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Accounting

Master's thesis

TRANSFER PRICING OF CROSS-BORDER INTRA-GROUP SERVICES IN FINNISH SAAS COMPANIES

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ABSTRACT

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This master's thesis studies how multinational software as a service companies with Finnish parent company have setup their transfer pricing of cross-border intra-group services. There are some studies about transfer pricing of cross-border intra-group services in software as a service companies, but there are no researches about how it is done in Finnish context. This thesis aims to fill this research gap.

The empirical analysis started by collecting data by interviewing employees of Finnish software as a service companies who have at least one cross-border subsidiary. The research method is semi-structured theme interview. The results of this study show that companies have different practices regarding their transfer pricing of cross-border intra-group services. Companies are trying to comply with all rules, the rules are not always univocal. Because of this companies need to interpret the rules. Results show that companies are trying to keep their transfer pricing of cross-border intra-group services as simple as possible, and they are relying on external consultants on it.

TIIVISTELMÄ

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Pro Gradu -tutkielma tutkii sitä, kuinka monikansalliset ohjelmistoyritykset joilla on suomalainen emoyhtiö ovat järjestäneet sisäisten palveluiden siirtohinnoittelun. Ohjelmistoyritysten siirtohinnoittelusta on joitain tutkimuksia, mutta tutkimuksia ei ole tehty suomalaisessa kontekstissa. Tämä Pro Gradu -tutkielma pyrkii täyttämään kyseistä tutkimusaukkoa.

Data empiiriseen analyysiin kerättiin haastattelemalla sellaisten suomalaisten ohjelmistoyritysten työntekijöitä, joilla on vähintään yksi ulkomaalainen tytäryhtiö. Tutkimusmetodina käytettiin puolistrukturoitua teemahaastattelua. Tutkimustulokset näyttävät, että yrityksillä on erilaisia käytänteitä sisäisten palveluiden siirtohinnoitteluun. Yritykset pyrkivät noudattamaan säännöksiä, mutta koska ne eivät ole aina yhdenmukaisia heidän tulee tulkita säännöksiä. Tulokset näyttävät, että yritykset pyrkivät pitämään sisäisten palveluiden siirtohinnoittelun yksinkertaisena, ja että he luottavat ulkopuolisiin konsultteihin sen suhteen.

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TABLE OF CONTENTS

1 INTRODUCTION 8

1.1 Background of the study 8

1.2 Theoretical framework and limitations 10

1.3 Research objectives and questions 11

1.4 Research methodology and material 12

1.5 Structure 13

2 TRANSFER PRICING REGULATIONS OF INTRA-GROUP SERVICES 15

2.1 Concepts and regulating transfer pricing 15

2.2 Characteristics of intra-group services in SaaS companies 17

2.3 Rendering and charging for intra-group service 24

2.4 Transfer pricing methods for intra-group services 27

2.5 Correction of transfer pricing 33

3 RESEARCH METHODS, DATA AND ANALYSIS OF THE FINDINGS 37

3.1 Interviewing process 37

3.2 Analysis of the data 42

3.3 Company backgrounds 43

3.4 Motivation for founding cross-border subsidiaries 44

3.5 Intra-group services and their transfer pricing 46

3.6 Transfer pricing set up 51

3.7 Finance of transfer pricing 56

3.8 Problems 60

3.9 Summary of the research findings 65

4 DISCUSSION AND CONCLUSIONS 67

4.1 Summary of the thesis 67

4.2 Results and discussion 68

4.3 Conclusions 71

4.4 Reliability of the results and suggestions for further research 72

LIST OF REFERENCES 74

APPENDICES

Appendix 1: Example questions

List of tables

Table 1 Low value-adding intra-group services (after OECD 2017, 334; Hill 2007, 25): 21

Table 2 Themes in semi-structured theme interview 39

Table 3 Interviews 40

Table 4 Background details for the interviewed companies 43

Table 5 Motivations for founding cross-border subsidiaries 65

List of figures

Figure 1 Relationships between the research themes 11

Figure 2 Chapters of the theory part 14

Figure 3 Transfer pricing methods 29

Figure 4 Interviewing process 38

Abbreviations and Acronyms

CCA	Cost contribution method
CPM	Cost-plus method
CPrM	Comparable profit method
CUP	Comparable uncontrolled price method
IPR	Intellectual Property Rights
IRS	Internal Revenue Service, tax authority of United States
IT	Information technology
MNE	Multinational enterprise
MNE group	Concern that consist on individual enterprises based in various countries
OECD	Organization for Economic Co-operation and Development
PSM	Transactional profit split method
RPM	Resale price method
SaaS	Software as a service
TNMM	Transactional net margin method
TP	Transfer pricing

1 INTRODUCTION

This chapter serves as an introduction to the topic of transfer pricing of cross-border intra-group services. It describes the parties included in the transfer pricing, and how their motivations shape the transfer pricing practices. The chapter also includes examples of recent challenges that multinational enterprises have faced in their transfer pricing.

1.1 Background of the study

When entities that are associated sell services or products to each other, they need to set a price that complies with transfer pricing and international taxation. (Karjalainen & Raunio 2006, 14). During recent years public interest towards multinational enterprises (MNEs) and transfer pricing has increased (Rossing & Rohde 2010, 199). Some might say, that the increasing interest towards transfer pricing rises from massive deficits that many developed economies have in their budgets (Sandelin 2012; Dyreng & Markle 2016, 1601). Every party included in transfer pricing has their interests and priorities towards transfer pricing that create individual standpoints for approaching the subject.

These different standpoints stand out in day-to-day communication, where it is quite common to mix legal tax planning with aggressive tax planning, that aims to avoid paying some or all taxes (Knuutinen 2015, 9). The media can blame MNEs for tax avoidance, whereas MNEs claim that they are merely doing tax planning and following the laws. The truth can lie somewhere between these two aspects, as every case is different.

MNE group is a concern that consists of enterprises based in various countries (Mitra et al. 2014, 2). Having business units in multiple countries enables MNE groups to shift revenue from one tax jurisdiction to another, which allows them to lower their overall tax liability (Mazur 2016, 645). Lately, in public conversation, there

has occurred a rising concern that MNE groups are shifting profits from high-tax countries to low-tax countries (McClure & Deb 2015; Nevius 2017). These concerns have risen partly because of leaked documents related to aggressive tax planning (Teittinen 2017). Recent examples of such documents include Panama Papers from 2016 and Paradise Paper from 2017, both of which included information about Finnish companies (ibid.).

Tax administrations have also shown rising concern regarding transfer pricing. In recent years Internal Revenue Service of United States (IRS) has issued a notice for few big companies, such as Microsoft and Coca-Cola regarding their transfer pricing of intangible assets (Kelley et al. 2016, 49-50). Tax officials and governments are concerned that MNE groups have created an artificial intra-group business model, where they can charge associated enterprises located in different tax jurisdictions in a way that minimises their overall tax burden (McClure & Deb 2015, 62-63). At the same time some multinational information technology (IT) companies, including Apple and Google, use Irish and Danish affiliates to transfer profits to low-tax countries (ibid).

The discussion about finding the right balance between what should be concerned to be legal tax planning and what is considered to be tax avoidance continues, but some cases can imply what the solution will be. One of these cases occurred in 2017 when Amazon won transfer pricing dispute against IRS. Amazon was using multistep allocation system to allocate costs from multiple cost centres to entities. IRS disagreed with Amazon and claimed that company's system was not the best method for charging Amazon's Luxembourg subsidiary. IRS also argued that intra-group charges were not negotiated according to arm's length principle. In the end, the court agreed with Amazon, and the determination that IRS was showing in the case was said to be "arbitrary, capricious and unreasonable". (Nevius 2017, 76) Usually companies trust that their transfer pricing procedures do not carry any risk if their tax planning complies with the letter of the law, which might not be the case

in the future, for it will be more important to make sure that company's tax planning also complies with the spirit of law (Kelley et al. 2016, 49).

1.2 Theoretical framework and limitations

The theory part of this thesis consists of a literature review. In the literature review transfer pricing is studied from the point of view of international taxation. Literature review includes international academic studies, and it is completed with Finnish tax articles to give Finnish perspective to subject. Besides on researching academic discussion about cross-border intra-group services, this thesis also uses as reference few rather practical sources of information, such as transfer pricing guidelines and juridical references. Two main references of this thesis are transfer pricing guidelines of the Organisation for Economic Co-operation and Development (OECD) and Finnish tax journal Verotus. The literature review is completed with empirical part of the study. The empirical part of the study is concentrates on Finnish companies with subsidiaries outside Finland.

Figure 1 demonstrates how research themes conduct the whole picture. In the middle of the triangle, there are characteristics of service: characteristics linked to transfer pricing (TP) process, the time when service is rendered and the correct charge of the service. By researching these themes, this study aims to create an overview of transfer pricing of cross-border intra-group services in Finnish software as a service (SaaS) companies.

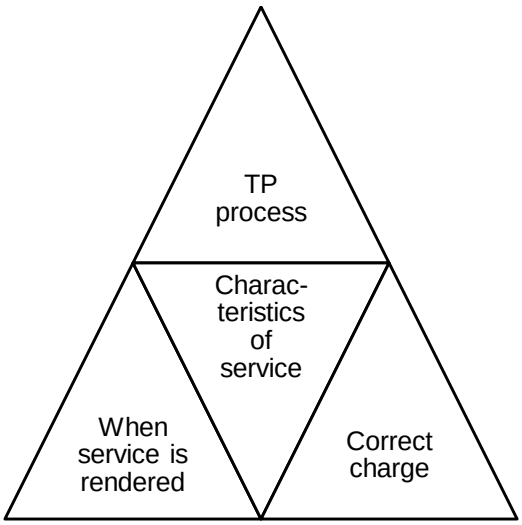

Figure 1 Relationships between the research themes

This thesis focuses on describing how the transfer pricing is done in the MNE groups. It does not seek to find univocal answers to why MNE groups have chosen specific ways to proceed with their transfer pricing processes. The MNE groups investigated in this thesis conduct their primary business is in SaaS and have Finnish parent company with international subsidiaries. This study does not have other limits, despite the possibility that some more specific factors could have made the focus of this study more coherent. The broad point of view was still chosen to get a general overview of the issue.

1.3 Research objectives and questions

This thesis aims to find out how SaaS companies conduct transfer pricing of the cross-border intra-group services provided to their subsidiaries. This thesis seeks to contribute to the academic discussion of transfer pricing by giving information from Finnish SaaS companies that have cross-border subsidiaries. The focus of the study is on services provided by Finnish parent companies. Two main groups of intra-group services that are studied are IT-services and low value-adding intra-group services.

This thesis answers one main research question with the help of two sub research question. The research questions are:

Main research question:

> *What problems SaaS MNE groups face regarding the transfer pricing of cross-border intra-group services provided by Finnish parent companies?*

Sub research questions:

> *How companies define their transfer pricing processes for cross-border intra-group services?*

> *How Finnish parent companies define the price for cross-border intra-group service?*

The main research question aims to provide information about how transfer pricing methods fit cross-border intra-group services. The sub-research questions complete the main research question. The first sub-question tries to define when companies know that the cross-border intra-group service has been provided to their subsidiary and that they should charge for the service. The second sub research question tries to identify how MNE groups define the price for intra-group services.

1.4 Research methodology and material

The research questions are studied by first investigating the topic with the help of previous studies and professional literature. After getting to understand the research topic based on previous studies, this study aims to take part in the academic discussion by investigating cross-border transfer pricing in Finnish SaaS companies. Data for this study is collected using semi-structured theme interviews.

This research method is suitable for situations where the interviewees are not used to discuss the subject daily, or when it is difficult to understand the outlines of the subject (Hirsjärvi & Hurme 1982, 35). Semi-structured theme interviews give interviewees room possibility to add their own experiences and interpretations (Hirsijärvi & Hurme 1982, 36-37).

The empirical section of this thesis is based on analysis of three semi-structured theme interviews. The interviewees that were chosen for this study have knowledge of transfer pricing of intra-group services in SaaS companies. The interviewees were limited to people who have worked in small and medium-sized enterprises. The interviews were conducted during spring 2018.

1.5 Structure

This thesis proceeds as follows: The introduction chapter introduces the topic and the research methods. The literature review follows the introduction chapter. First subchapter of the literature review focuses on the principles of transfer pricing. The second subchapter of the literature review discusses transfer pricing from the point of view of intra-group services: subchapter starts with a discussion of IT-services in general, followed by a more in-depth discussion of intra-group services. After defining IT-services and low value-adding intra-group services, the literature review proceeds to the theme of pricing: when do we know that the intra-group service has been rendered, and what is the correct charge for it? The chapters of the theory part of this study are presented in figure 2.

