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TRANSFER PRICING DOCUMENTATION DIFFERENCES IN FINLAND AND CHINA - CASE STUDY

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ABSTRACT

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Title:	Transfer pricing documentation differences in Finland and China - Case company study
Faculty:	LUT, School of Business
Major:	Accounting
Year:	2014
Master's Thesis:	Lappeenranta University of Technology 92 pages, 4 figures,17 tables and 1 attachment
Examiners:	Professor Satu Pätäri Professor Jaana Sandström
Keywords:	Transfer Pricing, Transfer Pricing Documentation, China

This Master's Thesis deals with the topic of transfer pricing documentation in Finland and China. The goal of the research is to find what kind of differences exist in a single case company's transfer pricing documentation when following Chinese or Finnish transfer pricing regulations.

The study is carried out as a case study research. The theoretical framework consists of information from different transfer pricing topics and transfer pricing documentation regulations in China and Finland. The main research material was the case company's transfer pricing documents with the support of open discussion with one of the case company's employees.

The study compared the 2009 and 2010 documents. The 2009 document was done based on the Finnish method while the 2010 document was based on the Chinese documentation principles. The conclusion made is that the content of the documents was heavily similar, while the main differences come in the way the content is presented and the level of detail used in the documents.

Foreword

Sometimes working, family life and school is difficult to combine together. For me work took me to China to live for four years and seriously delayed my studies, but it also gave me the possibility to create this thesis on the interesting topic of transfer pricing documentation. Even though there were long breaks in active study, I always got good support and help from the university. I want to thank Satu for guidance with the thesis writing process. Big thanks also to my wife for her patience when I was combining long working days and evening studies together.

Contents

List of Abbreviations

APA	Advanced Pricing Agreements
BVD	Bureau van Dijk Electronic Publishing
CP	Cost-Plus
CPM	Comparable Profit Method
CSA	Cost Sharing Agreement
CUP	Comparable Uncontrolled Price
EU	European Union
EUJTPF	European Union Joint Transfer Pricing Forum
EUR	Euro
EU TPD	European Union Transfer Pricing Documentation
IP	Intellectual Property
IRS	US Internal Revenue Service
MNE	Multinational Enterprise
OECD	Organization for Economic Co-operation and Development
PATA	Pacific Association of Tax Administrators
PRC	People's Republic of China, in this thesis referred to as China
PSM	Profit Split Method
PWC	PricewaterhouseCoopers
R&D	Research and Development

RMB	Renminbi (the currency of the PRC)
RPM	Resale Price Method
SAT	State Administration of Taxation
STA	Special Tax Adjustments
TNMM	Transactional Net Margin Method
TP	Transfer Pricing
WTO	World Trade Organization

1 Introduction

1.1 Background for Transfer Pricing

The quick developments in technology, transportation and communication have given rise to a large number of multinational enterprises (MNEs) which have been able to place their enterprises and activities anywhere in the world. A significant volume of global trade nowadays consists of the international transfer of goods and services, capital and intangibles within a MNE group and these transfers are called “intra-group transactions”. Intra-group trade is growing steadily and arguably accounts for more than 30% of all international transactions. In addition, transactions involving intangibles and cross-border services constitute a rapidly growing amount of a MNE’s commercial transactions and have greatly increased the complexities involved in analyzing and understanding these transactions (United Nations 2013, 1-2). These questions of transfer pricing (TP) are some of the most important tax issues that MNEs and tax administrations have to manage. These items are significant not just because large amounts of tax is involved, but also because issues can be complex and their resolution is dependent on a good understanding of the facts and specific commercial context of the case (OECD 2012b, 9).

The issue of TP becomes important when a company grows large enough that it will develop two or more separate divisions. This way it will be able to get benefits from decentralization of its decision-making. In most cases, these divisions will be behaving as independent profit centers which will have transactions between each other. These transactions include, for example, selling products and services. The “Transfer Price” is the price that one division of a company charges another division of the same company for a product or service transferred between the two divisions (Heath et al. 2009, 1).

When a company's TP is occurring across an international border, then this is called International TP. Available here is the European Union Joint Transfer Pricing Forum (EUJTPF) definition for international TP which hopefully clarifies this concept: *"Transfer Pricing – or inter-company pricing – is a concept applicable to two related parties. It concerns the prices charged between associated enterprises established in different tax jurisdictions for their inter-company transactions, i.e. transfer of goods and services"* (EUJTPF 2005, 1).

This complex topic has become one of the most important business issues, because of the quick global change in the business environment. Many multinational companies have seen this as an opportunity to use TP to minimize group level taxation (Sikka & Willmott 2010, 3-4). Also, governments have woken up to this situation and the development of TP laws has been rapid, especially in the last two decades. Good examples of this development are the changes which have happened in China and Finland. In 2008, China made radical changes to local TP laws (Y.M. Ng 2010, 1-3). The history of TP from a global point of view starts from the early 1900's; however it has been relatively new to Finland as specific TP laws became valid for the first time on 1.1.2007 (Karjalainen & Raunio 2007, 13-16). This legal development is giving motivation to taxation authorities to protect their taxation base in the fast-changing global environment (Ossi et al. 2003, 284). These same changes have made multinational companies prepare good quality TP documentation to protect themselves from the possible risk of double taxation and possible tax adjustments (UN Tax Committee 2010, 3-6).

An important positive issue from the multinational companies' point of view is that many countries are using a similar approach with their TP legislation. A big impact to global TP rules has come from the Organization for Economic Co-operation and Development (OECD), the Pacific Association of Tax Administrators (PATA) and the European Union (EU) guidelines; these organizations have been helping to create a global blueprint of TP laws. Naturally, countries still have their own TP legislation and can decide how they want to follow these guidelines in practice (OECD 2012; IRS 2012). Due to this, when looking at how TP regulations are working in Finland, it's needed to take note of Finnish law and the international law. As Finland is a member of the OECD and EU, this has had an impact on setting Finnish TP regulations (Verohallinto 2009, 3).

Currently there are 34 member countries that follow the OECD TP principles (OECD 2012a). OECD member countries are quite a small part of the countries in the world and there are many countries, like China, which are not an OECD member. Non-member countries have more freedom to set their own TP rules and regulations; however, it's quite common that OECD recommendations are at least partially followed.

Finland and China are providing good examples for different TP practices. Finland, as an OECD member, is following OECD rules carefully, and even though China, as a non-member, would have the possibility to use their own views on TP policies, they have chosen, in most cases, to follow OECD TP principles. In this way these two countries' TP practices are giving an interesting background to this thesis in the case company's point of view, especially as the case company has been following a different country's TP policy in different years.

There is lots of research related to the different topics of TP. For global TP documentation development and requirements, research has been conducted by, for example, Levey and Balaban in their 2003 article: Global Documentation – Many Considerations, Durst in the 1998 article: Transfer Pricing Documentation and APAs [Advanced Pricing Agreements] in the Era of Worldwide Transfer Pricing, or Ossi and Chung in their article: A Global Approach to Transfer Pricing Documentation. These articles have a wide point of view of how TP documentation rules were developing in different parts of world and how OECD, EU or PATA documentation guidelines impacted on independent countries' own TP policies. This thesis has been concentrated to review Chinese and Finnish TP documentation from one case company's point of view. Other research comparing TP between China and other countries has been conducted, for example, by Odette in his 2012 article: A Comparison of Transfer Pricing Practices in Canada and China, or the Chou et al. article from 2009: Documentation Requirements in China an Overview and Comparison with U.S. and European Requirements. These two articles concentrated more on comparing laws and regulations between countries and in this way are more suitable to making generalizations than a case study point of view.

Finnish research related to TP documentation in Finland and China is quite scarce. Hanna Krichenbauer's pro gradu from 2006: International Company's Transfer Pricing – Method and Documentation, shortly reviews China's country-specific situation from a documentation point of view. Juha Myllysilta's pro gradu from 2012: OECD Transfer Pricing Principles in Local Legislation, has general information about Chinese TP laws, but does not have detailed information about documentation. Mikko Hankamäki's master of science thesis from 2010: The Challenges of Offshore Units Operating in China and the role of management Accounting in Decision Making, had certain practicalities related to TP, but not really information which would help to understand differences between Finnish and Chinese TP documentation.

1.2 Trading between Finland and China

In the last 30 years China has had one of the fastest growing economies and has achieved major economic and trade power. In 2010 it was already the world's second largest economy, the largest merchandise exporter, second largest merchandise importer, second largest receiver of direct investments and it's the largest holder of foreign exchange reserve (Morrison 2011, 3). Since China became a full member of the World Trade Organization (WTO) in 2001, it has become one of the biggest targets of global MNEs direct investments (Chow 2003, 2). Soon after joining the WTO, China was providing a great number of different kinds of incentives for foreign companies to start their operation in China. These developments increased the numbers of foreign companies establishing their business in China and it also had a big positive impact on the Chinese taxation base. In some cases foreign companies were using loopholes in TP regulations for their tax avoidance activities and because of this, the State Administration of Taxation (SAT) have released several new laws and regulations to make TP manipulation more difficult (Y.M. Ng 2010, 49-51).

Trade between Finland and China has increased significantly after China became a WTO member. Finland is now China's second largest trade partner among the Nordic countries. According to the Finnish National Board of Customs, the total trade volume in 2010 was 6.5 billion Euros (EUR), an increase of 21% from the previous year. In the breakdown, China's export to Finland amounted to 3.78 billion EUR which was a 9% increase on 2009 numbers, and China's import from Finland stood at 2.69 billion EUR, an increase of 45% from 2009 (Tulli 2011). Currently there are more than 200 Finnish Companies in China and the number is increasing steadily (Finnish Business Council 2012).

1.3 Research Objectives, Questions and Limitations

China's fast developing economy and its growing importance to international companies, combined with changing TP documentation rules made it an interesting topic for this thesis. The case company's decision to change their TP documentation principles between 2009 and 2010 made this a good example to describe differences between these years.

- The case company's contemporaneous TP documentation was done following the Finnish method before the new Chinese TP documentation rules made contemporaneous documentation mandatory, giving detailed rules on how this documentation should be done in China. This provides the possibility to find the answer to the question: how do contemporaneous TP documentation differ between China and Finland when looking from one case company's standpoint?

The purpose of this thesis is:

- To analyze what kind of differences there are in contemporaneous TP documentation when it's done following Finnish or Chinese regulations. This is done by reviewing the case company's TP documentation from the years 2009 and 2010, because during this time the case company moved from a Finnish-based generic group documentation setup to a Chinese country-specific localized TP documentation setup.

- To give the reader a good, basic general knowledge of the topics related to TP and TP documentation with a theoretical review.

- To describe Chinese TP development, it's requirements and documentation, so that readers can better understand local TP needs.

When making a study it is important to set certain limitations to be able to set a clear target population for the research. As this case study follows only one Finnish company which is working in the field of information and communications technology in China, this already makes certain restrictions to the study. Another limitation comes from the time scale, as the study is interested in only the year 2009 and 2010 transfer contemporaneous pricing documentation. By having limited the study for a single company over a two year period means that all of the results are not possible to fully generalize, concerning all differences to Chinese and Finnish TP documentation practices.

1.4 Research Methodology

The purpose of this was to make a pragmatic thesis which could be useful to companies and people who need to better understand what kind of information Chinese TP documentation and contemporaneous TP documentation require after the year 2009 changes in local TP law. This thesis has focused on a case company whose contemporaneous documentation in 2009 was still done based on the group policy, which required following the Finnish country-specific documentation guidelines. This method was suitable until Chinese law started to require contemporaneous TP documentation for the first time; because of this, the 2010 documentation was done based on the Chinese requirements. This study will review what kind of differences can be found between TP documentation in Finland and China when using a case company as a practical example.

Information for the empirical part of this thesis was obtained from Tieto China, which was used as the case company. When making any kind of research, it is important to report any possible bias or connections to the research subject. In this study, my connection to the case company is that I worked for four years in the Tieto China finance organization and during that time I was living in Beijing. Other people were responsible for creating the TP reporting, but via my work I was familiar with the topic to some extent.

The main information source were the actual Tieto China TP documentation packages for the years 2009 and 2010. This consisted of two sets of TP documentation packages, which include written Microsoft Word documents and Excel documents. There were also two sets of discussions in the spring and early summer of 2012 with Ellie Zhou, who works in the case company as the company's finance director and who was very familiar with the topic of TP. The discussions were free-form, where the documentation was reviewed together to make sure that all of the details were correctly understood. This way the discussion helped to clarify questions which came up when reading the material. A detailed list of the used materials and timing of discussions with Ellie Zhou can be found at the end of the thesis.

1.5 Structure of the Thesis

A thesis is built by using a normal structure where it´s divided into a theoretical part and empirical part. In this thesis' theoretical framework, two bigger topics related to the theory of TP and TP documentation have been addressed. In the empirical part, the case company's material has been analyzed and answers to the research questions have attempted to be found.

In the theoretical basis of TP has been reviewed the TP research areas, the general motivations behind the use of TP, opened up the arm's length principle, and looked at which kind of TP models are used in companies. The TP documentation part has reviewed the general development of global documentation, the requirements of TP documentation structure, and has looked into the Finnish and Chinese versions of the documentation.

