THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2026

MODULE 3.03 – TRANSFER PRICING OPTION

ADVANCED INTERNATIONAL TAXATION (THEMATIC)

TIME ALLOWED – 3¼ HOURS

This exam paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total. You will **not** receive marks for any additional answers.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **One** question from **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

Further instructions

- You must use the appropriate currency, unless otherwise stated. Any monetary calculations should be made to the nearest whole unit of currency. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- You must provide appropriate line breaks between each question, and clearly indicate the start of each new question using the formatting tools available.
- Marks may be allocated for clarity of presentation of your answers.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering questions in Parts B and C.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.
- **Although references and short quotes from the OECD Transfer Pricing Guidelines and/or UN Practical Manual on Transfer Pricing can be included in your answer, you will not receive any marks for copying directly from the OECD Transfer Pricing Guidelines or UN Practical Manual on Transfer Pricing.**

PART A

You are required to answer BOTH questions from this Part.

The following facts apply to both Questions 1 and 2.

Pet Group is listed on the Animal Securities Exchange (ASE). Pet Group's financial statements lodged with the regulator in the jurisdiction of Canem for the year ending 31 December 2025, indicate that:

> Having operated for over 35 years, Pet Group is a market leader in the manufacture and sale of a range of products to owners of household pets. We stock products ranging from budget to premium price points to owners who enjoy pampering their pet. We have long-established relationships with a range of manufacturers which enables us to stock the latest and most innovative products, with scale to sell at competitive prices. The recent expansion of salons for dogs attached to all stores has been a success. Our customer loyalty program enables us to reward customers and tailor marketing to customers based on purchasing habits.

The primary jurisdictions in which Pet Group operates, through wholly-owned subsidiaries, are Rana, Lepus and Piscis.

Pet Group's ultimate parent entity is in Canem (PG Canem), which is responsible for sourcing most of the group's products from independent manufacturers located around the world.

PG Canem owns approximately half of its retail store premises, with the remainder leased from independent parties.

PG Canem also owns a warehouse, where it aims to retain six months' worth of inventory for its stores (including in Canem) and for associates in other jurisdictions to which it sells finished products. Approximately 50 employees work in the warehouse, where PG Canem owns plant and equipment, such as forklifts. A third-party logistics provider handles transportation in Canem.

PG Canem is also responsible for providing support to other jurisdictions where Pet Group operates, including strategic direction, advertising and marketing, finance and accounting, human resources, and information technology support. In addition, PG Canem continuously updates and improves its manuals and guidelines for the retail store layout and operating best practice in all jurisdictions in which Pet Group operates. PG Canem has loaned funds to all jurisdictions to finance their working capital and store fit out. Pet Group's credit rating, as published by a well-known ratings agency, is AA.

In Rana, PG Rana operates retail stores. It sources approximately 50% of its products from PG Canem. However, it also sources bulk fresh pet food from independent suppliers which it repackages into retail size quantities. Rana has local regulations prohibiting the import of certain products from other jurisdictions. PG Rana leases all retail store premises from independent parties. It also uses a third party to manage its warehouse in Rana, which supplies all retail stores in the jurisdiction and also provides transportation logistics from port to warehouse and from warehouse to retail stores. Sales are made in the local Rana currency.

In Lepus, PG Lepus does not have any retail stores. It makes sales exclusively via an online sales platform. The website and phone app are configured so that online purchases may be made only within jurisdictions in which Pet Group does not have physical retail outlets.

The online store was an initiative of PG Canem management, with limited support provided by PG Lepus. Suitably qualified and experienced PG Canem employees developed the website and phone app. PG Lepus was required to compensate PG Canem for the salaries paid to these employees. Orders made by customers are fulfilled by PG Canem, which packs and ships from PG Canem's warehouse.

PG Lepus has a small office for its staff and information technology equipment. PG Lepus is responsible for paying the invoices of an independent advertising company which places targeted advertising on websites and social media apps. The tax administration of Lepus has provided a 'tax holiday' with two years remaining, based on certain conditions (which PG Lepus is currently meeting) allowing qualifying companies to enjoy an effective tax rate of 10% on their profits. Sales are made in the local Lepus currency.

In Piscis, PG Piscis operates retail stores. It sources all of its products from PG Canem. It leases all retail store premises from independent parties. It also uses a third party to manage its warehouse in Piscis, which supplies all retail stores in the jurisdiction and also provides transportation logistics from airport to warehouse, and from warehouse to retail stores. Sales are made in the same currency as PG Canem.

The country-by-country report included the following extract of high-level financial information for the most material jurisdictions in which Pet Group operates:

Entity	Jurisdiction	Currency	Income	Number of retail stores	Gross profit margin	Net profit margin	Number of employees
PG Canem	Canem	CA	CA1,780 million	80	48%	8%	8,500
PR Rana	Rana	RA	RA550 million	35	32%	4%	924
PG Lepus	Lepus	LE	LE490 million	0	66%	28%	5
PG Piscis	Piscis	CA	CA380 million	19	22%	-4%	812

The transfer pricing policy stipulates that Pet Group targets a net operating margin of 4% (other than in Canem, where it does not specify a target).

1. **Based on the facts available, you are required to:**

   1) **Accurately delineate the transactions between associated Pet Group enterprises.** (9)

   2) **Prepare a functional analysis in respect of:**

      a) **PG Canem; and** (4)
      b) **PG Lepus.** (4)

   3) **Advise on how you would characterise each of the following entities, from a transfer pricing perspective:**

      a) **PG Canem;** (2)
      b) **PG Rana;** (2)
      c) **PG Lepus; and** (2)
      d) **PG Piscis.** (2)

Total (25)

2. **Based on the facts available to you, as an international tax adviser engaged by Pet Group, you are required to:**

   1) **Advise on the most appropriate transfer pricing methodology to apply, in respect to your response to Question 1(1).** (10)

   2) **Advise, in relation to the intra-group financing between PG Canem and the associated enterprises, on the information that you may require and what analysis you might conduct to ensure that the loans are priced at arm's length.** (10)

   3) **Identify and evaluate the most significant transfer pricing risk facing Pet Group. In your analysis, you should explain whether, and why, this specific risk may trigger a risk assessment or audit by the relevant tax authority.** (5)

Total (25)

PART B

You are required to answer ONE question from this Part.