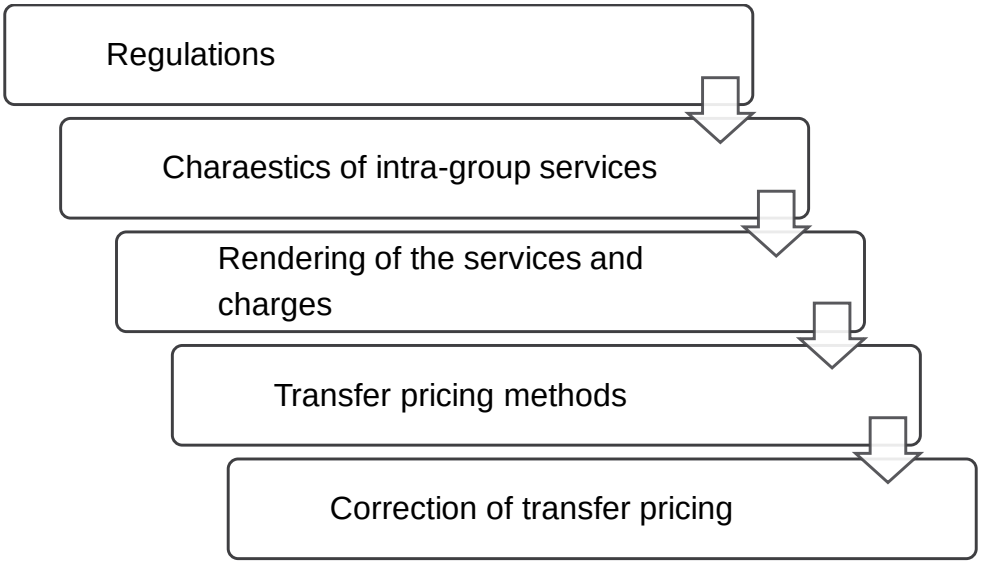

Figure 2 Chapters of the theory part

After the literature review, this thesis discusses transfer pricing of intra-group services in Finnish context. This empirical part of this thesis is based on semi-structured theme interviews. The interviewees are people working in Finland based international SaaS companies. The empirical part of this study is conducted as a qualitative study. At the end of this thesis, there is an analysis of the research findings, followed by summary and conclusions.

2 TRANSFER PRICING REGULATIONS OF INTRA-GROUP SERVICES

This chapter addresses recent academic discussion about transfer pricing of cross-border intra-group services. The chapter proceeds as follows: first, the fundamental concepts and regulations related to transfer pricing are described. After this, it describes characteristics of intra-group services. The chapter ends by introducing different transfer pricing methods for cross-border intra-group services.

2.1 Concepts and regulating transfer pricing

Two critical concepts in transfer pricing literature are MNE group and associated enterprise. An MNE group consists of a group of legally independent multinational enterprises (MNEs) located in multiple countries, whose interest is to make the whole group successful (Helminen 2017). The concept of associated enterprise is determined in article 9 of OECD's Model Tax Convention, where it is stated that two enterprises are associated if one of them participates directly or indirectly in management, control, or capital of the other enterprise, or if same persons participate in these in both enterprises (OECD 2017, 17). The enterprises in an MNE group are associated enterprises, but generally associated enterprises are not a necessary part of any MNE group.

The differences in the tax regulations of international trade enable MNEs to arrange their taxation in a way that decreases their global tax burden (Helminen 2017). When MNE groups are doing business in multiple countries, differences in tax regulations may motivate them to shift income from high tax jurisdictions to low tax jurisdiction to maximise their overall profits (Borkowski 2001, 350). If tax regulations of different tax jurisdictions do not fit together, having business units in multiple countries can create situations where MNE groups can legally avoid paying taxes. This situation creates a conflict to the interest of the MNE groups and tax administrations, as avoiding paying taxes can be convenient for the MNE group, but problematic for the tax administrations that want to collect taxes that belong to their country.

At the same time as MNE groups can benefit from unfitting tax regulations of different tax jurisdictions, doing business in different nations also includes a risk of double taxation. OECD's transfer pricing guidelines try to help MNE groups and tax administrations to find mutual satisfaction and reduce costly legal proceedings. There are over 3 000 bilateral tax treaties, which help with fitting together the tax rules of different tax jurisdictions. The paragraph 1 of Article 9 in the OECD's Model Tax Convention forms the basis of bilateral tax treaties between OECD and non-OECD countries. (OECD 2017, 18-35)

Even though each country has their regulations regarding transfer pricing, few international transfer pricing guidelines serve as a baseline for national rules. One of these is OECD's transfer pricing guidelines. Recently OECD updated its guidelines in 2017 and finished a project focusing on the base erosion of profit shifting (BEPS) which aims to make international taxation more equal between high tax and low tax nations (Knuutinen 2015, 13). Many countries including Finland has adapted parts of OECD's transfer pricing guidelines to their regulations (Raunio & Gerdt 2010, 75). MNE groups cannot fulfil the taxation interests of every country, for they would end up paying tax for same thing multiple times. (Knuutinen 2015, 11).

When talking about transfer pricing, a critical concept that MNE groups must take into consideration is arm's length principle. Arm's length principle is related to situations where individual enterprises of the MNE group would be willing to sacrifice their success for the mutual success of the whole MNE group by selling intra-group products or services with too low or too high prices. Arm's length principle helps with making sure that MNEs charge a suitable price for intra-group services and products. Arm's length principle requires that the price of an intra-group product or intra-group service must equal to what it would pay if it would buy it from an independent enterprise. Hence, independent enterprises must treat internal transactions as if they were not part of the group. (Helminen 2017, OECD 2017, 16)

When MNE group is setting up transfer pricing processes and pricing their intra-group services, it needs to take into consideration two analysis: comparability analysis and benefits test. When MNE group implements arm's length principle to its transfer pricing process, it needs to perform comparability analysis. In Comparability analysis, MNEs compare their intra-group prices and other attributes to the prices and attributes of independent enterprises. The arm's length principle also states that the obligation to charge for an intra-group service stands only when the benefits test is satisfied. OECD's benefits test tries to answer two questions: 'when intra-group service has been provided?', and 'what correct price for service is?'. (OECD 2017, 36; 320; 388-389) Still, the application of arm's length principle can be too straightforward for large majority of cross-border transactions (Taylor et al. 2015, 30).

The taxing rights of countries vary depending on whether the country's taxation system is residence-based, source-based or based on both principles (Helminen 2017). If a country has a residence-based system, it will include in its tax base all parts of income of any person or entity who is resident of the jurisdiction. This includes income of natural and juridical persons and all income from different nations. In a source-based system country taxes income which arises from its tax jurisdiction, regardless of the residence of the taxpayers. (OECD 2017, 15-16) If many tax jurisdictions see that the value has been created in their area, the situation can lead to double taxation (Mazur 2016, 663-664).

2.2 Characteristics of intra-group services in SaaS companies

Cusumano (2010, 28) describes that SaaS companies provide their software over internet servers, which means that both developers and customers can access the software a web browser. The author continues that as SaaS companies often develop their software in the cloud, they develop it through the internet from any location. This location free nature of SaaS companies can lead to many difficulties

when they try to apply transfer pricing guidelines to their intra-group services. Currently, there is no guidelines for the application of the transfer pricing rules to a transaction that is done in the cloud, as international tax regime has not been able to keep up with the evolution of technology (Mazur 2016, 647-648).

In the study of Mazur (2016, 644; 650-651) the author describes that the technological change in the business of the SaaS companies has led to a situation where SaaS companies operate in the cloud. The author explains that working in the cloud means that SaaS companies can build and distribute their software to customers through the internet. Mazur also notes that companies that provide IT services can operate in the virtual environment, which means that they can efficiently operate in multiple countries and share their virtual resources online to customers and other members of the MNE group. Changes like this bring challenges to transfer pricing. Mazur continues that before cloud services became as usual as they are today, it was easier to point exact moment when the software was transferred from producer to customer.

Transfer pricing for SaaS companies can be tricky because they have many elements that differ from traditional companies. The business of SaaS companies is often scalable at the same time as it can be highly customised. SaaS companies do not have many tangible assets, as their value lies in a system or software, and the lack of tangible elements makes it possible for them to have business units in multiple countries. Since there is no guidance for transfer pricing of SaaS companies' intra-group services that are produced in the cloud, SaaS companies must figure out by themselves how to apply the general transfer pricing rules to their transactions. (Mazur 2016, 644-647) In many cases, SaaS companies may need to figure out by themselves what is the best way to conduct transfer pricing. The contingency approach supports this view: it states that each company needs to find the best accounting and transfer pricing systems and adjust them according to changes in the company and its environment (Rossing and Rohde 2010). This raises a question about transfer pricing of intra-group services.

MNE groups provide different intra-group services varying from administrative services to financial and technical services to entities belonging to the group (Mäkelä & Alahuhta 2016, 67). Intra-group services are services that one enterprise of MNE group produces to other members of the group. Especially parent companies tend to provide different services to their subsidiaries, but MNE group can also centralise some services to one enterprise to gain scale benefit. The nature of the intra-group services differs from one MNE group to another. (Mäkelä & Alahuhta 2016, 67) Transfer pricing of intra-group services can be challenging. There are few studies providing insight on where the challenges are rising from (Rossing & Rohde 2010, 200).

Under the arm's length principle, a service is considered to be an intra-group service if an independent enterprise would have paid or produced the service for itself in comparable circumstances (OECD 2017, 321). MNE groups can produce some IT-services in-house and buy some of them. Compensation for executive services differs widely in different MNE groups, and it can be affected by other factors such as the term of employment or the financial status of the company (Goldberg et al. 2012, 1200). Because of these differences and interpretations of the transfer pricing rules, the MNE groups need to find the best logic that suits their situation and follow that logic.

When describing the transfer pricing of cross-border intra-group services, it is essential to understand what service is. There are many ways to define a service, but traditionally it is said that services have four characteristics: they are intangible, heterogenic, inseparable and perishable. As information technology has become more advantaged, these characteristics seem to apply only to traditional low-tech services, which are delivered personally to the receiver. (Moller 2010, 359).

OECD's transfer pricing guidelines recognise some intra-group services as low value-adding services, for which MNEs can use a simplified transfer pricing approach (OECD 2017, 333). Services like IT, purchasing, human resources and accounting are typical examples of low-value intra-group services (Van Stappen 2013, 1013; Hill 2007, 21). These low value-adding intra-group services are common among IT industry, and they are often offshored to countries with low-cost labour in order to make cost savings (Goldberg et al. 2012, 1199; Eden 2005, 2).

If an MNE group wants to use simplified transfer pricing method for low value-adding services, MNE group needs first to analyse which intra-group services qualify as low value-adding intra-group services. From the point of view of transfer pricing, the fact that the service does not return high value does not make it low value-adding intra-group service. In US tax officials have lined that the markup rate of low value-adding intra-group service should be below seven per cent, but in Europe, it is not common practice to have an exact limit of how much value a low value-adding intra-group service can bring to the MNE group. (Green & Jenn 2009, 32)

Low value-adding intra-group services can bring some value for the MNE, but some characteristics make restrictions. OECD has stated that low value-adding intra-group services need have some specific aspects. They have supportive nature, are not part of the core business of the MNE, do not require using unique and valuable intangibles and do not lead to the creation of one, do not include significant or substantial risk from the side of the service provider, and do not lead to the creation of one. Some intra-group services may qualify as low value-adding intra-group services only in a specific context or circumstances. For example, intra-group services may create significant risk or highly valuable intangibles in some circumstances, which would make them high valuable intra-group services. (OECD 2017, 344-337) These 'high-margin' services are believed to be jobs that cannot be described as routine administrative jobs (Hill 2007, 25). Table 1 demonstrates activities that do and do not qualify for the simplified approach of low value-added intra-group services.