This thesis' empirical part follows the traditional structure of a thesis. The empirical part's first chapter reviews the research method and material used in the research. The second chapter of the empirical part introduces the case company. A third chapter gives background information on the case company's contemporaneous TP documentation. The fourth chapter and its subchapters describe the case company's documentation in order to find answers to the research question. The fifth and last chapter of the empirical part is for closing the case with chapters for the conclusion, validation and thoughts for future research.

2 Theoretical Basis of Transfer Pricing

2.1 Transfer Pricing Overview

In this chapter the main concepts of TP are clarified and the kinds of inter-company transactions that are normally seen to be connected under the TP concept are shown.

The topic of TP comes up when one division of a firm sells goods or services to another autonomous division within the same company. The company's best interests are followed when it selects a transfer price that maximizes its total profits. Difficulty comes when trying to select the ideal transfer price, because it requires the firm to consider many implications of its decision related to costs, incentives, and the details of the policy environment (Swenson 2009, 1131).

One of the main priorities of top management is to establish TP policies that serve the whole organization's aim to maximize profits. The challenge with this comes when managers of different subunits have different preferences on how transfer prices should be set and their view isn't always supporting the corporation's best interest (Miesel 2002, 1-3). Another area of controversy comes when multinational corporations manipulate their internal prices to ensure that most of the company's profits accrue in countries where taxation rates are lowest (Pass 1994, 44). Because of misuse of internal prices, many countries have set up laws and regulations to make the use of transfer prices for manipulation of corporate taxation more difficult (Levey 2003, 44).

MNEs are becoming more and more complex and are increasingly integrating their global operations. As a result of this development they transfer large quantities of goods and services among operating subsidiaries in different countries, as well as a wide range of transactions related to intangible properties and financing activities. These kinds of complex structures are causing considerable managerial and taxation problems, because of the direct effect on a party's profit and taxable revenues related to multiple countries (Carey 2010, 11).

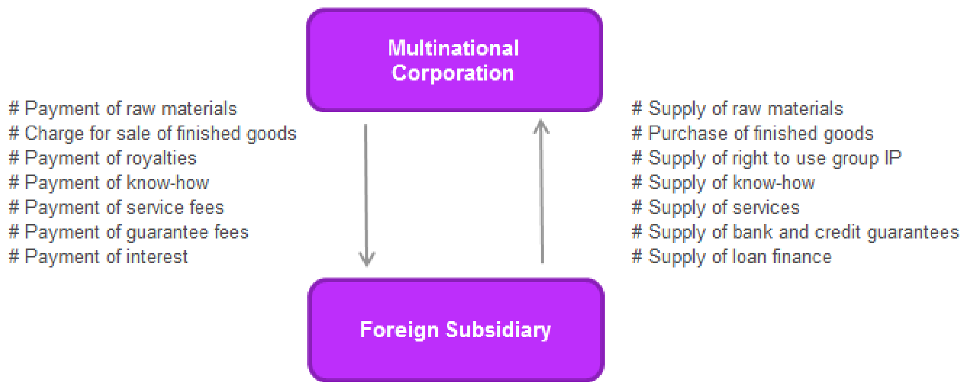

Figure 1: Transactions between a Multinational Corporation and its Foreign Subsidiary (Carey 2010, 11)

From figure 1 can be seen an overview of which kind of activities and intercompany transactions are common between a Multinational Corporation and its foreign subsidiaries. These transactions and activities are defined within TP.

Another very important role of TP is to push different divisions to cooperate together. In some cases heavy competition between a company's different divisions can lead to using TP as a tool for internal battles. The problem of setting prices for goods or services sold between divisions is a major source of these problems, because every supplying division has an incentive to set the highest possible price on its production to maximize its own profitability. In these cases, when the division which is buying goods notices that the supplying division is attempting to charge high prices which impacts on their own profitability, this weakens co-operation and in the worst case turns a company into a battleground. Therefore, corporate management needs to be very sensitive to this problem and work hard with the divisions to design a proper incentive and control system which helps the multidivisional structure work as wanted. In this way, managing TP is one of the corporate managers' most important tasks (Hill & Jones 2009, 428).

2.2 Transfer Pricing Research Areas

In this chapter is reviewed the different points of view researchers have taken with TP research. In this way readers can have a good understanding of the development of TP studies while providing an overview on research fields.

When reviewing TP research literature, there can be found five different categories on which researchers have mainly concentrated. These TP approaches have been based on:

1. Economic Theory
2. Mathematical Programming
3. Accounting Theory
4. Organizational Behavior Theory
5. Strategic Management Theory

For the first three categories, the goal of the research is to find an optimal transfer price which management can use for maximizing company profits. The last two categories' primary focus is the viewing of the TP problem from the conflict/negotiation and administrative process. Strategic Management Theory also takes note of the tax effects of TP and tries to optimize it (Myers & Collins 2011, 1-2).

2.2.1 Economic Theory

The general idea behind TP approaches based on economic theory is that the company is viewed as an economy in mini size that wants to have its limited resources allocated; in the same way as general economy prices are a mechanism to allocate these scarce resources. The goal of the economic theory based method is to find the optimal transfer price level which would help different divisions of the company choose correct production levels, maximizing total corporate profits. In this point of view all persons within the organization are seen as rational utility maximizers. This means that the theory doesn't take note of personnel's possible dysfunctional behaviors, which would lead to misallocation of the limited resources (Myers & Collins 2011, 2).

In the beginning, the economics theory approach as a TP model looks fascinating, but the model has its limitations. From a normative research point of view the model is useful to review how transfer prices should be set in certain organizational environments. However the model is not very helpful in explaining why there is a large variety of different existing TP methods which companies are using. This model also fails to provide economic rationale for use of the assumed organization structure, because it won't be able to show that decentralization would offer clear advantages. This way two divisions could act as independent firms and make the same profit than to be a part of the same integrated business (Göx & Schiller 2006, 681-683).

2.2.2 Mathematical Programming

In a similar way as the economic theory approach, the main goal of the mathematical programming approach is to find the transfer price which would provide the best result for the whole company. The difference between these two methods is that the mathematical programming approach utilizes opportunity cost as the basic concept for determining transfer prices while the economical approach is to concentrate on marginal cost. The good point in mathematical programming is that it requires a less restrictive set of assumptions than economic theory approaches and this gives more freedom for model creation (Myers & Collins 2011, 4-5).

Even though there has been lots of research relating to mathematic programming, very little of this has been used in real life business situations. The reason for this has been that it's way too complicated a method for simulating business in a practical way. Ironically, despite high level complexity there are still simplifying assumptions that ignore many factors that real life managers need to take note of when making decisions (Eccles 1983, 151). Myers and Collins raise the points that it also ignores the company's strategy, administrative processes in place and individual perceptions of fairness for performance measuring, evaluation and employee rewarding (Myers & Collins 2011, 5). These weaknesses in the mathematical programming approach have limited the usefulness of the theory in practical business solutions.

2.2.3 Accounting Theory

The accounting theory based approach to TP has similar goals to economic theory and mathematic programming. All of these three theories want to find the transfer price which would motivate division level managers to make decisions which would benefit the whole company and not only a separate division (Myers & Collins 2011, 6). The weakness of this point of view is that the accounting theorists just like the economic theorists and mathematical programmers were focused on how transfer prices affect economic decisions. Decisions on how much to produce were made by the division managers based on the set transfer prices. Performance evaluation and reward systems were pushing managers to favor short term benefits in their decision making, and the model didn't take note of corporate strategy limiting the usefulness of the model in practice (Baldwin & Gotz 1998, 58).

2.2.4 Organizational Behavior Theory

Organizational behavior theory was taken to discussion only marginally in TP concepts in the early 70's when economical theory and mathematical programming were the most popular TP theories (Lusk 1974, 8 & 22). In 1975 Watson and Baumler wrote their heavily influential article which brought the behavioral approach to TP into discussion. Their analyses was based on three main concepts:

- **Decentralization**, uncertainty of changing technology and environment causes organizational segmentation
- **Differentiation**, the response of segmented organizations to develop different working styles and behaviors
- **Integration** is the process of ensuring that several organizational units are collectively aiming for common goals for the total organization (Watson & Baumler 1975, 467)

Based on previous research findings most of the successful companies seem to find an ideal balance between differentiation and integration (Lawrence & Lorsch 1967, 46-47). Watson and Baumler saw TP as an important mechanism to enhance differentiation and help to incorporate integration in decentralized organizations (Watson & Baumler 1975, 473). This article also helped in the development of negotiated TP literature.

The main theme of organizational behavior theory literature was concentrating on managing conflicts. In some of the literature it was discussed that using divisional profit in performance evaluation would be better from a motivational point of view than overall corporate profitability which was a prime goal for economic theory, mathematic programming and accounting theory. Other differences to competing models were that economic decisions and corporate performance were almost ignored and the macro perspective of strategic management was fully missing (Myers & Collins 2011, 7).

2.2.5 Strategic Management Theory

The general principle behind the Strategic Management Theory for TP is that there is a strategic component that needs to be taken into account when setting transfer prices. This way the objective is to explicitly place the company's choice of cost-based transfer prices within the context of its overall competitive environment. The company does want to know its marginal costs as accurately as possible, but strategic considerations will be preferred when using marginal cost plus TP to set a product price (Alles & Datar 1998, 452).

One person who brought the idea of linking strategy to TP was Eccles (1983). Later, popular articles about strategic TP were written, for example, by Alles & Datar (1998) who were arguing that decentralization would make it possible to co-ordinate underprice completion when companies are supplying goods to several markets. Narayanan & Smith (1998) and Göx (2000) showed that because of co-ordination benefits from setting transfer prices higher than marginal cost, companies would have less direct price competition. Most of the existing analytical studies of the strategy's role in TP have been using a game-theoretic framework in their research (Matsui 2011, 524).

2.3 Motivation to Transfer Pricing

Companies have always wanted to use different methods to optimize their results, and current more global markets, especially MNEs, have found TP as one method for doing it. In this chapter the theoretical background for different reasons and motivations for using TP in companies is reviewed.

Based on the Healt et al. article from 2009, two main categories of motivation for companies to use TP have been found. Their point of view is more about managerial TP, which is done at the legal company level, but it still brings up reasons that motivate corporations to use TP:

1. Evaluating performance
2. Coordinating business performance

The first motivation arises when internal TP makes it possible to evaluate different units' performances separately. The second motivation gives management a better view on how their own unit's performance is creating value to other units, and helps top management to coordinate group level sales, production and pricing decisions by appropriate choice of TP (Heath et al. 2009, 2-3).

When talking about managerial TP, corporate taxation and its optimization are not taken into consideration. These important issues are covered in financial TP which should be taken into account when talking about corporate motivations. In financial TP, the corporate tax department and Chief Financial Officer give serious consideration to corporate and unit level taxation, trying to find the best ways to minimize payments to tax authorities, but still respecting arm's length principles (Martini 2008, 11-12).

Tyrral and Atkinson have listed five other motivations which corporate management can have in their minds when they are designing a company's TP policies:

1. Deducting company profits for moderate employees' salaries demands;
2. Reduce profits for deducting amount of profits allocated to minority shareholders or joint ventures;
3. Challenge government price controls by increasing company's base expenses;
4. Avoid anti-dumping charges by deducting company's base expenses; and
5. Try to deduct impact of custom duties for imports (Tyrral et al. 1999, 12)

From this short review it can be seen that there are several different motives that can impact on corporate decisions when TP policies are designed.

2.4 Arm's Length Principle

Arm's length principle is the international TP standard that OECD member countries have agreed to use for tax purposes by MNEs and tax administration. When independent enterprises transact their commercial and financial relations, these are normally determined by market forces. Arm's length principle signifies that transactions made between same group companies should follow the same conditions that would occur if they were independent enterprises (Wittendorff 2011, 224). The main motivation for applying this principle is to prevent the possibility for a company to move profits to lower taxation countries by using inaccurate prices for the group's internal transactions (Felgran 2001, 22).

The biggest reason for OECD members and other countries adopting the arm's length principle is that it provides broad parity of tax treatment for MNE groups and independent enterprises. It puts associated and independent enterprises on a more equal footing for tax purposes and avoids creating tax advantages or disadvantages which would otherwise affect fairness of competition (OECD 2010, 7).

The regulations do recognize that in many situations there is no one correct transfer price, but more likely a range of arm's length results. Because of this, regulators allow taxpayers to establish their transfer prices if they fall anywhere within this range of comparables (Charpentier 1994, 13). However, in practice applying arm's length is difficult and in some cases associated enterprises may engage in transactions that independent organizations wouldn't undertake; for this reason tax administrations shouldn't automatically assume enterprises are trying to manipulate their profit. In many cases there is a lack of external markets or the transaction is intangible, not having an exact market price. This makes TP supporting documentation a very important way to try to protect companies from sanctions and double taxation (OECD 2010, 7-8).

2.5 Transfer Pricing Models

Based on OECD guidelines, TP methods can be divided into two main categories:

- Transaction-based methods
- Profit-based methods

Transaction-based methods focus on finding a price for a transaction and profit-based methods use comparison of profitability, for example, to specific industry average profits. From the OECD point of view, transaction-based methods give a more reliable and transparent picture of the correct transfer price and because of this, these should be used as the preferred methods over profit-based TP methods. From figure two it can be seen how transaction-based methods and profit-based methods are divided into subcategories which will be reviewed in more detail in the next chapters.