3. Tea Bliss Corporation is a multinational group of companies that produces and sells a leading brand of tea. The group structure includes a number of associated enterprises in the Asia-Pacific region.

Leaf Ltd is the ultimate parent entity, tax resident in Country A, with an operating margin averaging 33% in the past five years. It possesses legal ownership of all group intellectual property (IP), and manufactures and distributes various tea products to both associated and independent enterprises in multiple countries within the Asia Pacific region. The headline corporate tax rate in Country A is 30%.

Leaf Ltd also performs marketing and sales, procurement and logistics services, as well as the provision of centralised services including accounting, finance, human resources and legal services to all associated enterprises within the group. In addition, it conducts research and development (R&D) that has led to product extensions, typically in relation to flavours, for tea products manufactured.

Leaf Ltd has a financing facility with an external financial institution in Country A to support capital investment and working capital, in the form of a 20-year facility at an interest rate of 5.75%. It has a licensing agreement for the use of IP (including brand names) used by all associated and independent enterprises, for which it receives a royalty of 2.5% of gross sales from those enterprises. It charges cost plus 5% for the provision of centralised services, 7.5% for the provision of procurement and logistics function, and 6% for marketing and sales provided to associated enterprises.

Tea Bliss Corporation has recently implemented a value chain re-organisation, encompassing the following changes:

- Tea Bliss Sub 1 is tax resident in Country B, with a headline corporate tax rate of 15%. It now performs the procurement and logistics function previously performed by Leaf Ltd and is remunerated at 4% of gross sales by each associated enterprise.

- Tea Bliss Sub 2 is tax resident in Country C with a headline corporate tax rate of 0% due to an IP tax concession program. It now possesses legal ownership of all intellectual property that was transferred from Leaf Ltd.

- The previous licensing agreement in place with Leaf Ltd and its associated enterprises for the use of the IP has been amended to allow Tea Bliss Sub 2 to receive a royalty of 8% of sales from all associated enterprises. Leaf Ltd continues to conduct R&D in Country A, while Tea Bliss Sub 2 does not.

- Tea Bliss Sub 3 is tax resident in Country D with a headline corporate tax rate of 20%. It now performs the centralised services on behalf of all associated enterprises instead of Leaf Ltd.

- Tea Bliss Sub 4 is tax resident in Country E with a headline corporate tax rate of 20%. Leaf Ltd has subordinated the debt held with the external financial institution in Country A to Tea Bliss Sub 4. Under this new financing agreement, Leaf Ltd charges Tea Bliss Sub 4 an interest rate of 2% and has provided a guarantee to the external financial institution in Country A.

You are required to:

1) Provide an analysis of the value chain re-organisation of Tea Bliss Corporation, from a transfer pricing perspective. (10)

2) Discuss what you consider to be the key transfer pricing risks for Tea Bliss Corporation. (10)

Total (20)

4. Cordell Pty Ltd (Cordell) is a privately owned company, tax resident in the jurisdiction of Fregate with a headline corporate tax rate of 15%. It has recently successfully negotiated and executed a legal agreement with the government of Alerez, to assist with the upgrade of an oil refinery in Alerez. Key Cordell decision-makers, including the chief operating officer and chief financial officer, have made regular short-term visits to Alerez during the past six months to achieve this.

   Cordell legally employs and remunerates a number of staff, all of whom are currently resident in Fregate. It has formed a project team to support the planned oil refinery project, and intends to send these staff to undertake work in Alerez. The staff are expected to visit Alerez for two months at a time, on a rotational basis. The staff will be contracted and remunerated by Cordell, including the provision of temporary accommodation and allowances in Alerez.

   Cordell does not intend to lease or purchase an office facility in Alerez, but rather to sub-contract the employees working on the project to a local company tax registered in Fregate, while continuing to legally employ and pay them. Cordell is remunerated via instalment payments received from the government of Alerez, which it has booked as income in Fregate, and does not intend to register as a company for tax purposes in Alerez.

   You are required to provide your opinion on the potential transfer pricing implications of this planned project, with regard to the OECD Model Tax Convention. (20)

PART C

You are required to answer TWO questions from this Part.

5. As a transfer pricing adviser, you have been approached by the global tax manager of a multinational group of companies. Your transfer pricing advice is sought in relation to a proposal to undertake a research and development project between associated enterprises that is intended to create new intellectual property (IP).

   You are required to provide advice regarding:

   1) The potential models for the group to consider, in structuring the development and exploitation of IP and any valuation issues that may be encountered during the structuring. (8)

   2) Any issues to consider in the implementation of a cost contribution arrangement, with regard to the arm's length principle. (7)

   Total (15)

6. **You are required to outline the options that would be available to a multinational group of companies engaged in inter-company transactions with associates, from the perspective of the avoidance and resolution of double taxation.**

   In your response, you are also required to outline the advantages and disadvantages of each option as well as any practical risk management considerations. (15)

7. **You are required to:**

   1) Explain how you would prepare documentation to comply with country-by-country reports, and the value that this documentation may provide from the perspectives of both a tax authority and a taxpayer. (8)

   2) Provide recommendations, from a transfer pricing risk management perspective, in complying with the arm's length principle for intra-group services. (7)

   Total (15)