Table 1 Low value-adding intra-group services (after OECD 2017, 334; Hill 2007, 25):

Services that qualify	**Services that do not qualify**
Payroll	services which are part of the core business of the MNE group
Accounts receivable and payable	research and development services, including most software development
General administrative	production and manufacturing services
Corporate public relations	purchasing services of materials used in production or manufacturing
Accounting and auditing, tax, budgeting	sales, marketing, distribution
Treasury activities	financial transactions
Staffing and recruiting	some services related to processing natural resources
IT services	insurancing
Purchasing	services from the senior management, excluding the supervision of low value-adding intra-group services

There are situations where it is difficult to specify does the MNE have the right to charge for the intra-group service they have provided. An example of a case is when controlled enterprise gains benefit solely from being a part of MNE group, and in this situation, the benefit is gained through passive association (Green & Jenn 2009, 30). For example, if a member of the MNE group gains benefit from the good brand

of the MNE group, that is considered to be gained from passive operations, and therefore it will not entitle for a charge (Helminen 2017). Sometimes an MNE executes services for themselves, that then unintentionally create value for other entities of the group. Because of the unintentional nature of these services, it can be challenging to judge does an enterprise have the right to charge for the associated enterprise. For example, the parent company can try to gain cost savings by changing business processes, and as a result of the related enterprises also save costs: should the associated enterprises pay part of the costs accrued from the changes, even though their savings were gained without intention as an extra benefit (Raunio & Gerdt 2010, 76).

There are some specific situations where the MNE does not have the right to charge for the intra-group service they have produced. The service provider cannot charge for costs that arise from the inefficiency, because it is not seen to reflect transaction at market terms (Rossing & Rohde 2010, 202). Some intra-group activity can be executed in a way that does not bring real benefit to other members of the group. When group member duplicates service that another group member is already performing for itself or is performed for it by the third party, it should not charge for the service. However, if the service is temporary and executed for reorganisation or to avoid wrong business decision group member can charge for it. (OECD 2017, 323-334)

At the same time as it is difficult to know where the value has been created, it can also be difficult for the MNE group to define which enterprises have benefitted from intra-group service. Especially shared costs which are provided by the headquarter of the MNE group are difficult to allocate to appropriate business units (Rossing & Rohde 2010, 202). Even if the MNE can define the benefit for each enterprise, they should from time to time check whether the benefits have changed (Van Stappen 2013, 1016). Service contracts can include information about who gains advantage from the service, but sometimes the actual way intra-group transactions are

executed can tell more about the true nature of the transaction than any contract written before the transaction was put into practice (Isomaa-Myllymäki 2017).

If the parent company performs activities solely because of its own interests related to ownership, the costs of that service should not be charged from the group members (OECD 2017, 321). Such services are called shareholder services, and the parent company provides them to its subsidiaries. In more centralised MNE groups the parent company can have more costs related to its ownership, whereas in a multipolar group the parent company may oversee how its investment manages (Mäkelä & Alahuhta 2016, 67). The benefits test rises as a critical tool when MNE groups determine what intra-group services qualify as shareholder services (Mitra et al. 2014, 8). OECD (2017, 321) describes that shareholder services are performed solely for the benefit of the parent company, and an independent enterprise would not be willing to pay for them. OECD has listed examples of shareholder activities, which include: costs related to the juridical structure of the parent company, cost associated to the reporting requirements of the parent company, costs of fundraising meant for acquisition of parent company's participants and cost related to parent company's investor relations. These services are usually executed for multiple subsidiaries at the same time (Mäkelä & Alahuhta 2016, 66-67).

Companies may have challenges with recognising shareholder activities. Rossing and Rohde (2017, 209) note that MNE groups can identify shareholder services for example by interviewing relevant employees about the different aspects of the intra-group services. Authors continue, that as the nature of the intra-group services can change, the MNE groups should schedule recurring interviews to help with recognising possible changes. There have also been suggestions that parent companies of MNE groups should report more closely costs that have occurred from making reports for corporate governance and tax reasons (Mäkelä & Alahuhta 2016, 67). All of these suggestions point out that MNE groups should be more transparent with their intra-group charges.

2.3 Rendering and charging for intra-group service

When MNE group is doing transfer pricing, it needs to recognise that the intra-group service has been provided to the receiving party, and they need to understand when the service has been provided. In transfer pricing process of cross-border intra-group services, the critical question is, has the service happened in a way that gives the right to charge for it? Cloud technology and IT have enabled MNEs to relocate services to legally independent subsidiaries (Eden 2005, 2). For international SaaS companies, it can be difficult to tell where exactly the value has been created, since they can create and enchain the value of the product in the cloud (Mazur 2016, 663-664).

When SaaS companies work in the cloud, they can provide services on-demand regardless of the location which reduces the need for personnel (Mazur 2016, 663). At the same time as costs decrease, the MNE group needs to take into consideration how providing services on-demand can affect the transfer pricing. It is quite rare that individual enterprise would offer services on-call without any increase in the price. What this brings into question is the availability of these services in itself a service which should be charged according to the arm's length rule (OECD 2017).

According to arm's length principle, an intra-group service has been rendered if a member of the MNE group has performed an activity that brings economic or commercial value that enchains or maintains the business position of one or more group members (OECD 2017, 320-325). For SaaS companies operating online makes its intra-group services scalable and accessible on-demand, but at the same time, it raises tax issues (Mazur 2016, 644). This scalability of IT services raises a question about where the cost of providing the service has occurred (Brauner 2008, 90). SaaS companies may also struggle with showing in which country their service has been created.

When MNE group is investing in intra-group services, it can take a long time before the benefit of the investment realises. Investment projects of intra-group services can take a long time, and as circumstances change one possible problem is that the costs of investments can realise before the benefit (Bajger et al. 2010, 13-14). Rapo and Turunen (2016) point out that the benefits test requires that the benefit of the investment has to realise before investment costs can be deducted. They also note that in practice Finnish court has ruled that investment cost should be charged from the beginning of the investment process, which differs from the OECD's transfer pricing guidelines: according to OECD, all costs should be charged at the end of the process. Additionally, if the parent company is the only one gaining benefit from the investment, the costs are considered to belong to shareholder activities (Mäkelä & Alahuhta 2016, 68).

Stevenson and Cabell (2002, 79) note that investment projects can last for years and MNE groups need to find a suitable price for services related to the project even if the project is still in progress. They also point out that it is difficult to find comparable prices for subsidiaries' services because of their unique nature. Rapo and Turunen (2016, 388) point out, that transfer pricing costs and benefits should be completed during one accounting period, but this can be impossible when the company invests in IT-services. Rapo and Turunen continue that firstly the decision and costs of IT-service investment can be realised much earlier than the benefit of the investment. They also say that secondly, investments on IT-services include investment risks. This means that companies cannot be sure how the service will eventually turn out, and what the total benefit will be.

Besides the costs of producing intra-group services, MNE groups need to consider the risk of investment when they plan their transfer pricing process. The entity carrying the risk must be able to control and carry the economic consequences of the risk (Rapo & Turunen 2016, 389; OECD 2017, 63-64). An entity can manage the risk if it has most of the decision-making power over the operative business that is affecting the risk (Mäkelä & Alahuhta 2016, 68). Entities may have decision-making

power regarding the operative business, but the transfer pricing itself is usually highly centralised, which means that the entities will not make decisions about transfer pricing (Oyelere & Turner 2000, 94).

At the same time, MNE groups need to monitor, do entities of the group also gain benefit and by that entitle the investor to add a mark up to the charge (Goldberg et al. 2012, 1199). Rapo and Turunen (2016, 389) point out that measuring risk is difficult because it is based on uncertain scenarios of future: investment on IT-service can create intangible property, which is based on juridical rights, economic rights or to rights to use property. They continue that different dimensions of ownership effect on deduction of costs and to choosing the right transfer pricing method.

Rapo and Turunen (2016) suggest that transfer pricing of IT-services should be done with consideration of following features: what actions took place in the process of creating the service, what were the costs, was there a need for the service, and would an independent entity had been willing to pay for the service. Although answering these questions creates a base for a correct charge, it does not show should the service provider gain profit from providing these services. Low value-adding intra-group services are usually routine tasks, which means that their value is probably not higher than its costs, and therefore it can be justified to charge only costs without profit markup (Hill 2007, 21-22).

Basic principle is that a service fee should be charged if an individual company would have been willing to pay for the service (Helminen 2017). In many cases, it is difficult to gather comparable information about service prices, as MNE groups do not provide or buy similar services from independent enterprises as they do from other enterprises that belong to the same MNE group (Hill 2007, 21). If MNE groups sell comparable service in a significant level, it can be assumed that it has enough data about arm’s length pricing of these services to separate the cost basis of an

intra-group service (OECD 2017, 326). Many companies have outsourced their IT-services for some time, but then later they have backsourced them back to in-house (Benaroch at al. 2010, 318). This gives comparable prices that can be used in intra-company charges after the service has been backsourced.

Some parts of IT-services can be produced as intra-group service, and some parts can be bought from outside the MNE group. Different kind of costs require different kind of treatment (Rapo & Turunen 2016, 389). One big part in intra-group services comes from centralised services. Centralised services are usually executed in the parent company, and can include for example planning, financial services, accounting and researching (OECD 2017, 324). Becoming more tax complicated can increase the centralisation in MNE group (Cools et al. 2008, 623). Sometimes MNE groups want to centralise intra-group services to save costs. Many MNEs have consolidated administrative services that bring benefit to all members of the group (Hill 2007, 21). MNE groups typically centralise some intra-group services to one company in the enterprise group and then share the costs within the whole group (Torkkel 2003).

2.4 Transfer pricing methods for intra-group services

There are multiple methods that provide tool for setting up the transfer price for intra-group services. MNE groups need to decide what is the best method for their services. Costs of intra-group services can be shared by using direct or indirect method. MNE groups are encouraged to use direct-charge methods if they are able to demonstrate a separate basis for the charge (OECD 2017, 327). When using a direct method MNE group should be able to recognize the costs of providing service and know how it should be allocated receiving parts of the group (Torkkel 2003). Using direct charging method for intra-group services can be easier if the MNE offers similar services to independent enterprises (OECD 2017, 326).

There are some limits for using indirect methods. Indirect-methods must take into consideration commercial features, contain safeguards against possible manipulations and follow sound accounting principles. Many services must be charged according to indirect-method by using estimates on the quantity of rendered service, because it is not possible to count exact amount of service. It is also possible that recording the amount of rendered service would lead to too costly administrative work when compared to the benefits. (OECD 2017, 327) Torkkel (2003) notes that in practice using direct method can be difficult, and MNEs may have to create indirect charge methods for cost allocation by using intra-group contracts, and this can make the allocation fuzzier. The author continues that usually the cost of intra-group services is allocated by using some metric, for example turnover or number of employees.

The nature of the service has also an effect on what is the best method its transfer pricing. Following the arm's length principle in practice is not always easy: the arm's length principle is especially difficult to execute in the transaction of intangible assets, due to their unique nature and the lack of market transactions (Taylor et al. 2015, 30). Mazur (2016, 649) points out that one difficulty that MNE groups face when they implement arm's length charge is choosing the most suitable transfer pricing method. Author continues that the best method is chosen based on characterization of the intra-group service, but since there are not any guidelines for characterizing cloud services, SaaS companies need to rely on traditional characterization principles. As intangible assets have a global nature, the transfer pricing method of intangible assets is more often related to the industry, whereas the transfer pricing method of tangible assets is more related to the country (Borkowski 2001, 369).

OECD (2017) describes that transfer pricing methods can be divided to traditional and transactional methods. Traditional transfer pricing methods include Resale price method (RPM) and Cost-plus method (CPM). The transactional transfer pricing methods include Transactional net margin method (TNMM), Transactional profit split

method (PSM), Comparable profit method (CPrM) and Cost contribution arrangement (CCA). Companies can also use so called simplified method for intra-group services that qualify as low value-adding intra-group services. These methods are presented in the figure 3. Additionally in US MNE groups can use Shared Cost Method (SCM) for back-office services instead of Simplified Cost Method (Andreoli & Hryck 2006, 48).