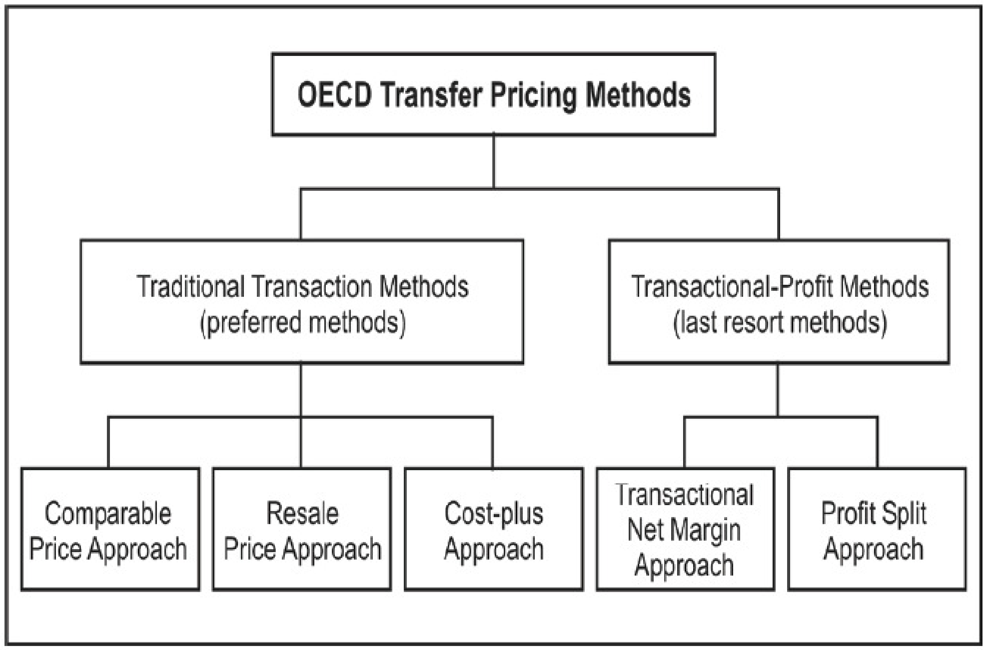

Figure 2: How OECD-based methods can be split into a family tree (Buter 2011, 112)

2.5.1 Transaction-Based Methods

Use of transaction-based methods started in 1968, when the US Internal Revenue Service (IRS) issued the first set of TP regulations. These regulations specified five types of intracompany transactions: loans, rentals or sales of tangible property, transfer or use of intangible property, and performance of various business services. At the same time rules for all five types of transactions to satisfy the arm's length standard were established. This caused three specific TP methods to be developed for use in TP: the Comparable Uncontrolled Price (CUP) method, the Resale Price method (RPM) and the Cost-Plus (CP) method (Eden 2001, 604).

The Comparable Uncontrolled Price Method

Using the CUP method is likely the simplest way of determining the arm's length price for the sale of tangible goods between parties. The challenge in using the CUP method is that there should be similar transactions between related parties to be able to use it for comparison. This is best suited when the goods in question are standard enough to be sold on an open market; because of this, unique or patented products are not well suited for using this method (UN Tax committee 2011, 8).

Problems with this can come when many potential CUP methods are rejected because they cannot match one or more of the comparability criteria, like similarity of markets, volumes and position in the supply chain. In many cases even small differences between the circumstances of two transactions could have a great impact on the price. An example could be two transactions in similar Product A, being exactly the same in all ways with the exception that in one transaction the vendor has monopoly power in the market, and in the other the purchaser has monopoly power; likely resulting in two very different prices for what, at first view, is the same transaction (Hughes & Nicholls 2010, 1).

Resale Price Method

The RPM is one of the traditional transaction methods that can be used to apply the arm's length principle. The general idea behind the RPM is that the method uses comparable profits in unrelated party sales of tangible goods to the determine profit ratios.

The RPM uses gross margin comparisons that prove the transfer price to be at the correct level, which can be done in two different ways, by internal comparison or external comparison. In an internal comparison, the gross margin earned by a reseller in a controlled transaction, which is tested by looking at the gross margins of the same reseller earns in comparable un-controlled transactions. The RPM is typically used mostly by distributors and resellers (Kratzer 2008, 34-35).

A major disadvantage of the RPM is that it is very difficult to identify whether the comparable businesses use valuable marketing intangibles in their business. Use of such intangibles may allow the comparable entity to enjoy a higher level of profitability compared with those marketing/selling companies without similar intangibles. Naturally, this makes comparing difficult without the ability to undertake detailed functional analysis (Hughes & Nicholls 2010, 2).

Cost-Plus Method

The CP TP method is often used by companies which are involved in manufacturing, assembly or production of goods sold to related parties (Martin 2006, 3). Another area where the CP method is very useful is when semi-finished goods are sold between related parties, or transactions are involved in the provision of services (Inland 2006, 17).

The main idea of the method is to add comparable gross mark-up for the cost of production of goods or services and in this way the transaction would be done in arm's length measures. The comparable gross mark-up may be determined by reference to either: *Internal Comparable*, where the cost plus mark-up are the same as what the supplier earns in comparable independent party transactions; or with *External Comparable*, where the cost plus mark-up that would have been earned in comparable transactions by independent parties (Inland 2006,17).

Often the CP method has the clear advantage of being simple to understand and easy to implement in most accounting systems. The theory itself is simple, but in practice, determining the mark-up on costs through benchmarking analysis can be difficult. One of the main potential inconsistencies between costs is that some companies record their cost of goods sold, and other companies may record in operating expenses. The potential for mark-ups to be distorted in this way is difficult to overcome, because of the typically limited information about comparable companies available in the public domain (Hughes & Nicholls 2010, 3).

2.5.2 Profit-Based Methods

Until 1995, only these three transaction-based methods, which were introduced in previous chapters, were clearly accepted in OECD countries. There was also an exception with "other methods", but the transaction-based methods were strongly preferred. This started to change when IRS auditors and the US tax courts started, in some cases, to accept "other methods", such as profit split and profit ratio comparisons. The reason for this was, the lack of arm's length comparables which have made the CUP method, RPM and CP method difficult to use in practice. This has been particularly true with intangibles, which often didn't have any existing market price which could be used to make an arm's length comparison (Eden 2001, 607).

US authorities saw that handling intangibles was a problem with the original TP methods, because companies were using it for tax planning. This was done by companies transferring intangible (technology) developed in the United States to their subsidiaries in tax havens. To solve this problem The Tax Reform Act of 1986 added a sentence in Sec. 482 dealing with intangibles. *"In case of the transfer or licensing of intangible property the income of the transferor or licensor had to be commensurate with the income attributable to the intangible"*. In practice this meant that tax authorities had the possibility to adjust tax levels if the profit of the transferee was higher than expected at the time of the transaction (UN Group of Tax Experts 2001, 10).

For the next eight years the IRS used a lot of effort to find suitable ways to use it in to regulation practices. The final outcome was added to the 1994 Section 482 regulations. The new regulations require that companies have to select and apply the "best method", taking note of all details and possibilities to collect available data. With this outcome two new profit-based methods were also added: the Comparable Profit method (CPM) and the Profit Split method (PSM). In the following year the OECD followed the IRS and added the same five methods to their guideline. The only change that they made was to modify the CPM lightly and give it the new name of the Transactional Net Margin method (TNMM; Eden 2001, 607-609).

Profit Split Method

The main idea behind using this method in TP is to divide the profits of a MNE in a way that would be expected of independent enterprises in a joint venture relationship. This method can be used when transactions between group companies are so interdependent that it is not possible to identify closely comparable transactions. Often in these cases, both related parties' transactions have contributed valuable intellectual property (IP), which can make comparing transactions more difficult than normal (PWC 2009, 31-32).

Over recent years it's more common that multinational groups apply a profit split as the basis of their TP policies. In many cases it is because globalization requires that they manage their business along divisional lines, with consequent scant regard to the profit profile of the underlying legal entities. Often the increasing importance and value of a group's IP and the often shared nature of the development of that IP and the attached business risks, may lead taxpayers to using the PSM. Most commonly, the PSM is used in the financial services industry where often complex transactions are undertaken jointly between related party businesses rather than being outsourced to third parties (Hughes & Nicholls 2010, 3).

Transactional Net Margin Method

The TNMM is a profit-based method which can be used to apply an arm's length principle. The general idea in the TNMM is that it compares the net profit margin that the tested party earns in the controlled transactions to the same net profit margins earned by the tested party in comparable uncontrolled transactions, or alternatively, by independent comparable companies. In this way the TNMM uses a more indirect method than the CP method or RPM, which compare companies' gross margins. When using this method, it should be kept in mind that there are multiple other factors which will impact on the profit margin, even though they may not have anything to do with TP (UN Tax committee 2011, 1-2).

The TNMM has almost become the 'default' method for taxpayers in recent years. The main advantage of the TNMM is that there is often available information in the public domain about the net profits that comparable independent businesses earn from their trading activities in comparable markets with other third parties. In this way the TNMM often proves easier to apply than, for example, the CP method or RPM; another advantage is that the TNMM is less sensitive to minor differences in the products being sold. Similarly, the main disadvantage of the TNMM is also coming from the same source, because there is typically insufficient information in the public domain to be certain that the comparable companies are truly comparable to the tested party (Hughes & Nicholls 2010, 4).

3 Transfer Pricing Documentation

For multinational companies that have several subsidiaries in different countries, creating TP documentation has become a very important way to protect the company's profits against the risk of double taxation and penalties.

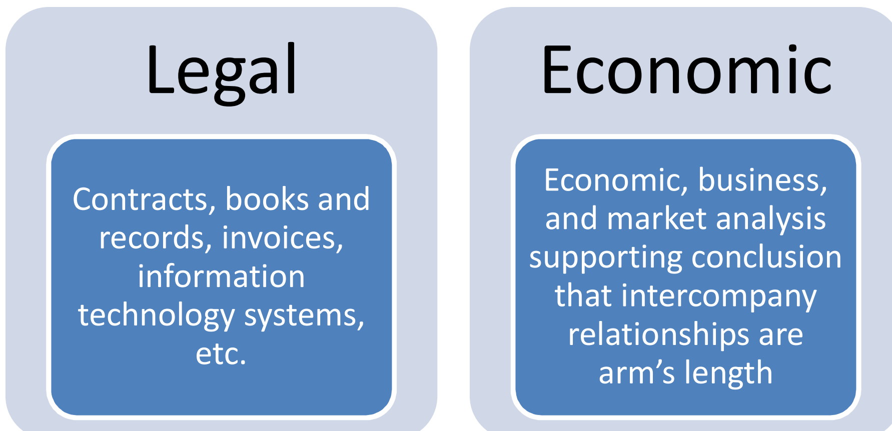

Figure 3: Transfer pricing documentation insight (Mayer Brown 2011, 3)

TP documentation and its supporting documents are a combination of legal and economic information, as can be seen from figure three. A company needs to provide tax authorities details of legal information about contracts and records as well as economic data about business and market situations. Based on the data collected from companies, local taxation authorities make analyses on whether the company's transactions have been made under arm's length principles.

3.1 Development of Global Documentation

In 1995 the OECD was setting the first principles for a good approach on TP documentation. This was done on a very general level and without details or prescribing a specific format for a TP documentation package (ICC 2010, 2).

In 2003 the next development step was taken in TP documentation when the PATA, which is comprised of tax authorities from Australia, Canada, Japan and USA, announced its Transfer Pricing Documentation Package. This provided one harmonized way to create TP documentation in the PATA member countries (UN Tax Committee 2010, 3). There have been critical views that PATA documentation was very burdensome from the taxpayer's point of view, because it was more a list of requirements from all the member countries rather than a guideline to find common denominators for the documentation (ICC 2010, 2). Therefore the PATA guideline shouldn't be seen as a template for documentation requirements, but it can mainly be a useful reference point for the countries taxation authorities when they are setting up their own TP systems (UN Tax Committee 2010, 4).

In 2006, the EU Council approved a code of conduct for TP as a result of the recommendations of the EUJTPF. The general idea behind the proposal was to create a standardized and simplified model for creating TP documentation in the EU countries (ICC 2010, 2). This EU Transfer Pricing Documentation (EU TPD) was based on two main elements:

1. The masterfile; which would contain common standard information which would be relevant for all the EU group members of MNEs. This information would include general descriptions of the business and business strategy, information about transactions involving associated enterprises in the EU area, and the enterprise's TP policy.

2. The country-specific documentation; which would consist of set standardized documentation for each of the specific Member States involved. Country-specific documentation would contain relevant in-

formation related to that specific country. This information is, for example: amounts of transaction flows within that country, contractual terms and the particular TP method used.

When using this masterfile and country-specific documentation method, all Member States have access to the same common documentation and information from the masterfile, and country-specific documentation would generally only be available to the specific Member State which it concerned (Buter 2011, 113).

Even though having one masterfile and country-specific documentation helps to reduce a MNE's burden, it's important to remember that TP documentation is addressed at a domestic level. Despite the international contexts and global scope, TP documentation is still seen on a national perspective. This has led to situations in which country-specific TP documentation requirements can vary significantly between countries. Because of this, for single cross-border controlled transactions taxpayers are often required to comply with two or more sets of TP documentation requirements (OECD 2013, 5).

