500, Italy 500, USA 4000, Japan 500, India 1000)

Tasks/Questions:

1. Please explain the differences between in the possible **charging models: cost sharing arrangement** versus **bilateral agreements** using an **indirect method**.
2. Please calculate the **allocations/charges** for the services of **BA Y** under your preferred model.
3. In addition to developing a tax efficient charging system, please comment on the following issues:
 - 3.1 Are those charges qualifying as **Low Value Adding Intra-Group Services**?
Please give the reasons for your conclusion.
 - 3.2 What are the **requirements** for such charges under the Austrian VPR 2010?
 - 3.3 Assuming large manufacturing and sales units are located in **Brazil, China** and **India**, which may not or not fully be included in such a charging system under its local tax or other legal rules. Which **Group entity** would carry the respective costs for services rendered by the **Management Company** of Techno Ltd. towards those group companies in those countries?
Could the Management company carry such costs tax effectively?

Literature:

- Skript Modul 4
- VPR Tz - 74-86
- **Manessinger/Schlatzer**, Die österreichischen Verrechnungspreisrichtlinien 2010 (Teil 4) – Konzerninterner Leistungsverkehr/Dienstleistungen allgemeiner Art und Finanzdienstleistungen, ÖStZ 2011, 255 -259
- Chapter VII of the OECD Transfer Pricing Guidelines **2017** sect D
- **Rosenberger Florian**, Die Konzernumlage als spezifisches Verrechnungspreisprojekt, in: Bernegger/Rosar/Rosenberger, Handbuch der Verrechnungspreise, Linde Verlag Wien 2012, S. 351 ff
- **Linnenbaum/Stillhardt**, Practical Aspects of Management Service Fees in Multi-national Groups, in ITPJ 2012,page 261 ff
- **Steiner Gerhard**, Der „Benefits Test“ bei Konzernverrechnungen, in TPI 2017, S 11 ff