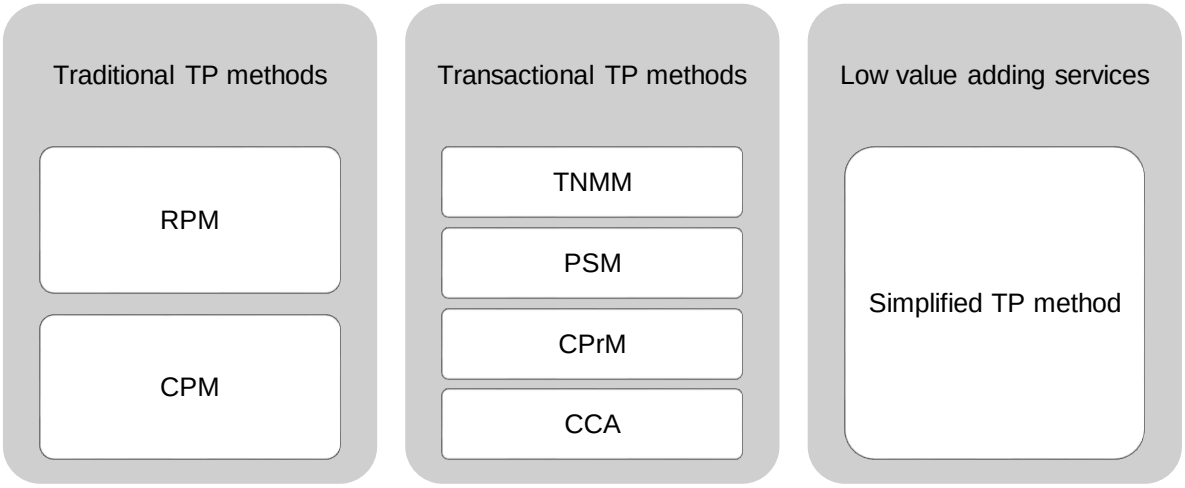

Figure 3 Transfer pricing methods

There are no specified transfer pricing methods for intra-group services, so MNE groups need to decide what method is the best one for them. There are some suggestions, for example, Rapo and Turunen (2016) suggest that suitable transfer pricing methods are CUP-method and cost-plus method, which of the latter is more popular due to the difficulty of finding comparable information about IT-services. Regarding intra-group services three transfer pricing methods stood up from the transfer pricing literature: CUP-method (comparable uncontrolled prices), TNMM method and simplified method for low-value intra-group services. Out of these the most relevant method for small SaaS companies is the simplified method for low-value adding intra-group services.

CUP-method requires the MNE group to collect information about similar services between unrelated parties. IT-services are usually highly customised, so collecting of relevant data can be difficult. In practice when MNEs use market-based methods, the comparable prices are often based on industry averages, which may not give enough relevant information (Abdallah & Murtuza 2006). Rossing and Rohde (2010, 208-210) found out the MNE group in their study chose TNMM method over CUP-method because the studied headquarter did not provide similar services to unrelated parties than it did for its related enterprises, and the associated enterprises did not buy the same kind of services from unrelated parties. They state that TNMM method gives MNE groups a tool to compare their profitability levels to similar companies' levels, even if they are not able to find companies or transactions which are entirely comparable. Rossing and Rohde continue that even if the MNE group buys some IT-services, some in-house IT-services can be impossible to outsource because of their highly company-specific nature, and therefore the bought IT-services will not provide sufficient enough base for dismissing the TNMM method. They also note that the TNMM method compares the net or operating profitability of the controlled company to a relevant base, which can be for example sales or assets.

The simplified method for determining arm's length price for low value-adding intra-group services is based on the assumption that all costs of intra-group services that bring any value to MNE group must be allocated to entities that gain benefit from the service. At the same time, MNE groups should not put too many resources into the charge mechanism, since after the mechanism is only for low-valuable services. Sometimes other transfer pricing methods are more suitable than the simplified method for transfer pricing of low value-adding intra-group services. If the MNE provides similar services to unrelated parties, it can be assumed that it has enough information for using normal methods of determining of arm's length price. Some intra-group services may not return high value, but their charge for a related enterprise can be determined using so-called normal transfer pricing methods. (OECD 2017, 323-334; 338-340)

MNE groups need to create transfer pricing processes and documentation for normal intra-group services, and the same processes can be used for low value-adding intra-group services. Why should MNE group use separate simplified method for low value-adding intra-group services? OECD's transfer pricing guidelines (2017, 338) give three main benefits to the use of the simplified method. The first benefit is that the simplified method reduces the effort of compliance which MNE groups need to be in line with the arm's length charge and the benefits test. The second described benefit is that using the simplified method brings higher certainty that the tax administration will approve the charge of the intra-group service. The third benefit stated is that MNE group can provide targeted documentation to the tax administration, which enables more efficient review of compliance risk.

According to OECD's transfer pricing guidelines (2017, 339), the use of the simplified method for low value-adding intra-group services starts by calculating annual costs of each low value-adding intra-group service. The guidelines state that the costs are calculated by sorting the intra-group services into categories, and then all costs of the services which belong to one category go to a specific cost pool, which includes only costs from similar services. MNE groups should try to determine the cost pools as standardised, objective, and transparent way as possible so that it would be more likely that the tax administration will not question them (Rossing & Rohde 2010, 212).

There are many ways that MNEs can have their categories for intra-group services. In practice, MNE groups can have quite a few categories, for example, one with 'shareholder costs', one for 'company costs' and third for 'business unit costs' (Rossing & Rohde 2010, 207). The pooled costs should include both direct and indirect costs accrued from rendering the service, but they may also include related operational expenses, such as costs from administration and supervision (OECD 2017, 339). These operational expenses often arise from the part of MNE group that

is in command of the transfer pricing (Oyelere & Turner 2000, 98). The costs that are rendered for the benefit of only one enterprise in the MNE group are removed since those costs can be pointed entirely to that specific enterprise (OECD 2017, 340).

After the MNE group has defined all costs and enterprises who have benefited from the services which created those in the cost pools, the MNE group needs to decide which allocation keys it will use to allocate the costs (OECD 2018, 340). Allocation keys suit for routine services and using them lowers the costs of transfer pricing process (Hill 2007, 22). Reducing the costs of the process is one benefit why allocation keys are used in transfer pricing of low value-adding intra-group services.

An example of an easy allocation key is turnover, but it does not always reflect the actual resource consumption (Rossing & Rohde 2010, 212). Other examples of allocation keys are shipments made to some region, sales calls made in one subsidiary or number of orders entered into one subsidiary (Stevenson & Cabell 2002, 81). The right allocation keys depend on the nature of the service, and because of this choosing right allocation key is important: once MNE group has chosen an allocation key for one category of services, it must be consistent on using that same allocation key for all the services in that category (OECD 2017, 340). If MNE group decides to change the allocation key, it needs to make sure that the process does not become too complicated, and that it still reflects the principles of the simplified method (ibid., 341).

Even after the MNE group has been able to choose the most suitable allocation key, they still may face several problems when implementing it in practice. The best fitting allocation keys reflect how much each enterprise needs the service: for IT services, a suitable key could be the number of IT users or the number of white-collar workers, (Rossing & Rohde 2010, 210). In some cases, the MNE group may want to use more sophisticated allocation keys, or several allocation keys (OECD 2017, 340).

One problem that MNEs may come across is that it can be difficult to show how much resources entity puts into providing intra-group service (Nylen 2017, 53). Tax administrations can interview MNE groups' managers to find out what each employee does to produce the intra-group service and form a better image of how big proportion of the costs needs to be allocated to each entity (Rossing & Rohde 2010, 208). After it has been determined that the intra-group service has been rendered, MNEs need to identify what arrangements, if any have been made between the associated enterprises regarding the possible amount that has been charged (OECD 2017, 326).

2.5 Correction of transfer pricing

Sometimes tax planning can seem like MNE group is trying to avoid paying taxes at all. In Finland, an act that is not tax avoidance or tax fraud is considered to be legal (Knuutinen 2015, 7). In the study of Taylor et al. (2015) results indicated that joint effects of multinationalism, tax havens and intangible assets are positively associated with transfer pricing aggressiveness. They found out that intangible assets are used for facilitating aggressive international profit transferring: intangible assets are unique, and they are often used for aggressive transferring of profits because it is difficult to find the right price for them. Taylor et al. (2015) also point out, that MNE groups with aggressive transfer pricing strategies magnify their aggressive transfer pricing by intra-group transfers of their intangibles in foreign-controlled firms.

Transfer pricing is something that MNE groups are required to do. Planning transfer pricing process is a complicated and difficult process, where rules leave room for interpretation (Knuutinen 2015, 13). Finnish law about transfer pricing does not give much guidance for judging weather if the price between associated enterprises was marked-based (Tikka et al. 2017). Even though some MNEs may use the legal transfer pricing structures to avoid paying taxes, consideration of transfer pricing

should not be confused with consideration of tax fraud or tax avoidance (OECD 2017, 33).

Low value-adding intra-group services have some specific characteristics. It is not always clear, would all parts of the MNE have been willing to pay or produce the low value-adding intra-group service if it would not be provided by some associated enterprise (OECD 2017, 339). One reason for this is that companies may know about performing the low-value adding intra-group services by themselves. MNE groups can avoid costly auditing processes when cost allocation is executed regularly and proactively it will more likely not be dismissed by tax administration (Rossing & Rohde 2010, 212).

OECD (2017, 339) states in its transfer pricing guidelines that proofing benefits test for low value-adding intra-group services correct can be difficult, which is why tax administrations should not challenge the benefits test if the MNE has used a simplified transfer pricing method for its low value-adding intra-group services. In the same publication, it is said that if the tax administration wants to evaluate MNE group's low value-adding intra-group service benefits test, they should evaluate the benefits by categories of services instead of specific charge basis. Since proofing the benefit and charging right price is difficult, all MNE groups that need to correct its transfer pricing, should not be considered as they would have been planning tax avoidance (Knuutinen 2015, 13).

MNE groups also need to make sure that the local tax jurisdiction approves their method. For example, US and Germany have much stricter regulations than Finland, with official guidelines stating what kind of pricing is accepted between intra-group purchases (Tikka et al. 2017). All tax jurisdictions have not approved the simplified method, so if the MNE group is doing business in this kind of tax jurisdiction, it needs to use other methods in order to meet the local standards (OECD 2017, 338). Still, the MNE group can use the simplified method in other tax

jurisdictions (OECD 2017, 338). It is critical for MNE groups to keep in mind, that maintaining competitive effective tax rates by planning transfer pricing process is important, and they should not focus only on complying with rules (Andreoli & Hryck 2006, 48).

All expenses of the enterprise should be related to entity's profit-making (Helminen 2017). Article 9 states that if two associated enterprises in their commercial or financial relations do not accrue the same conditions which two independent enterprises would have accrued, the included profits of the enterprise may be later added to the profits and taxed accordingly (OECD 2017, 35). Principally nations have the right to tax income that is located in their taxation territory. Cross-border intra-group services and other intangibles can create value that is not always reflected in the book value of the firm (Brauner 2008, 91-92), and due to that showing where the cost is located, and which country has the right to collect taxes on it can be difficult.

If tax administration disagrees with MNE groups transfer pricing, they may require correction of the transfer pricing. A consequence of aggressive transfer pricing may include double taxation and penalty assessment (Borkowski 2001, 350). In some tax jurisdictions the MNE has the burden of proving that its transfer pricing follows all relevant rules and principles, but in the majority of jurisdictions, the tax administrations have the burden of proving (OECD 2017, 19). In both cases, MNE groups need to provide evidence about their transfer pricing process, which is why they are required to document their transfer pricing procedures (ibid.). If corporation disagrees with the tax administration, they usually will benefit from complaining about it (Sandelin 2012).

In many countries, tax officials can practically say, that they disagree with company's documentation, and leave the corporation to a situation where it must prove that the officials are wrong (Sandelin 2012). One quite recent adaptation of

OECD's suggestions in Finland has been when Finnish tax administration has taken a step towards working together with companies. In 2012 Finland's tax officials started co-operative compliance pilot based on OECD's suggestions, where the tax officials try to solve tax problems in a proactive way (Piiskoppel 2017, 454-455).

Countries can have regulations that force MNE groups to review their transfer pricing processes and documentation to avoid costly auditing processes (Andreoli & Hryck 2006, 49). One possible way to try to avoid this long and costly auditing is by recording proper documentation from the beginning. The auditing process of proving can take much time if the corporation has not prepared well. Corporations can make the risk of getting involved in expensive auditing by making written agreements about internal actions and by creating comprehensive documentation about the transfer pricing process (Sandelin 2012).

3 RESEARCH METHODS, DATA AND ANALYSIS OF THE FINDINGS

This chapter starts with introducing research methods and data collection process of this study. Description of the collected data follows it. The core of this chapter includes citations from the data that is collected from interviews.

3.1 Interviewing process

In order to gain a deep understanding of the studied topic, data for this thesis was collected by interviewing employees of suitable companies by using semi-structured theme interviews. When planning the interviewing process, it was anticipated that the transfer pricing processes in the interviewed companies vary a lot and that their employees do not deal with transfer pricing tasks in their day-to-day work. Because of this semi-structured theme interview was chosen as the research method.

Semi-structured theme interviews are suitable for situations where the interviewees are not used to discuss the subject daily, or when it is difficult to understand the outlines of the subject (Hirsjärvi & Hurme 1982, 35). Before the sourcing of interview candidates started, the hypothesis was that many Finnish SaaS companies do not have dedicated person for transfer pricing, hence transfer pricing most likely is not something that the employees of the companies are used to talk. It was also anticipated based on the theory part of this study, that different interviewees will have different processes and backgrounds in the transfer pricing history of their companies, which can make the topic difficult to understand thoroughly.