3.2 Transfer Pricing Documentation Content Based on EU TPD

In this chapter is addressed, in detail, the content that the EU TPD regulations demand for the masterfile, and general guidelines for the country-specific documentation. In this thesis, our case company is following these principles with regard to the masterfile and country-specific documentation, and for this reason this section reviews instructions related to details of the documentation.

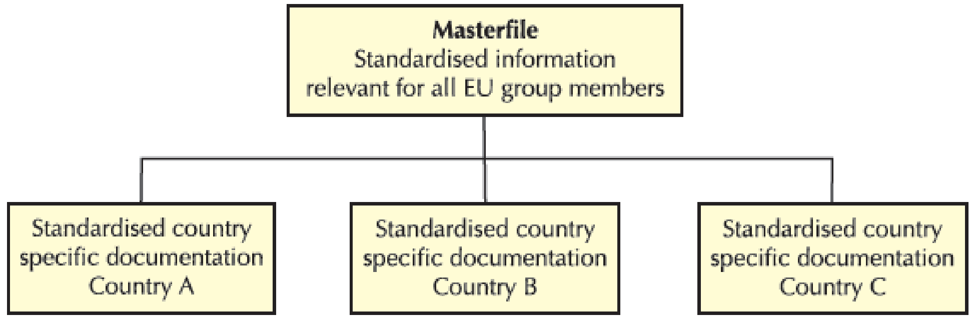

Figure 4: Structure of the masterfile and country-specific documentation (Van Stappen 2009, 40)

Figure four shows how the normal structure of the masterfile and country-specific documentation works. The general idea behind the masterfile is that it should give a good and fair picture of a company's economic situation; providing a blueprint of the MNE group and its TP system to all EU Member States concerned. In a similar way, country-specific documentation gives information for each specific EU member country in which the taxpayer has related-party transactions (OJEU 2006, 2). Together these documents give a full picture of a MNE's TP documentation.

With respect to content of the masterfile, the resolutions of the EU council on the code of conduct on TP documentation for associated enterprises in the EU can be seen in table one.

1.	a general description of the business and business strategy, including changes in the business strategy compared to the previous tax year;
2.	a general description of the MNE group's organizational, legal and operational structure (including an organization chart, a list of group members and a description of the participation of the parent company in the subsidiaries);
3.	the general identification of the associated enterprises engaged in controlled transactions involving enterprises in the EU;
4.	a general description of the controlled transactions involving associated enterprises in the EU, i.e. a general description of:
(i)	flows of transactions (tangible and intangible assets, services, financial),
(ii)	invoice flows, and
(iii)	amounts of transaction flows;
5.	a general description of functions performed, risks assumed and a description of changes in functions and risks compared to the previous tax year, e.g. change from a fully-fledged distributor to a commissionaire;
6.	the ownership of intangibles (patents, trademarks, brand names, know-how, etc.) and royalties paid or received;
7.	the MNE group's inter-company transfer pricing policy or a description of the group's transfer pricing system that explains the arm's length nature of the company's transfer prices;
8.	a list of cost contribution agreements, Advance Pricing Agreements and rulings covering transfer pricing aspects as far as group members in the EU are affected; and an undertaking by each domestic taxpayer to provide supplementary information upon request and within a reasonable time frame in accordance with national rules.

Table 1: Content of the masterfile (OJEU 2006, 3-4)

Another important mandatory item for EU TPD is the country-specific documentation. The official journal of the EU writes that country-specific documentation should contain, in addition to the content of the masterfile, the following items which can be seen in table two on the next page.

1.	a detailed description of the business and business strategy, including changes in the business strategy compared to the previous tax year;
2.	information, i.e. description and explanation, on country-specific controlled transactions, including:
(i)	flows of transactions (tangible and intangible assets, services, financial),
(ii)	invoice flows, and
(iii)	amounts of transaction flows;
3.	a comparability analysis, i.e.:
(i)	characteristics of property and services,
(ii)	functional analysis (functions performed, assets used, risks assumed),
(iii)	contractual terms,
(iv)	economic circumstances, and
(v)	specific business strategies;
4.	an explanation of the selection and application of the transfer pricing method(s), i.e. why a specific transfer pricing method was selected and how it was applied;
5.	relevant information on internal and/or external comparables if available; and
6.	a description of the implementation and application of the group's inter-company transfer pricing policy

Table 2: Country-specific documentation (Van Stappen 2008, 40)

A multinational group has the option of including items in the masterfile instead of the country-specific documentation (Van Stappen 2008, 41). If using the masterfile and the country-specific documentation together, it would constitute the documentation file for the relevant EU Member States and should provide tax authorities with greater transparency on the EU TP system of MNEs (OECD 2013, 9).

When making use of EU TPD, it’s quite clear what benefits it brings in the tax administrator’s point of view, but the benefits to the corporate taxpayer are not that obvious. Taking one model into use in all subsidiaries located in the EU area should reduce overall administrative compliance cost and in this way bring benefit to the company (Matei & Birvu 105-107). Another, likely more important, benefit for the taxpayer is better control in communicating with tax administrators. It's not very uncommon that local representatives of taxpayers present totally different views about intercompany transactions to local taxation authorities than the group would prefer, because representatives seek to comply with the expectations of local authorities. In the worst case these messages contradict messages sent to a counter party's jurisdiction and could make elimination of double taxation impossible. Multinational groups that are using EU TPD have better possibilities to avoid these problems with harmonized documentation (Critzer et al. 2006, 6).

3.3 Timeframe to Produce Documentation

Timing requirements often differ between countries and involve one or more of the following items:

- Prepare information at the time of the transaction and a need to be submitted at the time of filing;
- Prepare information at the time of the transaction and a need to be submitted upon request in case of an audit;
- Prepare information at the time of filing;
- Prepare information only when requested in audit;
- No documentation required (UN Tax Committee 2010, 13)

2010 OECD guidelines give two possibilities to prove with TP documentation that arm's length principle has been followed. The arm's length price-setting approach uses information of comparable transactions from previous years, economic data and information from market changes, based on data available at time of tax audit. The other way to test consistency of the arm's length principle is arm's length outcome-testing (Wittendorff 2011, 224-225).

The problem with arm’s length outcome-testing is that external data from comparable transactions are often not available by year-end or time of tax return filing. Because of this most tax authorities accept that at time of filing they don’t need to have details of particular transactions identified, but require enough information to know if a further examination is needed. In practice this has resulted in most countries either not requiring the submission of TP related information at all, or require only a minimum level of information at the tax return filing stage (UN Tax Committee 2010, 13-14).

In China, when producing TP documentation these items are important to keep in mind:

- Documentation needs to be completed by May 31 of the year following the tax year, e.g. for the tax year ending December 31, 2013, the due date is May 31, 2014.
- Prepared in Chinese Language
- Need to be provided within 20 days of a request
- Retain for 10 years from June 1 following the relevant tax year (Carey & Shira 2011, 3)

In a similar way, Finnish taxation officers have requirements of the taxpayer:

- Annual set of documentation for the tax year is not required earlier than 6 months after the end of the accounting period
- Documents written in English, Finnish or Swedish are accepted
- TP documentation needs to be presented within 60 days upon request of the tax authorities
- Documents need to be retained for five years following the end of the tax year (Verohallinto 2009, 8)

When comparing Chinese and Finnish requirements for TP documentation it can be seen that the Chinese requirements are stricter in every area. The requirement in China to be able to provide documentation within 20 days after the request of taxation officers is especially much tighter than the Finnish 60 days, causing companies to prepare the documentation in advance every year because of the possibility of a request of TP documents. The Finnish 60 days gives most cases enough time to prepare documents, even those that wouldn't be fully ready-made.

3.4 Finland's Requirements for Country-Specific Documentation

Finland's legislation on TP documentation became effective on 1 January 2007. The Finnish documentation rules conform to the principles established in the Transfer Pricing Guidelines for Multinational Enterprises (MNEs) and Tax Administrations (OECD Guidelines) as well as the Code of Conduct for Transfer Pricing Documentation in the EU (PCW 2007, 3).

Finnish government requirements on TP documentation packages follow quite closely the EU TPD package principles, by adopting some needs from the EU version of the packages. The main categories for documentation content are:

1. Description of business
2. Description of relationships to associated enterprises
3. Transactions within sphere of influence
4. Functional analyses
5. Comparability analyses
6. Taxpayer's actual TP policy (Muikku 2008, 1)

In the next chapter, these items are addressed in a more detailed level so that the reader can better understand the Finnish TP documentation needs. In writing this chapter there was very little detailed information available outside the Finnish taxation office's (Verohallinto) own documents and because of this, these have often been used as a reference.

3.4.1 Description of Business

The taxpayer is expected to include an overall description of the business in the documentation. This description can include different kinds of statistical information and explanations of any special circumstances that affect the taxpayer's business environment. Normally these special circumstances are related to price regulations, interest rate regulation, exchange rate policies or customs duty restrictions of the country where the subsidiary is located.

Other important need for the description is that it needs to give a detailed picture of the company's business strategy. Taxation authorities use this information to estimate the company's long term profits following the arm's length principle (Verohallinto 2009, 18).

3.4.2 Description of Relationships to Associated Enterprises

Finnish law requires that documentation needs to include a description of valid associations, which means that the description should enumerate all the relevant associated enterprises. In practice this would mean giving all details from all the enterprises with which the taxpayer has had cross-border transactions and also those enterprises whose business has a direct or indirect impact on the pricing of the taxpayer. Detailed information about transactions and companies needs to be given, and descriptions should show material changes that have taken place during the latest tax year and the previous tax year (Verohallinto 2009, 18).

Finnish documentation requires information about up-to-date organizational scheme of the multinational group companies. This information needs to be detailed and merely generally describing associations with another entity is not enough. Information should give a clear picture about the multinational group and this can be done, for example, by including an organizational scheme drawing and listing in detail owner relationships in the group (Verohallinto 2009, 18-19).

This part of the document should give a good understanding of the taxpayer's activities, status and market position. Information about customers and the market should be included and this could be completed with a general description of the geographical markets and the prevailing competitive situation (Verohallinto 2009, 20).

3.4.3 Transactions within Sphere of Influence

In this part of the documentation should be included detailed specifications about business transactions between entities which are not independent from one another. These specifications need to include information about the type of transaction, the parties to it, the value in EUR, invoicing, background information about the transaction and contract details. For contracts, taxation authorities would need a listing of contracts between associated parties, which would identify the types of contracts and give an understanding of different categories. After receiving these, taxation authorities have the possibility to request an explanation of the details if they deem it necessary (Verohallinto 2009, 20-22).

Even according to the OECD guidelines, the TP approach is always transaction specific and the arm's length principle needs to be applicable separately to each transaction; but many business transactions are so closely related that it's acceptable to consolidate transactions to different groups, as long as the reason for this can be specified in the audit if there is any unclearness related to this (Verohallinto 2009, 21).

3.4.4 Functional Analyses

In pursuant of §14 b subsection 1.4, Act on Assessment Procedure, it is said that it is mandatory to include in the Finnish TP documentation functional analyses of business transactions taking place between associated enterprises (Verohallinto 2009, 23).

The concept of functional analyses means a description of the operation within the course of business, an explanation of business assets involved, and the business risk taken by different parties related to the business operations. When dealing with two independent enterprises, compensation usually reflects the functions that each performs, related to assets used and business risk taken. Therefore when determining whether controlled and uncontrolled transactions are comparable, comparing functions taken into use by parties is necessary in TP documentation (Verohallinto 2009, 22-23).

There are several different kinds of functions that a company needs to identify and compare for TP documentation. These main functions could be related to the company's design, manufacturing, assembling, research and development (R&D), services, purchasing, distributing, marketing, advertising, transportation, financing, quality control, packaging, warehousing, administration and management. The key idea is that adjustment should be made if there is a material difference in any function undertaken by an independent enterprise to which the party is being compared.

Two other items to be critically reviewed when doing functional analyses are:

1. Assets
2. Risk

Assets can consider tangible assets, like plants and equipment, or intangible assets, like patents and other IP rights. These have an impact on business profitability and should be taken note of in the analysis.

Risk can be divided into different categories and these are, for example, market risk, strategic risk, production risk and financial risk, which should all be considered when making a functional analysis (Verohallinto 2009, 23-25).

3.4.5 Comparability Analyses

One important part of TP documentation is comparability analyses. This is the application of the arm's length principle where a comparison of uncontrolled transactions between independent parties to controlled transactions between associated parties is done. To be able to do this, the economically relevant characteristics of the situation needs to be sufficiently comparable and if there is a reasonable difference, these can be eliminated using adjustments (Verohallinto 2009, 28).

When an independent enterprise is making a decision about a potential transaction, it will compare different options that are available to them and they will pick the option which seems to be most attractive in that moment. To simulate this in a controlled environment, there are several different TP methods which apply this arm's length principle in practice. These methods have been reviewed in more detail earlier in chapters 2.5.1 – 2.5.2. These methods can be used in comparability analyses when making TP documentation according to the Finnish taxation authority's needs.

3.4.6 Taxpayer's Actual Transfer Pricing Policy

Finnish needs for TP documentation follow the same principles as the OECD guideline, EU TPD and the Code of Conduct where it is required that a description of the TP method is included in the documentation. This description should include the choice of method and application of the method, both of these can be discussed in terms of economical analysis.

To be accepted by Finnish taxation authorities, the method which is used to calculate correct transfer prices needs to be listed in the OECD Guidelines (Verohallinto 2009, 34).

3.5 *China's Transfer Pricing Overview*

TP regulations in China are rapidly developing as the Chinese authorities target TP adjustments and see it as a major tax revenue earner in the years to come. A good example of this development is that SAT, which is the main taxation authority in China, committed in March 2009 to raise its top-level TP specialists from 10 people to 500 people in only a three year period (Carey 2010, 10-11).

	2005	2006	2007	2008	2009	2010
Cases Concluded	361	177	174	152	167	178
Average Tax Adjustment (CNY Millions)	1.27	3.48	5.75	8.16	12.51	14.5
Total Tax Adjustment (CNY Millions)	459	680	1001	1240	2089	2581

Table 3: Chinese transfer pricing case statistics (Guang & Chen 2011, 4)

From table 3 it can be seen how SAT investigations have developed from 2005 – 2010 and what kinds of tax adjustments these TP audits have resulted in to taxpayers. In 2010 there was 178 TP audit cases concluded causing a net taxation adjustment of 2.58 billion Renminbi (RMB). The trend in the later years has been that the SAT concentrates on fewer cases and has been able to collect more than five times the taxation revenue compared to the 2005 situation. Generally, this development clearly shows that TP policies and China-specific TP documentation have become much more relevant from the companies' point of view.

3.5.1 Development of Transfer Pricing in China

The first step in developing TP practices in China was taken during the 1980s and by the 1990s it had started to develop its own set of TP regulations. The current set of regulations is not yet very comprehensive, but regulations are developing quickly. In 2008 they already covered most of the general TP topics such as related party transaction disclosure requirements, TP audits, advanced pricing agreements (APAs) and mutual agreement procedures (Li 2008, 1).

Next will be a short review on the development and current status of TP regulations. From 1981, China started making agreements with foreign countries to mitigate double taxation. The first signed agreement was made with Japan in 1981 and until 2010 there have been similar signed contracts with over 89 countries and regions (Ren 2010, 50-51).

The first real regulations on TP were introduced to China's legislation in 1991 under the Income Tax Law of People's Republic of China for Enterprises with Foreign Investment. To support this law there has been development of operational rules and regulations with the purpose of helping in the practical implementation of the law. Listed here are the most important ones: Definition of Related Party and Disclosure Requirements (1992), Transfer Pricing Regulations (1998), Introduction of Corresponding Adjustment (2003), First Ruling on Cost Sharing Arrangement (2004) and Enforcement of Transfer Pricing Regulation (2005). These regulations were heavily based on the recommendations of the OECD's report: Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, and it covers buying and selling goods, provision of loans, management services and property rights (Chow 2010, 12).

From the TP point of view, regulations were still not very comprehensive, but they still covered most of the TP related topics, including:

- definition of related parties;
- type of related party transactions;
- TP information disclosure requirements in annual tax filing,
- basic principle for the selection of enterprises for pricing audit;
- TP adjustments;
- Follow-up monitoring after a TP audit (Chow 2010, 12)

On 1st of January 2008 occurred a big change in the Chinese taxation field which had a great impact on all foreign enterprises. This change caused the two pieces of income tax law that were applicable to foreign investment enterprises and domestic enterprises to be united into one single Enterprise Income Tax Law. Based on this change all of the parties had the same rule regardless of whether they were foreign or local investors. At the same time some of the taxation incentives that had been offered to foreign investors were withdrawn, causing the effective tax rates increase following this change (Y.M. Ng 2010, 50).

The next significant change in Chinese TP practices came on January 9, 2009 when the SAT released Implementation Measures for Special Tax Adjustments (Final STA Measures). The Final STA Measures contain 13 chapters and 118 articles. What is new and compelling to multinational investors in the regulations is dealing with the significant compliance burden of the new documentation requirements and tapping into the opportunities provided by cost sharing (DeSouza 2009, 10).

When comparing the TP rules before and after the big changes in 2008 and 2009, it can be said that before these significant changes rules were much simpler from the taxpayer's point of view. Before 2008 there were several critical aspects of the TP regime that were not touched upon. The first contemporaneous TP documentation requirements were missing from legislation. Taxpayers were required to submit documentation based on the request of taxation authorities under an audit, but there weren't clear guidelines what information these documents should contain and how detailed the documentation should be (Ren 2010, 55-56).

The second big difference was that there weren't any penalty rules concerning the TP adjustments. The only penalties were designed to punish those who didn't comply with the procedural requirements concerning filing the annual reports and who didn't submit relevant documents to the taxation authorities. Accuracy related penalties, which are quite common in countries that have advanced TP regimes, were missing from TP legislation and this meant that there wasn't enough deterrence to noncompliance (Ren 2010, 56).

Other issues which changed when the 2008/2009 changes were applied were related to two things. There was no guidance related to whether a taxpayer could use cost sharing agreements (CSAs) before the new laws clarified this issue. The other gap in legislation was related to arm's length; because even though the arm's length principle was accepted in the legislation, the normality principle was also used, which meant that in some cases pricing wasn't consistent with the arm's length principles (Ren 2010, 56).

China is still in the long process of developing its legislation in different areas. It's likely that there will also be changes related to TP in the future, but the changes that were made in 2008/2009 took big steps towards applying the ideas from the OECD's TP principles to the Chinese legal environment.

3.5.2 Chinese Transfer Pricing Disclosure Requirements

There are two different sets of TP disclosure requirements based on the size of the enterprise located in China. The first set is for smaller companies, which will have an exemption from contemporaneous TP documentation, and the second one is a full set on contemporaneous documentation (Guang & Chen 2011, 5).

To be able to get an exemption from contemporaneous TP documentation it is enough that a company is able to meet any of the three exemptions listed below:

1. Foreign direct or indirect ownership is less than 50% and all related-party transactions are with Chinese resident companies
2. Related-party purchases/sale of goods transactions are less than RMB 200 million and all other related-party transactions are less than 40 million (including services, interest and royalties) excluding transactions covered by APAs or CSAs

3. The taxpayer has an APA with the tax authorities (Deloitte 2011, 25)

Even in the case a company has exemption from TP contemporaneous documentation, it should still prepare and submit up to nine forms together with its annual enterprise income tax returns, if it has related party transactions (Guang & Chen 2011, 5). From table 4 you can see in detail what kind of information needs to be included on these required forms:

Title of Form	Information Required
Related/Associated Parties	- Background information of related parties - Relationship with the enterprise - Type of association
Summary of Related Party Transactions	- Type, amount and percentage of cross-border related party transactions and domestic related party transactions
Purchases and Sales	- Segmented financial information on sales and purchases with cross-border and domestic related parties and third parties - Names and location of transacting parties - Transaction amounts and pricing policies for major purchases and sales that are more than 10% of the total import purchases or export sales
Services	- Segmented financial information on service revenue and expenses from transactions with cross-border and domestic related parties and third parties - Names and location of transacting parties
Intangible Assets	- Segmented financial information on acquisition and disposal of intangible assets with cross-border and domestic related parties and third parties
Tangible Assets	- Segmented financial information on acquisition and disposal of tangible assets with cross-border and domestic related parties and third parties
Financing	- Information on debt financing with cross-border and domestic related parties and third parties - Names and location of transacting parties - Debt-to-equity ratios, currency, amount, interest rate, period of finance, etc.
Foreign/Outbound Investment	- Information of investment in foreign enterprises - Financial information on the invested company - Profit and dividend distribution, shareholdings and enterprise income tax status
Foreign/Outbound Payments	- Information about outbound payments - Payments to related parties, amounts of withholding tax paid - Any beneficial treatment under tax treaties

Table 4: The nine transfer pricing forms required in China (Y.M. Ng 2010, 51)

If a company can’t be granted any of the three relevant exemptions that were reviewed earlier in this chapter, then they need to prepare contemporaneous TP documentation. In the case the taxation bureau asks for contemporaneous documentation, the company needs to deliver the documentation within 20 days of the request (Guang & Chen 2011, 5). This and other requirement was seen more detail in earlier chapter 3.3.

3.5.3 Contemporaneous Transfer Pricing Documentation

According to the STA rules, contemporaneous TP documentation should include:

- *"**Organization Structure** – Including the organizational structure of the group that the taxpayer is affiliated to, records regarding any development of changes in the relationships between the taxpayer and associated enterprises, information on associated enterprises including applicable tax rates and incentives, and the associated enterprises that exert direct influences on the inter-company pricing;"*

- *"**Overview of Business Operations** – including major economic and legal issues affecting the taxpayers and the industry such as a summary of the enterprise's development, summary of the industry's development, business strategy, industrial policy or industrial restrictions; description of the group supply chain arrangement and the position that the taxpayer is located in the chain; summary showing percentage of enterprise's revenue and profits by business line; market and competition analysis; information regarding the functions, risks, and assets of the enterprise (with a specific requirement to prepare an official 'Functional and Risk Analysis' form) and the group's consolidated financial report that was prepared according to the group's year end;"*

- *"**Related Party Transactions** – including the types, participants, timing, amounts, currency and contractual terms of the related party transactions; description of the transactional model, terms applied and any changes to the model, operational flows including infor-*

mation of product and cash flows and flow comparisons with transactions with related parties; intangible assets utilized and their impact on pricing policies; copies of the inter-company agreements and their execution status; analysis of main economic and legal factors affecting the pricing of the related party transactions; and segment financial analysis (with a special requirement to prepare an official 'Annual Financial Analysis of Related Party Transactions' form);"

- *"**Comparability Analysis** – including factors considered in performing the comparability analysis, information related to the functional profiles of the comparable transactions, source, selection criteria and rationale for selection of comparables, and rationale for use of adjustment on the financial data; and"*

- "***Selection and Application of Transfer Pricing Methods** – including rationale and support for selection of transfer pricing method, whether the comparable data can support a reliable application of the selected transfer pricing method, assumptions and judgments when determining comparable prices or profits, determination of the comparable prices or profits and justification of arm's length price or profit of the Chinese enterprise*" (Deloitte 2009, 6-8)

These items have a great deal of similarity with the Finnish contemporaneous TP documentation, which was reviewed in chapter 3.4. Devonshire-Ellis et al. also give support with their study by stating that Chinese contemporaneous TP documentation follows, by a large extent, the OECD regulations, but also stipulate a greater level of detail in respect to the whole value chain of the organization. (Devonshire-Ellis et al. 2011, 29)

3.5.4 Transfer Price Documentation Requirement Comparisons

Chinese TP regulations changed in 2008 and this made documentation requirements much more challenging from the taxpayer's point of view. New items included in the change were that contemporaneous TP documentation was required the first time, the level of related party information become more detailed, and the number of forms needing to be submitted yearly rose from one to nine.

	China (before 2008)	China (from 2008)	Australia	United States	Canada	Korea	Taiwan	Japan
Level of related party information required	M	H	L	M	M	H	H	H
Does level/amount of related party transactions need to be disclosed?	Y	Y	Y	Y	Y	Y	Y	Y
Do transfer pricing methods need to be disclosed?		Y	Y		Y	Y		Y
Does the existence of contemporaneous documentation need to be disclosed?		Y	Y		Y		Y	
Does the existence of advance pricing arrangement need to be disclosed?					Y		Y	Y
Number of pages of forms	1	9	4	2	2	5	4	1

Key:
L – Low; M – Medium; H – High; Y – Yes; Blank – No
Note: The above comparison was the position as at December 2008 and is subject to change. It is for general information only which does not necessarily cover all areas of each of the related party transaction disclosure forms

Table 5: Comparison of transfer pricing associated party transaction disclosures in different countries (Y.M. Ng 2010, 53)

This change made China one of the countries in which TP documentation needs are much more detailed than the average OECD guidelines require. Even a country like the United States, which is a pioneer in tackling TP issues, only requires two pages of forms for reporting of related party transactions. Korea and Taiwan who also have tight requirements for documentation ask for only four to five forms compared to the nine Chinese documents. Details of differences between countries can be seen from table five (Y.M. Ng 2010, 52).

4 Empirical Analysis of the Case Company's Contemporaneous Transfer Pricing Documentation

4.1 Research Method and Material

In this thesis, an empirical analysis has been used on a case study as the research method. To give a more detailed understanding as to what the case study approach means, here is a short review on case study literature. Becker gives his definition that a case study refers to the detailed analysis of an individual case, so that one can properly acquire knowledge of the phenomenon from and intensive exploration of a single case (Becker 1970, 75). The case study approach comes from the need to understand complex social phenomena, as the case study method allows investigators to research the holistic and meaningful characteristics of real life events (Yin 2009, 2). In general, case studies are the preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin 1994, 1).

Steps for Case Study Research
1. Purpose and rationale for case study
2. Design based on the unit of analysis and research purpose
3. Data collection and management techniques
4. Describe the full case
5. Focus the analysis built on themes linked to purpose and unit of analysis
6. Analyze findings based on the purpose, rationale, and research questions
7. Establishing rigor

Table 6: Steps for case study research (Zucker 2009, 15)

In table 6 are the common steps for conducting case study research. The first step is to find the purpose of doing the case study. This is done by choosing phenomena for study and setting the research questions to which one wants to find solutions. The next step is to design the research by deciding “what” or “who” is being studied, and what are the purposes of the research. This step is followed by data collection with suitable methods for the research. Once the data is collected, the case is described in detail. The next two steps are for analyzing the data and mirroring it to the purpose of the study and the research questions. The final step is to give serious thought to the credibility, transferability, dependability and conformability of the research (Zucker 2009, 15-16).