Semi-structured theme interviews start with an assumption that everyday phenomenon can be studied by themed interviews, which have common structure. This structure can be completed by interviewees, which gives them an opportunity to share their own experiences and interpretations (Hirsjärvi & Hurme 1982, 36-37). For this thesis, semi-structured theme interviews gave a possibility to understand the differences in the studied companies with adjusting the additional questions based on the conversations with interviewees. Different interviewees may know very much, or very little about one topic: semi-structured theme interviews give an

opportunity to adjust every interview into a form that gave best answers based on the knowledge of each interviewee.

The interviewing process of this thesis can be divided into seven phases, which proceed in chronological order. Figure 4 shows the interviewing process in chronological order from the point of view of one participating company.

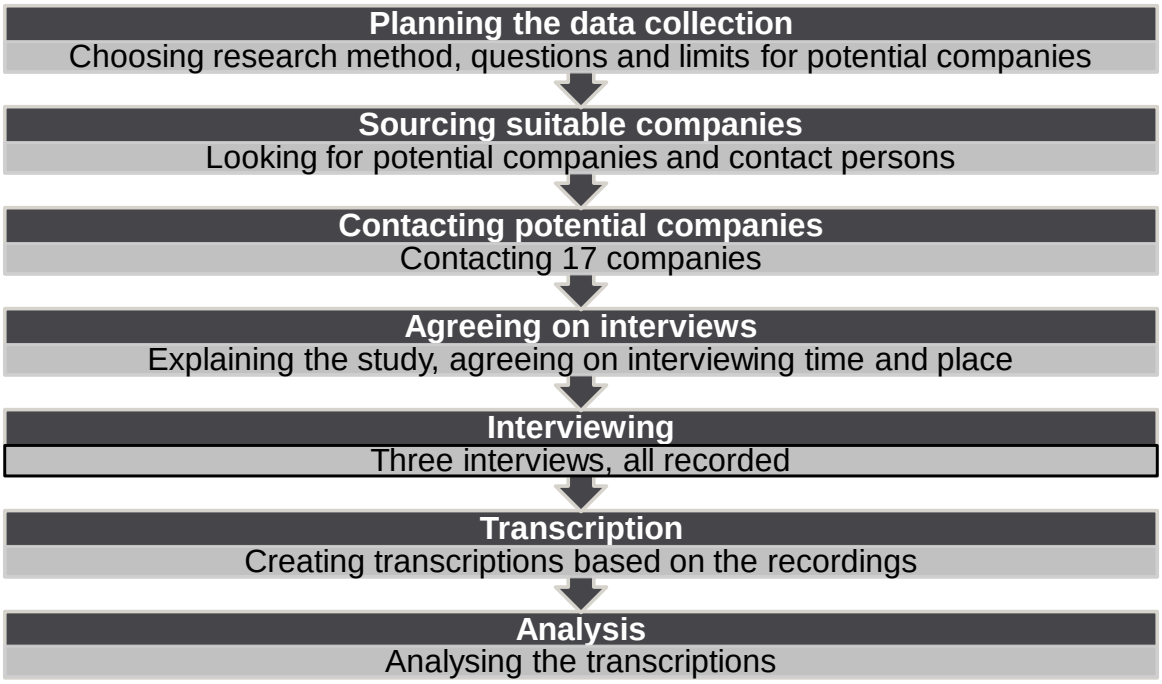

Figure 4 Interviewing process

Planning of the interview structure of the semi-structured interviews started with planning interview themes. After the themes were set, the interview questions were decided. Themes of the interviews together with a short description are presented in table 2.

Theme (number of questions)	Description of the theme
Company background (3)	Understand the current structure of the company and the history of the interviewee and the company
Intra-group services (3)	What kind of intra-group services studied companies have, who provides them to whom in the concern
Transfer pricing (8)	Transfer pricing processes and agreements, how the setup and day-to-day work regarding transfer pricing is done, external and internal experts
Transfer pricing adjustments and tax administrations (4)	Possible transfer pricing adjustments, working together with tax administrations, other topics

Table 2 Themes in semi-structured theme interview

Interview questions are constructed into four themes based on the theory of this study. These four themes cover company specific details, intra-group services of the companies, transfer pricing in general in the studied companies and possible transfer pricing adjustment made by tax administrations. Each theme included three to eight open-ended questions. In total, the interviews had 18 predefined questions, which were completed during the interviews with additional questions. The additional questions were not preselected: they were based on the conversations with the interviewees during the interviewing. These additional questions enabled the possibility to get a deeper understanding of the differences between the studied companies.

After the planning of the interviews, the interviewing process continued with creating a list of attributes that the interviewed companies should have. These attributes included: company is working in SaaS industry, company is based in Finland, company has a parent company in Finland, company has at least one subsidiary outside Finland. The sourcing of the potential companies was executed by using public websites. Primary sources for this data were Linkedin, Google and TEKES-database. Once potential SaaS company was found, its website was checked. If the

website had information, for example, address of a company in their website, they were considered to be a potential company. After finding potential companies, Linkedin was used to find suitable candidates for interviews. Candidates were CEOs and CFOs together with and other company employees with finance-related titles found from Linkedin and company websites.

From the sourcing part, 17 potential companies and people were contacted by phone and email. The potential interview candidates were contacted with introduction email, where the background of the study was explained together with a suggestion for the interview location. It was also told in the first email that all interviews would be analysed anonymously in the study. The email also included proposals for the time and place for the possible interview, and an option to choose phone or video call interview.

Three of the contacted candidates agreed on the interview. Table 3 includes key information about the interviews of the study. The table 3 shows that the interviewees that agreed to participate in the interview were willing to have the interview quickly after the first contact. Interviewees A and B had to reschedule the first agreed time, but new time for the interview was agreed on soon after the cancellation.

Table 3 Interviews

Company	Interview scheduled date	Interview date
A	19.4.2018	14.5.2018
B	20.4.2018	26.4.2018
C	04.5.2018	28.5.2018

All interviews took place between April and May 2018. The interviews were held in Finland in Helsinki, although the location of the interviewees was not a restricting feature when interview candidates were sourced. All interviews were done in the meeting rooms of the companies' offices, and the interviews were recorded by using a recording software of the interviewer's phone. Interviews were held as one-to-one

interviews in meeting rooms that did not have other people. Having one-to-one interviews made it easier to talk about the topic in a peaceful environment. The recordings were had high quality, and the conservations were easy to process from the recordings.

Before the actual recorded interview, the interviewing sessions started when the interviewer arrived in the office. Interviewees showed around their offices and told some details about their companies. The actual interviewing begun in the meeting room, after both the interviewer and the interviewee had taken a seat and agreed to start the interview. Interviewees were clearly told when the recording started and when it ended.

All interviews followed the same interview structure. Themes and questions were discussed in the same order that can be seen from the interview structure (Appendix 1). All themes and the predefined questions in them were discussed with the interviewee one by one. In the between of the predefined questions, the interviews had some additional qfuestions, that were not the same for all interviewees. The purpose of these additional questions was to gain a deeper understanding of each of the interviewed company. They varied based on the answers the interviewees gave to the predefined questions. The first theme of the interviews was company backgrounds, and after all the preset and additional questions regarding that theme were discussed with the interviewee, the interview moved to the next theme.

Many of the candidates answered widely and went to the very details already in the beginning of the interview. Regardless of the answers, the interview structure was kept the same, and all themes and questions were asked even if the candidate had already talked about the subject. To some questions candidates just shortly repeated their previous answers, but many times they explained their answers from a different point of view, gave new examples or explained the answers more deeply. At the end of the interview, all interviewees were asked if they had any additional thoughts or comments about the subject, where some of the interviewees chose to discuss subjects that did not exactly fell into the theme of the interview. After all themes and questions and were addressed, the recording was stopped.

After the actual interview stopped, the interviewees were thanked for the interview. Some of the interviews wanted to show more places around their offices and tell more about their companies or other finance related things. The discussions outside the actual interviews did not address transfer pricing and are not discussed in this study. After the interview event, the recordings of the interviews were saved from the phone to computer as back up files. The recordings were transcribed in the following two weeks after the interview.

3.2 Analysis of the data

The analysis method of the study is analysing themes. As a technical result from the analysis, each interview has created two files. The first file is the recording of the interview. Based on the recording two additional files were created. The second file is the transcription of the interview. The transcriptions were written in Finnish, as the interviews were also done in Finnish. Keeping the same language in the transcriptions enabled more accurate analysis of the interviews. The transcriptions were done by listening to the recordings with computer's streaming software. Recordings were listened in small pieces and transcribed into text by using computer's text editor software. The interviews are written word by word to the transcriptions. The quotes that were attached to the thesis were translated into English.

Based on the transcriptions, the data was analysed theme by theme. First, all transcriptions were analysed one by one, as all three companies studied had some unique setups, which required more in-depth analysis. After this detailed analysis it was possible to compare the interviews: without understanding the answers and differences, it is easy to make wrong assumptions and comparisons. The actual analysis was done by analysing all three interviews theme by theme. Complete analysed transcriptions consisted of 18.5 pages. Analyzing the interviews by themes gave the possibility to compare answers of the interviewees to each other.

3.3 Company backgrounds

All interviewed companies are Finnish SaaS companies with parent companies in Finland, and their headquarters are located in Helsinki. The interviewed companies have at least one subsidiary abroad. Company A has most subsidiaries, and they are all based in EU. Company B has two subsidiaries in US and Company C has one subsidiary in the US. All interviewees described their companies as growth companies. Table 4 shows some key information of the three interviewed companies.

Table 4 Background details for the interviewed companies

Company	Interviewee	Financial team size	Parent company founded	First subsidiary founded	No. of subsidiaries
A	A	2.5	2009	2013	7
B	B	2	2010	2018	2
C	C	2.5	2012	2017	1

As the table 4 shows, the studied companies are founded between 2009 and 2012. They have a relatively short history with their subsidiaries: the oldest subsidiary of the studied companies was founded in 2013. Company A has had most years with a cross-border subsidiary, as it found its for subsidiary five years ago. Companies B and C have had cross-border subsidiary for under a year. Regardless of the number of the subsidiaries, the studied companies have quite the same number of employees working in their finance teams.

Company A is the oldest one of the studied companies as it was founded in 2009. Interviewee A works as Chief Financial Officer (CFO) in the company and is in charge of all finance tasks of the whole concern together with small finance team.

Company A has six subsidiaries outside Finland, of which five are active. They also have one subsidiary based in Finland. Parent company takes care of all finance tasks of the concern, but they have outsourced bookkeepers in Finland and in each country where they have a subsidiary.

Company B was founded in 2010, and it has two subsidiaries located in the US. Company B has a relatively short history as a parent company: company worked under single company until 2018, when its two subsidiaries were founded. Interviewee B also works as a CFO and is in charge of all financial related things of the concern. Together with the interviewee, the concern is employing one person in the financial department.

Company C is the youngest of the studied companies, as it was founded in 2012. Its only subsidiary was founded in 2017, and the subsidiary is based in the US. Interviewee C works as Chief Executive officer (CEO) in the concern and is in charge of the finances and strategy. The company has two employees in the parent company that handle the daily finances. Bookkeeping of the parent company and the subsidiary is outsourced.

3.4 Motivation for founding cross-border subsidiaries

SaaS companies can build and sell their product regardless of the location, but having subsidiaries abroad brings some benefit to the companies, which motivates them to found cross-border subsidiaries. Even though working to build a SaaS product is not tied to specific location, all three interviewed companies have founded a cross-border subsidiary. Studied companies had different motivations for founding a subsidiary abroad. One common motivation for all of them is that with cross-border subsidiaries they can make building their international business easier and more efficient. Hence, subsidiaries are handling local business functions, among other things, sales, marketing and payment traffic.

“Headquarter takes care of everything else, and the subsidiaries are local sales companies.” (Interviewee A)

“Yes, we had two kinds of reasons. One of these reasons is naturally our marketing and business development for what we opened our company abroad. That is quite basic company --- then the other subsidiary is a technical payment processor company.“ (Interviewee B)

“Recruiting. We had many good job seekers in the US that did not want to work for us with a contractor model that we are using in the rest of the world. They wanted to work as employees. That was one of the reasons why we founded the subsidiary: to have a company there that can employ these people. The second reason was that sometimes we want to invoice customers in the US. This enables us to use a bit more practical invoicing ways: customers do not have to pay wire transfers to Finland. The third reason was that at some point we will potentially do some sort of Delaware flip, and this way we will have the company there ready, with whom we can do it. There are many reasons; maybe the fourth reason is being able to be present in the US markets. Maybe there is a benefit in having a company in the US. Then there are all visa things etcetera: we can show that we actually are investing in the US when we have the company there.” (Interviewee C).