The reason for choosing to use the case study method was that it would give the possibility of providing a detailed look as to how this complex issue of TP documentation is handled in one separate case. This way, the differences in contemporaneous TP documentation, at least from one company’s point of view could be clarified. As the company’s TP documentation material was already in use in real life and reported to the local Chinese government taxation department without trouble, it could be seen that, especially, the 2010 TP documentation version was suitable for local needs. In this way, by using this case study as an example it would be possible to get a basic understanding of TP reporting differences in different countries. Naturally, there are big differences in requirements for TP documentation depending on what kind of business model is used, and in which business area the company is working. With these limitations, this case study still gives a view on how TP documentation was used in this specific company, and can hopefully give the reader some help in understanding the basic principles of the issue.

This study was started when I was working as an employee of the case company and living in Beijing between the years 2008 – 2012. I was working in the local finance department; however I wasn’t participating in preparing TP documentation. As I learned of the growing importance of TP related issues, I became interested in the topic.

For this thesis, the source of written material was the case company's contemporaneous TP documentation from years 2009 and 2010. These documents were actual reports and attached appendices which were posted to the local Chinese government. Appendices included supporting calculations, information about the company's intercompany transactions and functional analysis. There were big differences in the amount of material between years as in 2009 the documentation local file was 26 pages, and in the 2010 version it was 138 pages.

I started to become familiar with the material by reading it through several times. After getting a good overview of all of the documents, I started to compare the 2009 contemporaneous TP documentation packages to the 2010 packages. I found that the 2009 version followed group requirements based on the Finnish set of rules and the 2010 version was fully aligned with the Chinese set of rules. The first item in the study to be compared was the tables of contents between the reports to gain an understanding on how well these documents matched from the big picture standpoint. After this, each heading from the table of contents were reviewed and compared between the different year's documentation. The goal of this was to gain an understanding of what the main differences between the different year's reports were.

From here, the study continued with two free-form discussions with the case company's finance director, Ellie Zhou. These meetings occurred during the Beijing spring of 2012. The first meeting was on the 9th of April and the second one was on the 14th of May. The main idea of these discussions was to review the contemporaneous documentation together to help me understand the main concept of the case company's TP documentation, and give me opportunity to ask questions about the documentation. I made my comments and notes directly to photocopies of TP documents, and I didn't make a voice record from discussions for later use. These two sessions were very useful to me and helped me to understand TP documentation much better than just reading the documents by myself.

The next step from here was to start writing a description of the case based on written material documents. When, in the study, a difference was found between the different years reports, this difference was compared to the theoretical part of this thesis, or to other references, to see if it was possible to get validation for these observations from the theoretical material.

4.2 Case Company Introduction

The case company in this thesis was Tieto China Co., Ltd. This company is Tieto group's fully-owned subsidiary company, which is located in People's Republic of China (PRC).

Tieto group is the largest Nordic information technology services company serving both private and public sectors. The company has a global presence through its product development business and delivery centers. It was founded in 1968 and its headquarters are located in Helsinki, Finland. Tieto group have, in total, approximately 15 000 employees in over 20 different countries. Based on the 2012 annual report, the company's total net sales are approximately 1.8 billion EUR. Tieto is a publicly listed company and Tieto's shares are sold on NASDAQ OMX in the Helsinki and Stockholm stock exchanges (Tieto 2013, 1).

Tieto was already starting to take its first steps into Chinese markets in 1998 when it opened its operations in Beijing by establishing a new subsidiary company called Tieto China Co., Ltd. Now, fifteen years later, the company's business is mainly related to telecom and telecom R&D. During these intervening years, the company has opened branch offices outside Beijing, and there are currently operations in Chengdu and Hangzhou. After a slow start, the company has grown quickly in the last several years and in 2010 it was already employing around 750 employees in these three different locations (Finpro 2010, 3-4).

4.3 Background for Transfer Pricing Documentation

Before the Chinese law changed in 2009 with the SAT-released Implementation Measures for Special Tax Adjustments making contemporaneous TP documentation mandatory, the case company followed the standard group method with reference to contemporaneous documentation. The reason for this was that there weren't regulations in Chinese law as to how contemporaneous documentation should be created. The main motivation for using the group method of creating TP documentation was to be prepared if local taxation authorities were asked for details on TP, or if there was a need to give supporting documentation to internal trade counterparties to help them with their own taxation issues.

The purpose of reviewing differences between the documentation is to gain a better understanding of how the TP documentation was changed when the company started using the new Chinese regulations. The method used when the old documentation packages were created was to modify the Finnish TP documentation template to the case company's needs, and in this way get the contemporaneous documentation package which would fit the group standard documentation. This is the reason for the old documentation package following the Finnish regulations, which are based on EU TPD standards and OECD recommendations.

After the change in Chinese law, there was a need to recreate the contemporaneous documentation in a way that it would cover the new regulations. This was done by buying the service from an external auditing company which specialized in TP documentation issues. Later, this was proven to be a good decision when the local taxation authorities chose the case company to be a part of a TP audit. Because of the expertise of the external auditing company, the new TP contemporaneous documentation was able to show that the case company's internal prices were following the arm's length principle.

4.4 *Comparing Transfer Pricing Documentation from Different Years*

In this part of the thesis, reviewing and comparing the case company's old and new contemporaneous documentation practices is undertaken. The general guidelines of group TP documentation follow EU TPD guidelines, OECD regulations, and take note of country-specific differences. When the original contemporaneous documentation for the case company was created for the first time, it followed a lightly modified version of the Finnish TP documentation.

Very early on when checking the material, it could be noticed that there were big differences in the number of pages between the years; the 2009 documentation local file had 26 pages, and the 2010 version had 138 pages. The reason for this was soon revealed when it was noticed that the 2009 document followed the accepted Finnish method of having the masterfile and country-specific documents separate (for more details refer to pages 27-29 of this study). The 2010 version followed the Chinese regulations which required that all documents were included in one big package and the masterfile / country-specific documentation approach wasn't used. Based on Chinese regulations, it's also possible to use the masterfile / country-specific documentation approach, but the company decided to use the one package approach. More information on this can be found from the book Transfer Pricing in China (Devonshire-Ellis et al. 2011, 33-34).

The main categories for Finnish TP documentation content are the following parts marked A to F:

A. Description of business
B. Description of relationships to associated enterprises
C. Transactions within sphere of influence
D. Functional analyses
E. Comparability analyses
F. Taxpayer’s actual TP policy (Verohallinto 2009, 1-2)

The group contemporaneous documentation structure was built in a slightly different way than what the Finnish Verohallinto was recommending in their guidelines, but all parts of the guideline were still covered. The link between these two are shown by using the letters A – F from the previous Finnish TP documentation listing added to the actual contemporaneous document headlines below:

1. Introduction (this is covered in part A)
2. Group corporation background (this is covered in part B)
3. Introduction of the case company (this is covered in part A)
4. Flow of controlled cross border transactions (this is covered in part C)
5. General description of cross border transactions (this is covered in part C)
6. Functional Analysis (this is covered in part D)
7. Explanation on Applied Transfer Pricing Method (this is covered in part F)
8. Information on Comparables and Comparability Analysis (this is covered in part E)

9. Transfer Pricing Policy (this is covered in part F)
10. Appendix

For the year 2010, the case company's contemporaneous TP documentation was based on Chinese laws and regulations. In this study the main points of Chinese TP requirements were addressed in chapter 3.5.3. In the 2010 document was written: "*Beijing Jingdu has prepared this TP Contemporaneous Documentation, in accordance with Guoshuifa [2009] No. 2 "Implementation Measures on Special Tax Adjustments" ("Circular 2"), to record the intercompany transactions involved by Tieto China and to determine whether these intercompany transactions are conducted in compliance with the arm's length principle as defined under Circular 2*".

Next in the original document was written: *"Based on the requirement of Circular 2, this report comprises seven sections as follows:*

1. *Organizational Structure*
2. *Business and Operation*
3. *Intercompany Transactions*
4. *Selection of Transfer Pricing Method*
5. *Comparable Analysis*
6. *Conclusion*
7. *Appendix"*

When compared to chapter 3.5.3 of this study, where the theory review of Chinese regulations is, it can be notice that the first five requirements closely match with a small difference in written form: "Organization Structure", "Overview of Business Operations", "Related Party Transactions", "Selection and Application of Transfer Pricing Methods" and "Comparability Analysis". The last two headlines, "Conclusion" and "Appendix", are natural to add after the mandatory parts to give a full picture of the TP documentation. Based on this it can be said that the case company is following Chinese regulations, at least from the level of the big picture.

The next steps in the study were to map these seven main items of Chinese TP documentation against the 2009 Finnish TP documents. This was first done on a higher level, and later in the study in more detail, in order to understand what the major differences were between these two reports.

4.4.1 Higher Level Mapping and Data Analysis

The previous chapter contained information on the case company's contemporaneous TP documentation packages. In the Chinese version of the TP documentation, there were seven sections compared to the Finnish version's ten sections. After reviewing both documents at a more detailed level, there were certain similarities found between the different years' TP documents. The Finnish documentation package uses a more detailed structure to give basic information on the company. Also, for intercompany transactions there were two chapters instead of the one used in the Chinese version of TP documentation. From the following picture it can be seen which chapters were used in the different TP packages:

Finnish version of TP documentation (From 2009)	Chinese version of TP documentation (From 2010)
1. Introduction	1. Organization Structure
2. Group corporation background	2. Business and Operations
3. Introduction of the Case Company	3. Intercompany Transactions
4. Flow of Controlled Cross Border Transactions	4. Selection of Transfer Pricing Method
5. General Description of Cross Boarder Transactions	5. Comparable Analysis
6. Functional Analysis	6. Conclusion
7. Explanation of Applied Transfer Pricing Method	7. Appendix
8. Information on Comparables and Comparability Analysis	
9. Transfer Pricing Policy	
10. Appendix	

Table 7: Chapters of the 2009 and 2010 transfer pricing documents

Based on the structure of the TP documents which can be seen in table seven, it was possible to divide these documents into five different areas which will be reviewed in more detail in this study. The first area for review is the case company's organizational structure and business operation. This chapter will give the reader an understanding of background information. The second chapter will review intercompany transactions; here it will be shown which type of intercompany transactions, amounts and counterparties are related to the case company's intercompany business. The third area is the TP method, which provides information on why and which TP method was been chosen to be used in the TP documentation. The fourth is about comparables and conclusions; this will show that the case company has been following the arm's length principle with its transactions by using a comparability analysis. The final chapter will check what kinds of appendices have been used with the documentation packages.

Higher Level Mapping of TP Documentations	
Organzational Structure & Business Operations	
1. Introduction 2. Group corporation background 3. Introduction of the case company 6. Functional Analysis	1. Organizational Structure 2. Business and Operation
Intercompany Transactions	
4. Flow of controlled cross border transactions 5. General description of the cross border transactions	3. Intercompany Transactions
Transfer Pricing Method	
7. Explanation on Applied Transfer Pricing Method	4. Selection of Transfer Pricing Method
Comparabilty Analysis & Conclusions	
8. Information on Comparables and Comparability Analysis	5. Comparable Analysis 6. Conclusion
Use of Appendix	
9. Transfer Pricing Policy 10. Other Appendix	7. Appendix

Table 8: High level mapping of chapters

From this table, it can be seen in detail how the chapters from the different TP documentation were able to be divided into the five areas on which overviews were written in the previous paragraph. In general, the feeling is that there are lots of similarities between the Chinese and Finnish versions of TP documents when documentation from the same case company was used for comparison. Next for the study it's time to review these five areas and see what kinds of detailed differences can be found between the Chinese and Finnish versions of documentation as, in this study, the main interest is to understand those differences.

4.4.2 Organizational Structure and Business Operations

From this chapter of the study, the detailed analysis of contemporaneous TP documents starts. The first step was reviewing the table of contents to the lowest level from both years' TP documents. From here it could be seen that the 2009 document used 9 pages for this chapter, and the 2010 document used 22 pages. All of the chapters that were included in this part of the TP documentation can be seen from the attached table nine.

Higher Level Mapping of TP Documentations	
Organzational Structure & Business Operations	
Year 2009 TP Documentation	**Year 2010 TP Documentation**
1 Introduction	**1. Organization structure**
1.1 Background	1.1 Executive Summary
1.2 Purpose	1.2 Organizational and Ownership Structure of the Group
1.3 Scope	1.3 Annual Changes on Related Relations
2 Tieto Corporation Background	1.4 Related Parties That Has Transactions with in Year
2.1 Description of the Organization	1.5 Income Tax Rate Applied to Related Parties
2.2 Description of Tieto Business and Business Strategy	**2. Business Operations**
2.3 Tieto Segment Information for year 2009	2.1 Business Information
2.4 Brief History of Tieto Group	2.2 Profit and Primary Business
2.5 Industry Analysis	2.3 Industry Summary
3 Introduction of Tieto China Co., Ltd.	2.3.1 Industry development summary
3.1 Introduction of the Company	2.3.2 Business strategy
3.2 Description of the Company´s business	2.3.3 Market competition environment
3.2.1 Industry Units	2.3.4. Industry restrictions and industry policies
3.2.2 Service Lines	2.3.5. Industry competitive strength and prospect
6 Functional Analysis	2.4 Internal Organizational Structure
	2.5 Function, Risk and Asset Analysis
	2.5.1. Trading model
	2.5.2. Research & Development
	2.5.3. Services
	2.5.4. Marketing
	2.5.5. Sales and distribution
	2.5.6. Administration & Other services
	2.5.7. summary of functions and riskes
	2.6 Consolidated financial statement

Table 9: Detailed chapters of organizational structure and business operations

Next for the study was to try to find suitable information from the 2009 document to map to the 2010 document. This process required time and effort before it was possible to go into more detail to compare the text's information between documents. After working and making a couple of preliminary versions, it was possible to come up with the next table where the mapping of the documents is covered.