Company A has founded subsidiaries to handle local sales outside Finland. For them, one key motivation was to outsource the selling of their product to cross-border subsidiaries. The subsidiaries take care of all sales related processes including invoicing the customers. In the Company A the tasks of the subsidiaries

are very local and connected to the country where they are based. The parent company takes care of the global roles.

Company B has two subsidiaries in the US. The reason for founding the first one was to open an office to the US for business development and marketing. The interviewee B describes that special feature in this business development subsidiary is, that the subsidiary is in charge of global marketing services, and because of this it is not a traditional abroad based subsidiary that would focus only in the local sales. The need for the second one was that the company wanted a to use local subsidiary for payment traffic.

Interviewee C describes that having a subsidiary in the US supports concern's growth in the local markets. They had five reasons for founding the subsidiary: recruiting, payment traffic, possible changes in the organisational structure, being present in the local markets and making administrational tasks easier. All of these support company's growth in the local markets.

3.5 Intra-group services and their transfer pricing

Working in cloud environment means that SaaS companies can decide where they produce some of their intra-group services. This means that they can centralise intra-group services to different business units. Providing intra-group services to other entities in the MNE group means that they should recognise and determine what kind of intra-group services they have in the concern in order to be able to do the transfer pricing properly.

The companies that were studied in this thesis had different approaches to their intra-group services. One of the studied companies had specified in the transfer pricing contract what intra-group services they have, but all of the companies had loosely specified intra-group services. Companies B and C had not strictly specified

what intra-group services they have in the concern. For company B marketing and sales channels are an important part of the business, and because of that, the parent company owns them all. In Company C the subsidiary mainly takes care of local sales, marketing and administration tasks. For Company C the line between where the parent company has been doing work and where the subsidiary has been working is bit fuzzy, in the way many SaaS companies have.

> *"Yes, they are specified in this contract, I'll check it from here. Practically it is said pretty widely that it is the whole business concept, the software itself is Finnish and owned in Finland, then the IPR meaning trademarks, name and brand. Fourth is intra-group services: marketing, management, it is not specified but also HR, finances, systems, IT, support etcetera they are all just added to the same pile." (Interviewee A)*

> *It has one specific thing: it is not a local sales company that would handle local business: it has global roles. Our marketing is moving to there and they have a global responsibility,y and it is just located in abroad." (Interviewee B)*

> "*Yes, our subsidiary sells its employees services to the parent company. Basically, the Finnish parent company buys from the subsidiary services, which supports concern in the US markets. Basically sales people, marketing people, and other services related to sales and marketing. And for these, the parent company pays for the subsidiary." (Interviewee C)*

In all three companies, all immaterial rights and strategic decision power belong to the parent company. Three cross-border items that the interviewees highlighted

where sales, marketing and IPR. The IPR was seen as part of the transfer pricing of the cross-border intra-group services because the companies needed to recognise where the product is developed, and who owns the IPRs. The companies that were studied in this thesis has a clear image of who owns the product. Interviewees also seemed to have a clear picture of the tasks of the subsidiaries, even though they had not specified the intra-group services that the parent company is providing in their transfer pricing set up.

> *"In practice the parent company owns all IPR, and the headquarter has all support functions: finance, IT, support, customer service: everything except the local sales. --- Marketing is also part of headquarter. Of course, subsidiaries have some marketing expenses, but mainly it comes through the group. (Interviewee A)*

> *"It is clear that it [the subsidiary] is a subcontractor of the parent company in this case [marketing]. Customers and all strategic decision-making power stays in the parent company, and the product is of course owned in the parent company, and the parent company has IP for the product. And contracts, for example, contract channels are important for us and sales channels, which is why the parent company has them all. Basically, it does not have own customers at all, this company. It is kind of a resource pool; you could say" (Interviewee B)*

> *"But in our case, we are talking about humans, basically renting consulting services from the subsidiary and the subsidiary practically does not carry any risk. All contracts with the customers are between the parent company and the customer, none of them is between the subsidiary and the customers." (Interviewee C)*

From the point of view of transfer pricing, it looks like the interviewed companies have not specified transfer prices or transfer pricing processes for their cross-border intra-group services. The intra-group services are processed along with other items in the transfer pricing as one entry. Because of this approach, it is natural that the companies are processing their intra-group services and related transfer pricing on a monthly or yearly basis. The nature of the intra-group services in all studied companies is continuous.

> *"The services are ongoing. Normally everything that the subsidiaries do is related to the group, but the way we do the transactions is that we do not do them that often" (Interviewee A)*

> *"These subsidiaries have different added value. One of them is an expert organisation that brings more added value. One of them is a low value-adding company. Sales in the local country are not related to the expert organisation, whose task is to handle global marketing. Matching profits and costs would be difficult, so we have decided to go with this simplifying feature and keep the profits and costs in different companies" (Interviewee B)*

> "*The service is mainly continuing, ongoing on monthly basis. The people there are employees, so we pay for their services every month." (Interviewee C)*

All interviewed companies have outsourced some financial services. Company A has outsourced especially all tax-related tasks together with the bookkeeping. The interviewee B implies that outsourcing of bookkeeping can be taken as self-

evidence. Company B is using two local accounting firms, both based in countries where they have legal entities. The outsourcing of bookkeeping means, that the concern is not producing the service by themselves, so it does not need to create transfer pricing processes for that service. Interviewee B says that many people are working handling their business tasks. The interviewee estimates that if one person would do all the outsourced tasks, they would employ one full-time person.

> *"Internal finance function is in Finland but as we have subsidiaries in all countries, we have used local bookkeeping companies to get bookkeeping, tax and salary knowledge" (Interviewee A).*

> *"Of course, bookkeeping is outsourced. Or we are using an accounting company for helping with it -- or actually accounting companies: we have one accounting company in Finland and one in the United States." (Interviewee B)*

> *"We do some bookkeeping task by ourselves, but we are outsourced most of the bookkeeping. (Interviewee C).*

The outsourcing of accounting tasks can have multiple motivators. It may indicate that the outsourced accounting tasks are low valuable, but not cost-efficient to do. Alternatively, it is possible that the accounting service calls for high knowledge that must be up to date, and keeping the knowledge updated would require too much resources. Outsourcing also gives information about the comparable prices of the outsourced services, in case company is keeping some similar services inhouse, it can easily compare its intra-group prices to the prices of the outsourced services. Regardless of the easiness of this information, the studied companies of this thesis are not using this information in their transfer pricing.

3.6 Transfer pricing set up

When interviewed companies founded their subsidiaries, none of them had dedicated legal employees working for the company. Because of this, they all relied much on external consultants. One main reason for this procedure was, that they wanted to do transfer pricing right way from the beginning but lacked internal knowledge about it. They also wanted to save resources, and since the setup of the subsidiaries was quite common, they were able to do it with common way suggested by the consultants. All companies based their transfer pricing processes on the recommendations of external consultants. Company A had consulted consultants about transfer pricing and decided to use contact that was recommended by the consultants.

> *"Actually, we made the [transfer pricing agreement] with an external tax professional. It is same for all of them [subsidiaries]. --- In most of the cases one must go to Big4-companies or to some other big company to get the latest updated knowledge. The auditor knows something, and the bookkeeper knows something and oneself knows something, but to see the full picture one most buy it from outside of the company. But maybe it is good to take care of everything from the beginning." (Interviewee A)*

> "*Yes, we did not have own legal professional working for our company when the subsidiaries were set up last year, but now one is starting in this house. When the subsidiaries were founded we did not have one. So, we used external lawyers for it and of course for registering [of the subsidiaries] we used local lawyers. --- We started from -- there are of course services that offer services for benchmarking -- but we have this very standard company that we just watched and asked around from other companies and consults that what kind or margin they take.*

We did not do any further analysis, we just took the most typical way." (Interviewee B)

"Yes, US lawyers. They told us the transfer pricing possibilities and how it goes: who makes the contract with the end customer, who carries the risk, who is in charge of the product. These questions were gone through and then they ended up recommending this model, that suits our situation well. There are of course multiple possible models, but this was the most suitable for us." (Interviewee C).

The interviewee A was not working in the concern when their first subsidiary was founded. Interviewee B describes that their transfer pricing setup is unique. Because of the international setting of this process, they decided to use Finnish and American lawyers. The interviewee B emphasises that the legal processes are extremely important stakeholder in the transfer pricing process. The company has been comparing the legal side and the transfer pricing side by side when processing transfer pricing processes.

Company B started the creation of their transfer pricing model by asking from other companies how they did their transfer pricing. Then they compared different gross margins and consulted consultants about different options. The final decision was based more on the typical margins, the company did not do much of an analysis. For some questions, they consulted tax consultants based in the US. Company B used outsourced consultants based both in Finland and US. Using big consulting group enabled them to get consulting from both Finnish consultants and US ones. Company B decided to move forward with its transfer pricing model because it had less complicated risks, it decreased the amount of calculating needed. Overall, they wanted to have simple transfer pricing model that was simple and lean to execute.

In the Company C, the interviewee as a CEO led the founding of the subsidiary together with one employee that was already based in the US. They also used consultants based in Finland and the US. The American lawyers were consulting especially with things related to the registration of the subsidiaries. The Company C had one person working in the parent company and dealing with the transfer pricing of the concern. In the end, the interviewee C as a CEO is in charge that everything goes as it should go.

> *"We have this model because it is simple and our volumes in abroad when calculated in euros are still quite small. And we have small intra-group resources. And this is easy choice that should go through even more closely examination. --- As said we are small and we have small finance team, and we want to put focus to different things. We have wanted to keep things composed." (Interviewee A)*

> *"We are trying to keep things simple and easily understandable. Then it is easiest to administer them and to justify them if the tax administration challenges them or wants clarification why we are showing a certain amount of the profit in some country. We are keeping things in the side of common practices and we will not start any experimental things." (Interviewee B).*

> *"We consulted the US lawyers about different methods, but we chose to move forward with this one because we wanted to have as simple and as lean processes as possible." (Interviewee C).*

All companies describe that they have simple processes with transfer pricing and that the parent company takes care of the most parts related to transfer pricing. Studied companies have employees of the parent company working in with the finances, and they take care of all transfer pricing related things together with internal and external experts.

> *"In practice our system for this is relatively simple: me and my two employees – depending on which country the task is related to – and external bookkeepers." (Interviewee A)*

> *"Of course, legal is an important stakeholder in this, and we or course have looked the legal side and transfer pricing side by side" (Interviewee B)*

> *"Mainly one of our employees in the finance team. And of course, in the end, I'm in charge that everything goes at it should be. But it is pretty clear since we have agreed on the principles of how the transfer pricing is done. Maybe also our US employee also takes part in it." (Interviewee C)*

When the concern is having subsidiaries in multiple countries, they have to keep on track with each of the local laws and regulation. Having different people focusing on particular countries may help with having enough resources to keep the knowledge updated, but it also means that the concern can carry the costs of having multiple employees working on finances and transfer pricing. With the help of external consults, companies can outsource some tasks.

The idea behind how transfer pricing agreement is set in the Company A is that the parent company provides services and intellectual property rights (IPR) to the subsidiaries, and the subsidiaries pay for these. The subsidiary of Company B is in a role of subcontractor for the parent company. The interviewee describes the subsidiary as a resource pool. It does not have any own customers. Company B's marketing subsidiary is a specialist organisation that creates high value. For Company C the transfer pricing agreement is based on the fact that the subsidiary does not carry any business risk.

> *"In our concern it [transfer pricing] had been thought in a way that the concern is providing services to the group and they [subsidiaries] pay for it. We have a system that the profit that stays in the subsidiaries is fixed, and the profits above this are paid to the parent company. That is the way how the parent company gets paid for IPR and others." (Interviewee A)*

> *"Our standpoint is that our business development subsidiary is clearly a subcontractor and it charges its costs from the parent company as cost plus. No charges are made to other direction. If we have occasional cases where the parent company pays some costs for its subsidiary, if they are material amounts, we could basically diminish them from the transfer pricing invoice, but since the parent company has paid them instead of it, the cost plus of the costs should be left in the subsidiary. Meaning that the cost plus has to be charged, otherwise we are not being consistent according to the transfer pricing policy." (Interviewee B)*

> *"As long as few per cent of the profit stay in the subsidiary it should be okay with the local tax officials. Another option would have been if the subsidiary would be carrying a bit more risk that in good years there*

> *would be a bit more profit staying in the subsidiary, and in some bad year none of the profit would stay in there. But without chosen method it is pretty clear how it must be handled." (Interviewee C)*

All these setups of the studied companies support use of simple transfer pricing system, where the transfer pricing items are processed in a simple manner. There may be rising problem of at some point intra-group services and the formation of the concern becomes more complicated. The studied companies had relatively simple transfer pricing logic for their cross-border intra-group services and other internal cross-border assets.