Year 2010 TP Documentation	Year 2009 TP Documentation
1.1 Executive Summary	1.1 Background, 1.2 Purpose & 1.3 Scope
1.2 Organizational and Ownership Structure of the Group	2.1 Description of the Organization & Appendix A
1.3 Annual Changes on Related Relations	Appendix A: (Legal companies & ownership)
1.4 Related Parties That Has Transactions with in Year	Appendix A: (Legal companies & ownership)
1.5 Income Tax Rate Applied to Related Parties	Appendix A: (Legal companies & ownership)
2.1 Business Information	3.1 Introduction & 2.4 Brief History of Tieto Group
2.2 Profit and Primary Business	2.2 Description of Tieto Business and Business Strategy
2.3 Industry Summary	3.2 Description of the Company´s business
2.3.1 Industry development summary	2.5 Industry Analysis
2.3.2 Business strategy	2.2 Description of Tieto Business and Business Strategy
2.3.3 Market competition environment	2.5 Industry Analysis
2.3.4. Industry restrictions and industry policies	China spefic was missing from 2009 document
2.3.5. Industry competitive strength and prospect	2.5 Industry Analysis
2.4 Internal Organizational Structure	2.1 Description of the Organization
2.5 Function, Risk and Asset Analysis	6. Functional Analysis
2.5.1. Trading model	6. Functional Analysis
2.5.2. Research & Development	6. Functional Analysis
2.5.3. Services	6. Functional Analysis
2.5.4. Marketing	6. Functional Analysis
2.5.5. Sales and distribution	6. Functional Analysis
2.5.6. Administration & Other services	6. Functional Analysis
2.5.7. summary of functions and riskes	6. Functional Analysis
2.6 Consolidated financial statement	2.3 Tieto Segment Information for year 2009

Table 10: Mapping of the 2010 and 2009 chapters

After mapping and detailed reading, it was found that the different years' TP documentation matched quite nicely, as can be seen from table 10. There were differences, but they were not very major ones as both documents covered similar main areas. The biggest difference was in the level of detail and the amount of general background information that was given. From the 2009 document, it could be seen that it was a modified version of the original Finnish TP documentation, as Ellie Zhou later told me in our discussions.

The 2009 document's main purpose was to be a part of Tieto's global TP documentation, which was to be shown to Finnish taxation officers in case they wanted proof that the TP used with the Chinese subsidiary was fair. This could also be seen from this text excerpt from Chapter 1.2 Purpose: "*The national tax legislation of Finland requires companies to prepare transfer pricing documentation for their cross-border intra-group transactions. The purpose of this report is to analyse certain intra-group transactions of Tieto China Co., Ltd in accordance with Finland's tax legislation and the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations ("OECD Guidelines"). It is intended that this report will form part of Tieto Group´s country specific transfer pricing documentation."*

When looking at similar items from the 2010 documentation, the purpose of the document has been changed, as we can see from this text clip: "*The report aims at analysis and evaluation whether the following transactions ("Related party transactions") between Tieto China Co., Ltd and its related companies in Year 2010 corresponding arm's-length principles:*

- *Provide services to related parties.*
- *Accept services from related parties.*
- *Loan from related parties and relevant interest payments.*
- *Allocate Group expense.*"

When considering the reason behind this change, it becomes clear that the local Chinese government's interest in TP issues was quickly growing after the new TP laws were published on January 9, 2009 when the SAT released the Implementation Measures for Special Tax Adjustments (see details in chapter 3.5). The case company's decision to create new TP documentation for 2010, which was more detailed and followed Chinese needs, ended up being a good decision as the company's TP documents were audited by the local taxation authorities.

For the 2010 document, all of the chapters are written in a more country-specific way and it's often covered how things have been developing in recent Chinese history, for example, chapter "2.3.4 Industry restrictions and industry policies" is a chapter that the 2009 document didn't have, or contain similar information. Here is a short excerpt from the text to clarify this: *"In 2007, to encourage the development of the industry, Ministry of Information Industry issued a "software industry" Eleventh Five-Year "special plan" to bring to the scale of the industry in 2010 exceeded 1 trillion Yuan of development objectives to infrastructure software and R&D software development."*

In general, this section of both years' TP documentation gave general information about the company. The areas which were covered in both documents were:

1. general information about the company, recent financial development, strategy and industry knowledge;
2. intercompany parties which had transactions with the case company; and
3. Functional Analysis

In this chapter, at least, the similarities were much more common than big differences; however just viewing the table of contents could give a different kind of impression. From a practical point of view, the 2010 table of contents gives hints as to which documents should, at least, be covered when doing TP documentation for local taxation.

4.4.3 Intercompany Transactions

Next in the study items under intercompany transactions are reviewed. From the table below it can be seen that both of the documents naturally give importance to intercompany transactions. The first feeling about this chapter is that the differences could be small, but as this goes closer to the core of TP documentation, these will be covered in more detail than in the previous chapter.

Higher Level Mapping of TP Documentations	
Intercompany Transactions	
Year 2009 TP Documentation	Year 2010 TP Documentation
4. Flow of controlled cross border transactions	**3. Intercompany Transactions**
4.1 List of all cross-border controlled transactions	3.1 Summary of Related Transactions
4.2 Analysis of Biggest Cross-border transaction volumes	3.1.1 Provided Services
5. General description of the cross border transactions	3.1.2 Accepted Services
5.1 Types of Services	3.1.3 Financing
5.2 Price Setting Mechanism	3.2 Copy of Intercompany Agreement
	3.3 Financial Position of Releated Business

Table 11: Intercompany transactions

From table 11 can be seen the 2009 and 2010 TP documents' chapters which concern intercompany transactions. In the 2010 document's chapter: "3. Intercompany Transactions", the first subsection gives information on what kind of services the case company has been providing to its counter parties. The next step is to see the situation the opposite way around when it gives information as to what kind of services other group companies have provided to the case company. The third part reviews any possible financing between group companies. After giving information about the style of transactions, there are tables which show related parties and the amount of intercompany transactions per different type of transaction. This is done on a detailed level, where even small amounts have been noted.

In a similar way, the 2009 document goes through what kinds of intercompany transactions are usually performed in the specific case company's business lines, but in a less China-specific way, keeping the information on a very general level. This has provided the possibility to make country-specific documentation more quickly when using the same modules of text in different documents. For numbers and information of related parties, China-specific information has naturally been used, but from 2010 it can be seen that all internal services are documented in a more country-specific way.

Next in the 2010 document, there are the chapters "3.2 Copy of Intercompany Agreement" and "3.3 Financial Position of Related Business". In these parts are references to the appendix section. The first reference to the appendix has photocopies of signed agreements and the second reference, "Appendix V. Financial Analysis Form" has detailed calculations of full cost mark-up ration from overseas-related transactions. In a similar way the 2009 documentation has an appendix for copies of actual signed internal agreements and margin calculations.

After all, in this chapter there were no big differences between reports. The difference came in the 2010 version giving internal transactions in a more detailed way, at the same time giving an understanding of why this was done from the Chinese case company's point of view.

4.4.4 Transfer Pricing Method

In this chapter both TP documents are concentrating on giving information on which TP method is best-suited to proving that the company's TP is following the arm's length principle. The 2009 document uses 2542 words to do this and similarly, the 2010 version uses 2086 words. From table 12, the chapters which are used in the 2009 and 2010 TP documents can be seen.

Higher Level Mapping of TP Documentations	
Transfer Pricing Method	
Year 2009 TP Documentation	**Year 2010 TP Documentation**
7. Explanation on Applied Transfer Pricing Method	4. Selection of Transfer Pricing Method
7.1 Transfer Pricing Requlation	4.1 Comparable Uncontrolled Price Method
7.2 Basis of The Selection	4.2 Resale Price Method
7.2.1 Tradional Transaction Methods	4.3 Cost Plus Method
7.2.2 Profit-based Methods	4.4 Tranactional Net Margin Method
7.2.3 Method Selected to Decide Arm's Length Price	4.5 Profit Split Method
	4.6 Selection of Tested Party
	4.7 Profit Level Indicator (PLI)
	4.8 Comparable Data
	4.8.1 Multiple Year Data
	4.8.2 Interquartile Range

Table 12: Transfer pricing method

The start of the process of finding the most suitable TP method goes a similar way in both reports. The difference comes from which legislative documents give the basis for choosing the method. The 2009 documents use the Finnish tax legislation and OECD principles as a background for choosing the TP method. The 2010 documentation refers to the Chinese legislation and the TP methods which the legislations gives the possibility to choose from. In this case, the list of possible methods is identical as China accepts the OECD principles for use of TP methods (see more in chapter 3.5.1).

Next, the 2010 documentation goes through each of the TP methods from the case company's point of view and gives detailed comments as to why some methods would be suitable for use and why some of the methods are not. The 2009 document gives very detailed information about the method itself, but analysing why one method would be suitable to the case company hasn't been done on a very detailed level. The basic principle of seeing all possible available methods and choosing the most suitable one is fully the same in this part of the documents.

4.4.5 Comparability Analysis

The next and one of the most important steps is proving that the TP method that was chosen in the previous chapter follows the arm's length principle, and proving that the case company has been using the correct internal transfer prices. How this is done between the 2009 and 2010 TP documentation packages again has differences on the detailed level.

Higher Level Mapping of TP Documentations	
Comparability Analysis & Conclusions	
Year 2009 TP Documentation	**Year 2010 TP Documentation**
8. Information on Comparable and Comparability Analysis F. Appendix: Report on The Comparable Search of Software Development Activities in Europe	5. Comparable Analysis 5.1 Related Transaction Financing 5.2 Related Transactions of Main Operations 5.3 Search Criteria for Comparable 5.4 Selection of Comparable 5.4.1 Databases 5.4.2 Search Process 5.4.3 Electronic Identification 5.4.4 Quantitative Screening 5.4.5 Qualitative Screening 5.5 Final Result 6. Conclusion

Table 13: Comparability analysis and conclusions

The 2009 documentation report in itself has only one chapter which contains half a page of text where on a general level it describes how the comparable was chosen. The main part of the information about the process of finding a comparable is in Appendix F. In the 2010 report there are 12 pages of text related to the topics that can be seen in table 13. There are also Appendices I – III attached to the document which give 42 pages of detailed information about 438 companies from which the 14 comparable companies were chosen. Because of the massive amount of information related to the comparability analysis in this study, the main points are collected in table 14 below.

Comparability Analysis	2009	2010
Comparability analysis provided by	PWC	Grant Thornton
Database used for finding comparable	AMADEUS	OSIRIS
Benchmark area	Europe	Asia Pacific
Timespan	3-5 years	3 years
Number of companies in screening	239	438
Final sample size	13	14

Table 14: Comparability analysis

The use of a very different set of database between the year's documents is a major difference. In 2009 the comparable analysis was done based on European companies' benchmark while in 2010 this was changed to the Asia Pacific benchmark. The reason for this can be found from the following insert from the 2010 TP documents: *"The State Administration of Taxation ("SAT") has also subscribed to OSIRIS with an attempt to further strengthen anti-avoidance and tax administration. On March 25, 2005, the SAT released circular Guoshuihan [2005] No. 239 emphasizing the use of the BVD* [Bureau van Dijk Electronic Publishing] *database when conducting anti-avoidance investigations and tax adjustments"*. Considering this, the comparable analysis done using 2009 data wouldn't have been suitable from a local needs perspective and it was a good choice to change it to a more suitable one with the 2010 TP documentation.

Even though this major difference between the 2009 and 2010 reports' comparability analysis was found, this difference is not based on the principle of how to do the comparability analysis, because the methods themselves are very similar. The difference comes from using the same database and data set, which would have been suitable for European country-specific reports, but didn't fulfill Chinese country-specific needs.

4.4.6 Use of Appendix

Both years' contemporaneous TP documentation has a large amount of appendices included. One difference was how these appendices were included in the documentation. In the 2009 documentation package, the masterfile and country-specific documentation approach was strongly used, which meant that there was quite a short main file and other information was in attachments. For the 2010 TP document, all of the documents and attachments were included in one big file.