3.7 Finance of transfer pricing

When setting up a cross-border subsidiary company needs to decide how they will do the financing of the subsidiary. Finances of the cross-border subsidiaries in the studied companies can be roughly divided into two parts: keeping good level of liquidity of the subsidiary and paying the transfer price for intra-group services and other assets. Key questions in this theme were: how to make sure that the subsidiaries have enough cash on hand and what legal questions the founding and the transfer pricing set up have.

All of the studied companies made multiple monetary transactions during the year in order to keep cash on hand in their subsidiaries. Companies B and C had more structured invoicing periods, whereas for company A the transactions were done more like on demand.

> *"The subsidiaries are relatively small, and the amounts are small even in the yearly level. We have not seen it necessary to do it more often. In practice one year goes by, to the end of the year the service fee or whatever you want to call it is what the subsidiaries are paying for the*

parent company. --- That is how it goes from the point of view of the profit: from the point of view of cash we may also transfer the money during the year, but we are aligning the books at the end of the year. That is the logic and the taxed profit is dealt with this way" (Interviewee A)

"Now at the beginning it seems like invoicing every quarter is enough. --- then when we will have more people working in there we will need to move to monthly invoicing. From the point of view of cash flow. Of course, some cost-plus margin will stay there, and the equity gets stronger all the time because it does not have any business risk. As time goes by it is possible that it will keep its liquidity even with longer invoicing period. But by no means one financial year is not enough for it, we did not put that much equity to there." (Interviewee B)

"The service is mainly continuing, ongoing in monthly basis --- The main point is in it is, that when nations and their tax administrations get the portion that belongs to them of the profit that stays in the company. So, it is about how we show the profit in the subsidiary versus the Finnish company. So, it is about which nation's tax administration can tax it [profit]. And then what method we are using depends on the structure: if we would sell some physical items we would have some intra-group purchasing price to which the pricing would be based on." (Interviewee C)

The topic is related to the fact that the nature of the service is continuous. The studied companies had different approaches to the financing. As the subsidiaries of the Company A invoice local customers, they pay by themselves some costs they can afford during the year. The transactions during the year help with day to day costs.

The interviewee B says that the parent company does not invoice the subsidiary. The subsidiary invoices the parent company every quarter. If the subsidiary hires a lot of people in the future, there is a chance that they will need to shift to monthly invoicing to keep the cash on hand in balance. For Company B one question for the future is, that since the subsidiary invoices their expenses with cost plus, a small margin will start forming to the subsidiary. This helps a bit with covering growing costs. The subsidiary of Company C does some local invoicing, but mainly it gets its revenue from invoicing the parent company.

The foundations for the invoicing periods of studied companies' subsidiaries have been seed funding for the new subsidiary. When founding a subsidiary, the company needs to decide how to fund the subsidiary. The first option is to use intra-group loans, but it would have required paying extra notice to make sure that the interest is in line with international principles. The second option was to give enough equity capital so that the subsidiary can manage daily costs between the invoices. The interviewed companies had proceeded with the second option and funded the subsidiary with equity.

> *"The profit must be fixed into five percent from the revenue. It means that first we will do the auditing and see what the profit of the year is, then when everything else is done we will do one invoice from Finland that increases or decreases the profit." (Interviewee A)*

> *"Our standpoint is that our business development subsidiary is clearly a subcontractor and it charges its costs from the parent company as cost plus. No charges are made to other direction. --- The price is based completely on the costs in the bookkeeping. There are no complicated costs. In one of the companies the cost is just the credit*

> *card fee and in the other company it is maybe something for the bookkeeping company. So, they are simple by their costs and then of course the interest is calculated on top of that." (Interviewee B)*

> *"So, the subsidiary is a company with a very little risk, so the amount of money that stays in the company does not have to be that big. As long as few percent of the profit stay in the subsidiary it should be okay with the local tax officials" (Interviewee C)*

The transfer pricing of Company A comes straight from the contract, and they had not used other transfer pricing models for pricing their intra-group services. Marketing belongs mainly to the parent company, but sometimes subsidiaries have small marketing costs. In the Company A, the amount that is left to subsidiaries is a fixed per cent. In practice concern has intra-group transactions where they transfer money from one entity to another during the year. The transfer pricing transactions are done at the end of the financial year. After everything is processed and the auditing for the subsidiaries have been done, the concern makes one last transaction where the profit is set to predefined per cent of the profit. In the company A, the parent company invoices the subsidiaries.

In company B the invoicing is based on actual costs of the subsidiary, and on top of the costs they count gross margin. One problem with Company B is, that the local subsidiary focuses on global marketing and hence it is not traditional sales subsidiary, the revenue is not connected to the subsidiary Because of this the local sales are not connected to the subsidiary, and they do not want to match the costs to the revenue.

The subsidiary of Company C invoices for services that its employees have provided to the parent company along with other costs. The invoicing is based on the actual

costs. The transfer pricing of the Company C is similar to the Company A: during the year the parent company funds its subsidiary's business, but from the point of view of revenue the subsidiary pays for the services of the parent company and for the IPR at the end of the financial year.

3.8 Problems

All interviewed companies believed that their transfer pricing processes comply with the transfer pricing regulations. Possible problems and challenges the interviewees highlighted were related to the choices and interpretations they had to make when founding the subsidiaries. The interpretations were also reflected to comments that implied that the interviewees felt like they do not know how the tax administrations are interpreting the regulations.

Interviewee A says that they have not had any problems or challenges with their transfer pricing. One main reason they mention for this is, that the concern has not been involved in tax audits. All interviewees were confident that their transfer pricing procedures would go through tax audits. Only problems they mentioned were, that tax administrations might ask for more closely descriptions of the services or the processes, and these could be given if asked. Interviewee A describes also a problem with working with multiple local bookkeeping companies:

> *"Not much. What I have noticed when we work with many local accounting companies is, that they also are not used to these [transfer pricing]. Either they do not see it at all, or they see a different kind of models. New accountants must be advised, and we must tell them exactly how to record them [transfer pricing transactions]" (Interviewee A)*

Company B has a challenge with matching costs and profits in the country where their subsidiary was based. As the local subsidiary had a global role with marketing, it cannot take same responsibility for the profits as traditional sales subsidiary could take. To make the difference between profits and costs of the US market clearer, company B decided to fund separate subsidiary for charging the customers. Having two subsidiaries means that now the profits and costs do not meet in the subsidiary, so handling them can be done in a clearer way.

None of the interviewed companies had had experience with working with tax administrations regarding the transfer pricing. Companies had not had tax audits, and the subsidiaries of companies B and C are recently founded so they have not even had a chance to become part of auditing of the transfer pricing. All companies had mainly been in contact with tax administrations was when founding the subsidiary. Every interviewee still saw that working together with tax administrations to make the transfer pricing better is a potential option.

> *"We have not, and we have not had a need to source for information [from there]. Our CEO had been talking with someone from the Finnish tax administration about making this [transfer pricing process] better, but we have not done anything. There is still potential that we would someday update this." (Interviewee A)*

> *"Not really other than when we registered the subsidiaries. When the financial year ends we will fill the tax forms. We have not asked anything before handed." (Interviewee B)*

> *"We have had the subsidiary for such a short time period that there is no certainty about it [tax administrations]. But no one can ever be sure about the tax administrations." (Interviewee C)*

Company B had considered asking advance pricing agreement from tax administration, but company's consultants had advised that it does not bring much benefit. They decided to move forward with the conservative transfer pricing policy because they do not see the need for trying to optimize transfer pricing in one way or another.

Interviewee A says that the most challenging part in transfer pricing is that the field requires very specific knowledge. They have a standard transfer pricing contact that they send to new bookkeepers of the subsidiaries, but the interviewee describes that the contract is written as difficult formal legal text, so they usually just explain how the transfer pricing is done in the concern.

> *"I believe that the most challenging part is– this may be caused by personal characteristics – not being read up on the topic. Also, this is a specific field and not many people have experience with it. (Interviewee A)*

> *"If we would go into a situation where we would have created added value to other countries then possibly… but we do not see that our business would have that kind of need. Our business is still very concentrated in Finland and the product is created in Finland." (Interviewee B).*

> *"If our [transfer pricing] model stays as it is, we will not have challenges. But if the structure of our company will change, for example, if the US company would own the Finnish company, then we would still probably have the same setup that the Finnish company is*

> *the one that sells the product to the end customer and probably the model stays very simple." (Interviewee C)*

Companies B and C believed that in the future they might found new subsidiaries in new countries, which would affect their transfer pricing.

> *"Well at some point we will of course have more subsidiaries. --- Right now, there is no need for it, but I believe that we could have three to five countries where we would have company in few years." (Interviewee B).*

> *"No, we do not have [other transfer pricing items besides the services]. We do not have it currently and we are not planning to have. I believe that we will keep the model as it is, even if we would have more subsidiaries in other countries in the world we would keep it pretty much the same as it is now. It would change if it would be the current subsidiary or some other company that would be in charge for the customers about the product and would make sure that the product works: being in charge of the damages etcetera. That would change the model." (Interviewee C)*

One need for Company B to found subsidiaries is, that for example Asian markets have local app stores, so international companies need to found local subsidiaries. Company B believes that they have a simple set up since they do not have complicated functions where they should think do they create any additional value for the concern.

Company B believes that if any tax administrations want to go through their numbers or transfer pricing policies, they all will agree with their choices. The only challenge they believe they might encounter is that a tax administration would want that they describe for example some intra-group service more toughly in their documents; and this could be then done when asked for.

Currently, interviewee C does not see any need for founding other subsidiaries, but for Company C future challenges may come with the rapid growth in the US. Interviewee C says that if the company's market moves more towards US markets, the concern may want to move its headquarter to the US. This would require many changes also to the transfer pricing. Currently, in all studied companies the strategic decision-making power and IPRs were owned in Finland by the parent company. If the parent company would move to abroad, but the key decision-making people would stay in Finland, they should rethink their transfer pricing practices.

> *"We have not had any bigger tax challenges. If there would be a tax audit then we would probably need them [tax consults], if the counterparty would challenge it [transfer pricing]." (Interviewee A)*

> *"We are still in quite simple set up as we are operating in just two countries. We do not have any supply chain or complicated functions for what we should calculate some value added. We can start with margins that are typical for the industry. --- If at some point the tax administration in Finland or US wants to go through our numbers we believe that our politic is okay to both directions. If some product or service needs to be described in more details, then we will do it. But we know that we are not doing anything special that would be difficult to explain." (Interviewee B)*

"We have not had any challenges regarding transfer pricing. We do not know yet will the US tax officials will ask for some clarifications or challenge the amount that is left in the subsidiary." (Interviewee C)

All interviewees were confident that they would pass the tax audit, but at the same time, their answers reflect that they do not know how the tax administrations would interpret their transfer pricing processes. The interviewees also believed that they would use external consultants if the tax administration would challenge their transfer pricing processes.

3.9 Summary of the research findings

Studied companies had different motivations for funding cross-border subsidiaries. As it can be seen from the table 5, all studied companies had two common reasons for funding cross-border subsidiaries recruiting and payment traffic. With the help of local subsidiaries companies are able to handle the sales, recruiting and payment traffic in more efficient way. Table 5 shows some key motivators the interviewees mentioned they had for founding a cross-border subsidiary.

Company	**Local sales**	**Recruiting**	**Marketing**	**Payment traffic**	**Company structure**
A	x	x		x	
B		x	x	x	
C	x	x	x	x	x

Table 5 Motivations for founding cross-border subsidiaries

All interviewees recognised different cross-border intra-group services they had in their concern, but they had not specified them strictly in their transfer pricing processes. There were no differences in the transfer pricing of intra-group services

and other possible assets. Three transfer pricing items that the interviewees highlighted the most were sales, marketing and IPRs.

Besides the services produced in-house, all studied companies had outsourced some services and used external consultants. The studied companies had all relied on external consultants when they were founding their cross-border subsidiaries. One main reason for using external consultants is that the companies felt they do not have enough knowledge and resources to do whole transfer pricing set up by themselves.

The interviewees described their transfer pricing processes to be simple, low-cost and easy to manage. Setting up the transfer prices was based on the assumption, that the parent company owns the IPRs and the product and is carrying most of the risk. Because of this, all three studied companies had transfer pricing setups, where the liquidity of the subsidiaries is kept on a good level, but most of the profit goes to the parent company. Studied companies had not yet had many problems related to their transfer pricing. In the future, the interviewees saw as a challenge if some tax administration would challenge their transfer pricing, or if they were to found subsidiaries into new countries.