Higher Level Mapping of TP Documentations	
Use of Appendix	
Year 2009 TP Documentation	**Year 2010 TP Documentation**
Group Appendices	Appendix I: Profile of Selected Comparables
Appendix A: Organization 2009 (Legal Companies & Ownership)	Appendix II: Selection Matrix
Appendix B: Segment Information year 2009	Appendix III: Financials of Selected Comparables
Appendix C: Transfer Pricing Policy	Appendix IV: Functions and Risks Analysis Form
Appendix D: Standard Hourly Cost Policy	Appendix V: Financial Analysis Form
Appendix E: Shared Cost Transfer Pricing Masterfile	Appendix VI: Summary of Related Parties
Appendix F: Report on The Comparable Search in Europe	Appendix VII: Copy of intercompany Agreements
Local Appendices	Appendix IX: Consolidated Financial Report
Appendix 1: List of Internal Transactions	
Appendix 2: Functional Analysis	
Appendix 3: List of Transfer Prices and Margin Calculations	
Appendix 4: Copy of intercompany Agreements	

Table 15: Appendices

The masterfile and country-specific approach with the 2009 TP documents can also be seen from table 15 when the appendices are divided into group appendices and local appendices. The idea would be that group appendices would be the same in all countries, and local appendices would be specified to each country based on local needs. In the 2010 documentation, the appendices were much more country-specific, even though some global documents were used.

Then comes the question of why the appendices look very different even though in previous chapters large differences haven't been found? This question was asked of Ellie and she was able clarify this. The answer to this is that in the 2009 documentation, the chosen TP method was the same as that used by the rest of the group companies, and because of this Appendices C, D and E were useful. The 2010 contemporaneous TP documentation was done by an external consulting company. Their view was that using a different TP method would be most likely to get a positive outcome for the company with the local taxation officers. Because of this, a new set of appendices were built to reflect this need.

Higher Level Mapping of TP Documentations	
Use of Appendix	
Year 2010 TP Documentation	Year 2009 TP Documentation
Appendix I: Profile of Selected Comparables	Appendix F: Report on The Comparable Search in Europe
Appendix II: Selection Matrix	Appendix F: Report on The Comparable Search in Europe
Appendix III: Financials of Selected Comparables	Appendix F: Report on The Comparable Search in Europe
Appendix IV: Functions and Risks Analysis Form	Appendix 2: Functional Analysis
Appendix V: Financial Analysis Form	Appendix 3: List of Transfer Prices and Margin Calculations
Appendix VI: Summary of Related Parties	Appendix 1: List of Internal Transactions
Appendix VII: Copy of intercompany Agreements	Appendix 4: Copy of intercompany Agreements
	Appendix A: Organization 2009 (Legal Companies & Ownership)
Appendix IX: Consolidated Financial Report	Appendix B: Segment Information year 2009
	Appendix C: Transfer Pricing Policy
	Appendix D: Standard Hourly Cost Policy
	Appendix E: Shared Cost Transfer Pricing Masterfile

Table 16: Mapping of appendices

Table 16 shows how the appendices map between the different years' reports. Appendices I – III from the 2010 documentation are mapped to Appendix F of the 2009 documentation as this report covers all areas of finding and choosing a suitable comparable. Even though the TP method used changed between the years, the principles of choosing a comparable are very similar. Appendix IV and Appendix 2 are both for functional analysis, and there were no big differences on how this topic was handled in both documents. Appendix V and Appendix 3 have minor differences as in the 2010 version, transactions were divided on a more detailed level (Overseas related-party & non-related party and, Domestic related & non-related party).

Appendix VI and Appendix 1 both show intercompany transactions and counterparties. In a similar way, Appendix VII and Appendix 4 are almost identical. Appendix A contains information which was covered in another part of the 2010 document, and there is no difference in this area. Also, Appendix IX and Appendix B have lots of similarities, showing higher level consolidated numbers.

5 Overview and Conclusions

5.1 Conclusions

At least in this case company study, the differences between Finnish and Chinese contemporaneous TP documents were surprisingly small compared to the writer's own expectations. Finland is an OECD member country and naturally follows OECD and EU principles related to TP regulations (see more in chapter 3.4). China is not a member of the OECD, but they have still adopted many OECD recommendations in their local laws. After the 2009 change, TP documentation principles took a major jump in the same direction as OECD recommendations (see more in chapter 3.5.1). When taking note of recent developments in China, this case study's results were not so surprising after all. China's decision to try to harmonize its own TP rules with the OECD is understandable as it tries to attract more direct foreign investments. By having TP regulations which closely follow the OECD principle, it's easier to attract MNEs to the country. Some support is given to these ideas by Eden and Smith with their article that found that foreign MNEs were shifting profits out of China, not because of corporate income tax differences (in fact, Chinese tax rates were lower than elsewhere), but to avoid foreign exchange risks and controls (Eden & Smith 2011, 10). Considering this, using local TP policies which are close to the global OECD's rules decreased MNEs' worries related to country risk, making it easier to attract foreign investments.

When this study started to compare the different years' contemporaneous TP documentation, the first view based on the tables of contents gave the impression that there could be big differences. Later, after becoming familiar with the material based on studying, analyzing and having several discussions with Ellie Zhou, it could already been seen that there are less differences then was first thought. Continuing to compare and map the material, the major differences started to get smaller when similar information was found from different parts of the documents or appendices. Also, the reason for the differences depended more on the situation. There were cases when the company had decided to act differently because there was more knowledge about local needs. This can be seen as a difference in TP documentation from the case company's point of view, but it cannot be generalized that this would be a normal difference between Chinese and Finnish contemporaneous TP documentation.

One difference which becomes visible in many parts of the report was that the 2010 contemporaneous TP documentation was much more localized than the 2009 version. In the 2009 documents, a module structure was clearly used in creating the document, which can be a very wise way to proceed when the company has limited amount of TP specialists available. An interesting question for thought is whether this is enough for local Chinese needs, at least in the form which the case company did it? In this study, chapter 3.5.4 gives the idea that Chinese local needs for TP documentation reporting could be tighter than in the average country following the OECD TP principles. An example of this could found on page 47, table five. From this table it can be seen that China's requirements of other than contemporaneous TP documents cover a much wider range than comparing countries. This could be a hint that the external consulting company was doing the right thing when they made a more detailed China-specific report in the 2010 contemporaneous TP documentation. The same idea supports the fact that when local government taxation officers were auditing the documents, there were no big problems raised during the audit, even though it doesn't directly answer how this audit would have gone if the documents had followed the 2009 concept.

Is it so easy to create suitable localized contemporaneous TP documentation in China as is the impression given in the first part of the conclusions? Even though differences in content of the documentation are not large, there are still certain practicalities that a company which is thinking about creating their own localized TP packages should consider.

The first item, as we see from chapter 4.4, is that the Finnish and Chinese contemporaneous TP documentation tables of contents have quite big differences. When doing a localized version of documentation, it is needed to follow SAT requirements (see more details in chapters 3.5.3 and 4.4). To get started with this, one good way could be to read through this thesis and carefully look over the 2010 documentation's table of contents. This, at least, could give a starting point to analyzing if this approach would be suitable for your needs, as there are differences between industries and business models used.

Another important point to keep in mind is language. The official version of local contemporaneous TP documentation is required to be in the Chinese language. In this thesis, the 2010 contemporaneous TP documentation material used was the English translation of official documents. This material was prepared by the same external consulting company that made the case company's official Chinese version of the contemporaneous TP documentation. The original purpose of this English translation was to give the Group Company's TP specialist the possibility to review the documents, together with an external consulting company before the official Chinese documentation was given to the local taxation officers. In this way, the material itself is a good source to make conclusions about the Chinese needs for contemporaneous TP documentation.

It's possible to use this thesis as a practical reference to which areas of contemporaneous TP documentation should be covered in a localized package when doing the first draft version of documents. Later, this draft version is advisable to take to a local TP specialist company that can create the finalized version in the Chinese language. This way, the company will gain some experience in how to create the documentation package and it's much simpler to let the company's own local employees update TP documents by themselves, based on the external consulting company's finalized version in coming years.

5.2 Internal and External Validation

It's important for the reader of the study to understand that the results and this study itself are done in a way that the results are reliable and valid. For this study, estimating validity and reliability is done by using Yin's three case study tactics, which can be seen in table 17.

TESTS	Case Study Tactic	Phase of research in which tactic occurs
Construct validity	♦ use multiple sources of evidence ♦ establish chain of evidence ♦ have key informants review draft case study report	data collection data collection composition
Internal validity	♦ do pattern matching ♦ do explanation building ♦ address rival explanations ♦ use logic models	data analysis data analysis data analysis data analysis
External validity	♦ use theory in single-case studies ♦ use replication logic in multiple-case studies	research design research design

Table 17: Case study tactics for three design tests (Yin 2009, 41)

The first test estimates the study's construction validity. This study used multiple sources of evidence. The main sources were the 2009 and 2010 contemporaneous TP documentation and appendices. The second major source of information was books, articles and internet sources. For these, published articles and books were preferred and internet sources were used if information wasn't available in other ways. For internet sources, OECD, EU, UN and other official institutions were preferred over other web-based information, however, in some cases, Pricewaterhousecoopers (PWC) and other big auditing company's documents were used as they have the best practical knowledge on TP issues. The third source of information was free-form discussion sessions with the company's finance director, Ellie Zhou, which clarified several questions related to the documents. In the study's empirical parts, it has been attempted to establish a clear view of the chain of evidence that leads to the conclusions. The reader can make their own views as to if this is done in a way that is logical and easy to follow. As the last step of construct validation, Ellie Zhou read the latest draft version of this study, and based on her comments a few small changes were made to clarify the text. This way, the main idea and conclusions of the study can be seen to be valid, at least from the case company's own standard.

The second test estimates the study's internal validity. This study started with collecting information about the topic of TP before becoming familiar with the case company's material. Later, after gaining an understanding of the basics of the theoretical material, the next step was to get to know the case company's material well, and to have a discussion with Ellie Zhou. After this, comparing and analyzing data was undertaken in order to be able to find differences between the 2009 and 2010 TP documents. There are many ways to code data and divided it into different categories and certainly, the way that was used in this study wasn't the only logical and correct way to do this. The main results obtained from the data still seem clear as there weren't any major areas between the documents which were completely different or missing from the other contemporaneous TP document; in this way the study is internally valid, at least with regards to the main conclusions of the study.

The third important test is to estimate the external validity of the results. A result of the study was that differences in contemporaneous TP documentation between Finland and China are not major when seeing one separate case company's point of view. When searching for support of this claim, there was no possibility to check for studies that compared TP documentation between China and Finland, because of a lack of research related to this topic. In the earlier theory part of this study (see chapter 3.5.1), there was information on how China has moved closer to OECD requirements and, in light of this, it's natural that differences in contemporaneous TP documentation packages would not be so big. In this part of study, I wanted to see if it was possible to find more evidence to support this. In the article from Li, the author supported the idea that Chinese TP documentation practices have shifted closer in the last 10 year period (Li 2013, 1); also, Chi et al. states that even though there are differences in the required documents, they are still generally consistent with the OECD Guidelines (Chi et al. 2012, 1-3). As a reminder that there are differences between Chinese and OECD practices, Ainsworth and Shact give a more general answer to this question, even though these items are not directly related to TP documentation (Ainsworth & Shact 2014, 1-3). Based on this, there is external support to the idea that there aren't major differences between the contemporaneous TP documentation between China and Finland, as an OECD member.

5.3 Topics for Future Research

What could be interesting topics for future research which arise from this research? The first topic would be to concentrate research on a wider number of Finnish companies that have big enough operations in China that they need to prepare contemporaneous TP documentation as this study concentrated on only a single case company, and the results of this study may not necessarily be possible to be generalized to a wider group. It would be interesting to see if a larger test population would provide a similar kind of result. Also, the style of the study would need to be changed, because a case study for a larger group, for example 10 companies, would be too time consuming. Likely, having a sufficient amount of one to one interviews with different companies would give a good enough understanding of what kinds of differences there would be from the company's point of view. A possible problem could be found in finding people to interview who would have a good enough understanding of both Chinese and Finnish TP reporting, as in many cases, different people are preparing these TP documents for different countries.

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Attachment:

List of Documents and Interviews

- Open discussion 1: With Ellie Zhou. This meeting happened in the case company's Beijing office on 9th of April 2012 and the meeting lasted for 2 hours.
- Open discussion 2: With Ellie Zhou. This meeting happened in the case company's Beijing office on 14th of May 2012 and the meeting lasted for 2 hours.
- Word document of the English version of the year 2010 contemporaneous transfer pricing documentation (137 pages) including Appendices I – VIII.
    - APPENDIX I. Profile of Selected Comparables
    - APPENDIX II: Selection Matrix
    - APPENDIX III: Financials of Selected Comparables
    - APPENDIX IV: Functions and Risks Analysis Form
    - APPENDIX V: Financial Analysis Form
    - APPENDIX VI: Summary of Related Parties
    - APPENDIX VII: Copy of Intercompany Agreements
    - APPENDIX VIII: Consolidated Financial Report

- Word document of the English version of the year 2009 contemporaneous transfer pricing documentation (26 pages) with separate appendices seen below
- Tieto Group Appendices:
    - Appendix A: Organization 2009 (legal comp. & ownership)
    - Appendix B: Segment Information year 2009
    - Appendix C: Transfer Pricing Policy
    - Appendix D: Tieto Standard Hourly Cost Policy
    - Appendix E: Shared Cost Transfer Pricing Master File
    - Appendix F: Report on the Comparable Search in Europe

Local Appendices

- Appendix 1: List of Internal Transactions
- Appendix 2: Functional Analysis
- Appendix 3: List of Transfer Prices and Margin Calculation
- Appendix 4: Copy of Intercompany Agreements