4 DISCUSSION AND CONCLUSIONS

This final chapter of this thesis starts with a summary of this study. It is followed by a discussion of the results, where the results are compared to previous studies. The chapter ends with suggestions for further research.

4.1 Summary of the thesis

The focus of this study was to recognise and analyse possible problems and challenges that Finland based SaaS companies may encounter regarding transfer pricing of their cross-border intra-group services. This study also aimed to recognise possible problems and challenges from the point of view of the SaaS companies and their employees.

This study is qualitative study and chosen research method is semi-structured theme interview. Semi-structured theme interview was chosen for this study, because it provides method for collecting data from a wide theme, for what setting limits is difficult. It was also assumed that the interviewees are not dealing with the subject daily, which is why the conservational manner in the interviews helped with collecting the data. Six themes rose from the interviews, and the data was analysed by grouping the data around these themes. These six themes are: motivation for founding cross-border subsidiaries, intra-group services and their transfer pricing, funding of the cross-border subsidiaries, transfer pricing set up, finances of transfer pricing and problems of transfer pricing. The data for this study was collected from three interviewees, that were sourced based on the companies they worked in and their status and job title in the company.

The main research question of this thesis was *'What problems SaaS MNE groups face regarding the transfer pricing of cross-border intra-group services provided by Finnish parent companies?'.* This main research question was studied in this thesis by asking about the challenges regarding transfer pricing from the interviewees, but also by asking from the interviewees defining questions if their answers and

description on their transfer pricing or the set-up process for transfer pricing did seem to have problems. The first sub research question was *'How companies define their transfer pricing processes for cross-border intra-group services?'.* This sub research question was studied by interviewing the interviewees about how they started their transfer pricing originally, and how they are continuing it. The second sub research question was *'How Finnish parent companies define the price for cross-border intra-group service?'* This second sub research question was studied by interviewing the interviewees about how they gave the seed funding for new subsidiaries, how they are financing the subsidiaries, and how they have defined the prices for cross-border intra-group services.

Semi-structured theme interview as a research method supported collecting the data for the analysis as the studied companies. The research method gave an opportunity to understand the differences in the studied companies At the same time as differences in the studied companies gave an opportunity to compare the differences in the transfer pricing of the companies, the differences made the data scattered. Hence, one challenge with the data was to find common factors that can be compared in the analysis. Regardless of the challenge, with the help of the interview structure and transcriptions the analysis of the data was done with decent accuracy.

4.2 Results and discussion

Motivation for funding cross-border subsidiaries

As all studied companies have SaaS products that they can build and sell regardless of the location. Despite this, the companies had chosen to found a cross-border subsidiary. Companies had different motivators for founding cross-border subsidiaries were that they wanted to be more efficient in recruiting, sales and marketing and in their payment traffic.

Intra-group services

The studied companies have not strictly specified what cross-border intra-group services they have in their concerns. Still, all interviewees were able to recognize what cross-border intra-group services they had in the concern. The subsidiaries of the studied companies provided mainly sales and marketing services, and services related to payment traffic. Most of the administration tasks including support, IT, HR, finance and decision making was kept in the parent company. Rossing and Rohde (2012, 202) point out that in order to make correct charges on cross-border intra-group services, MNE groups need to recognise who has provided the service and how much benefit other entities of the group have gained from it.

Transfer pricing set up

All companies wanted to find clear solutions for transfer pricing. Need to comply with all laws and regulations with the minimum effort was common for all companies. Companies did not high light tax planning purposes. When setting up the transfer pricing for Finnish SaaS companies, companies seem to rely heavily on external consultants in this study. Results of this study show that there are multiple ways to set up transfer pricing processes in Finnish SaaS companies. Mazur (2016, 644-647) has similar findings in their study, where it is said that when SaaS companies are doing business in the cloud, they need to figure out how to manage the transfer pricing by themselves. These multiple possible solutions may be connected to the issue pointed out by Knuutinen (2015, 13), who stated that the rules for transfer pricing are open for interpretation.

The results of this study show that Finnish SaaS companies have based their transfer pricing set up to the assumption that the parent company carries the business risk, and therefore the subsidiaries should pay most of their profits to the parent company. This way, the subsidiaries can also pay for IPRs and intra-group

services. This finding supports the findings that Mäkelä and Alahuhta (2016, 68) showed. They point out that it is common in MNE groups that the parent company carries the business risk and holds the decision-making power. One problem this approach has is, that it does not separate different items that belong to transfer pricing. Therefore, if the tax administration would disagree with the logic, the concern might need to quickly create separate transfer pricing processes for each service and item.

Financing of the transfer pricing

A common assumption in transfer pricing is that MNE groups are trying to minimize their taxes by shifting profits from high tax jurisdictions to low tax jurisdictions (Helminen 2018; Borkowski 2001, 350). Financing of the SaaS companies in this study is not guided by intention to minimise concern's taxes. Reason for this difference may be, that the studied companies are all growth companies, and have relatively low profits. Studied companies have also quite short history as having cross-border subsidiaries, and they may still be looking for the best practices.

Taylor et al. (2015, 30) pointed out that for cross-border transactions the application of arm's length principle may be too straightforward. The results of this study support this finding, as the studied companies have not defined their intra-group services or specified the transfer pricing methods for these. Reason for the lack of suitable methods for the intra-group services of the SaaS companies, but also lack of resources and knowledge in the companies.

The results of this study show that Finnish SaaS companies are treating all their cross-border intra-group services as one item and have same transfer pricing logic and processes for all services. This may lead to situations where the SaaS companies do not notice that they if they should change their transfer pricing: OECD (2017, 344-337) has pointed out that sometimes the nature and suitable transfer

pricing depends on the circumstances, and therefore MNE groups should monitor possible differences in their services and processes. The invoicing period varies from month to quarter. No one had invoicing period of one year. This long invoicing period would have required high investment.

Problems and challenges in transfer pricing

This study shows that the Finnish SaaS companies believed to comply with transfer pricing regulations of the tax administrations. Additionally, the companies feel like they can discuss with the tax administrations. At the same time according to this study, Finnish SaaS companies have uncertainty related to the audits and interpretation of tax jurisdictions. This supports the findings of Mazur (2016, 644-647) and Knuutinen (2015, 30), as they state that transfer pricing rules for SaaS companies are not clear and need to be interpreted.

4.3 Conclusions

The main research question was '*What problems SaaS MNE groups face regarding the transfer pricing of cross-border intra-group services provided by Finnish parent companies?'.* Companies face different challenges based on the characteristics of their company. One main factor that affects companies' challenges is, that companies do not have internal knowledge about the transfer pricing, so they have to use external consultants to comply with the transfer pricing regulations. Second factor is, that there are no univocal regulations for transfer pricing of cross-border intra-group services of SaaS companies. Because of the lack of the univocal regulations, companies need to interpret the regulations. Interpretation brings uncertainty to their transfer pricing, as companies do not know how the tax administrations will interpret the same rules.

The fist sub research question of this thesis was '*How companies define their transfer pricing processes for cross-border intra-group services?'.* Based on this

thesis, the companies try to comply with all transfer pricing regulations. The regulations are not always univocal, so the companies can make choices on how they will define and conduct their transfer pricing processes. This thesis shows that companies rely on external consultants when defining their transfer pricing processes. The results also show, that companies try to setup transfer pricing processes that are common among with other similar companies. This brings certainty that their processes will comply with the transfer pricing regulations. Companies are also trying to have as simple processes as possible in order to be able to manage their transfer pricing, and to save their resources.

The second sub research question was, '*How Finnish parent companies define the price for cross-border intra-group service?'.* The results of this study show, that companies have based the transfer price of their cross-border intra-group services on the common margins that other similar companies in the industry are charging. Companies have not specified prices to each intra-group service they have: instead they are processing their intra-group services and other products as one item.

4.4 Reliability of the results and suggestions for further research

This thesis has few limitations that affect to the generalisation of the empirical results. This thesis addressed transfer pricing of cross-border intra-group services in Finnish SaaS companies, which in itself is a relatively small group of companies, but the companies have many differences. This thesis has not studied, how differences in the companies processes and backgrounds affect their transfer pricing. This thesis focuses only on cross-border intra-group services, but all services are analysed as one: thesis does not compare possible differences in different services.

This study aimed to describe the transfer pricing processes. Data for this study was collected from three interviewees who work in different companies. Because of the

small amount of interviewed companies, the results cannot be generalised to all Finnish SaaS companies.

Future research could focus on describing different practices that Finnish SaaS companies use in the transfer pricing of intra-groups. From this thesis a question about intra-group loans and how companies should count interest on them. There is a need for information about calculating interest for charges that are made before the cost realises.

As this thesis focused on SaaS companies with Finnish parent companies, future research could focus on how transfer pricing is done in MNE groups that have Finnish subsidiary. Future research could also study, are there differences that depend on the home country of the parent company, that affect the transfer pricing of cross-border intra-group services. This thesis focused on small SaaS companies and did not compare results to bigger SaaS companies. Future research could also compare small the transfer pricing practices of small SaaS companies to bigger SaaS companies.

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APPENDICES

Appendix 1: Example questions

Background

1. What is your current job description?
2. When did you found your first subsidiary? Where are your subsidiaries located?
3. Who are included in transfer pricing processes in your company?

Intra-groups services

4. What intra-group services exist in your company?
5. What intra-group services the parent company is providing to subsidiaries?
6. What intra-group services subsidiaries are providing?

Transfer pricing

7. On what time period your intra-group services are provided? Are they for example projects or ongoing services?
8. How do you accrue the costs? (on monthly basis, by financial year)
9. How does your transfer pricing process proceed?
10. How do you gather information about prices and costs of intra-group services? Have you created a pricing model for intra-group services?
11. Besides intra-group services, do you have transfer pricing transactions for other items? (tangible or intangible assets) How their transfer pricing differs from transfer pricing of intra-group services?
12. Does transfer pricing appear in your day-to-day work? In what kind of situations?

13. How has your transfer pricing for intra-group services changed over the years?
14. Have you used external consultants for transfer pricing? What is their role in transfer pricing?

Correcting transfer pricing

15. What kind of challenges related to transfer pricing of intra-group services you have experienced?
16. What kind of experiences you have with working with tax administrations regarding transfer pricing?
17. What is most challenging in transfer pricing?
18. Any additional comments?

Taustakysymykset

1. Minkälaisessa toimenkuvassa työskentelette?
2. Milloin perustitte ensimmäisen ulkomaisen tytäryhtiönne? Missä maissa yrityksellänne on tytäryhtiöitä?
3. Ketkä yrityksessänne osallistuvat siirtohinnoittelu prosesseihin?

Sisäisistä palveluista

4. Mitä sisäisiä palveluja yrityksessänne on?
5. Mitä sisäisiä palveluja emoyhtiönne tarjoaa tytäryhtiöillenne?
6. Mitä sisäisiä palveluja tytäryhtiönne tarjoavat?

Siirtohinnoittelusta

7. Millä aikajänteellä sisäiset palvelunne toimivat? Ovatko ne esimerkiksi jatkuvia tai projektiluontoisia?
8. Miten jaksotatte palvelukustannukset? (esim. kuukausittain, tilikausittain)

9. Miten siirtohinnoitteluprosessinne etenee?
10. Miten keräätte tietoa sisäisten palveluiden hinnoista ja kustannuksista? Oletteko luoneet hinnoittelumallin sisäisille palveluille?
11. Näkyykö siirtohinnoittelu yrityksenne arjessa? Millaisissa tilanteissa?
12. Kuuluuko siirtohinnoittelunne piiriin muita eriä, esimerkiksi aineetonta tai aineellista omaisuutta? Miten niiden siirtohinnoittelu eroaa palveluiden siirtohinnoittelusta?
13. Millaisia muutoksia sisäisten palveluiden siirtohinnoittelussa on yrityksessänne tapahtunut?
14. Oletteko käyttäneet ulkopuolisia konsultteja siirtohinnoitteluun? Mikä on heidän roolinsa siirtohinnoittelussa?

Siirtohinnoitteluoikaisut

15. Millaisia haasteita olette kohdanneet palveluiden siirtohinnoitteluun liittyen?
16. Mitä kokemuksia teillä on veroviranomaisten toiminnasta siirtohinnoittelussa?
17. Mitkä asiat näette haasteellisimpana palveluiden siirtohinnoittelussa?
18. Onko teillä muita kommentteja aiheeseen?