

Have you performed the Amount B check?

What is Amount B and how can it impact your business?

Amount B can be used by multinational groups as a practical solution for determining the arm's length returns for routine distributors including wholesalers and sales agents resulting in streamlined processes and consistent standards across jurisdictions.

Although, *Amount B* aims to simplify compliance and provide more clarity in transfer pricing, its effectiveness in reducing tax disputes remains uncertain in cases where the jurisdiction of the tested party's counterparty is not obliged to follow the approach of the tested party. This could result in inconsistencies and an increased risk profile for disputes.

How TPA Global can help

We help you assess the impact of *Amount B* on your business and plan effectively. From classification to compliance, we ensure your operations are optimized and non-compliance risks are minimized.

Reach out to TPA Global today – j.kramer@tpa-global.com!

Executive Summary

What is Amount B?

Amount B standardizes transfer pricing for routine marketing and distribution activities, specifically focusing on the sale of tangible goods by limited-risk distributors (LRDs) in a B2B wholesale context. Retail is excluded unless the retail revenues do not exceed 20% of the LRD's total revenues (on a 3 years average basis). *Amount B* aims to simplify compliance and provide clarity in transfer pricing, making it easier to navigate international tax regulations.

Together with Amount A – reallocation of residual profits to market jurisdictions – *Amount B* is part of Pillar 1, the OECD initiative addressing tax challenges arising from the digitalization of the economy and global business operations. As the guidelines around Amount A are still under development, Amount A does not apply at this stage.

Amount B, however:

- has taken effect from 1 January 2025
- is unlike Amount A not subject to any revenue threshold

- does not only apply to businesses operating in the digital economy
- applies for a minimum of 3 years.

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How does Amount B work?

Amount B can be applied, if the following criteria are met:

1. The distributor, sales agent or commissionaire is the “tested party” and the Transactional Net Margin Method (TNMM) is the appropriate transfer pricing method;
2. The tested party’s OPEX/Sales ratio must not fall below 3% or exceed 20-30%;
3. The transaction does not involve sale of intangibles goods, services (except e.g. after sales), or commodities;
4. The "baseline marketing and distribution" transaction should be adequately

evaluated and priced separately if the distributor carries out additional activities (e.g. manufacturing).

The arm’s length returns for in scope transactions are determined by using a global pricing matrix. The matrix contains three industry categories and five levels based on the size of operating assets and operating expenses in relation to sales. The pricing matrix shows a standardized profit margin – Return on Sales (ROS) – for the respective company category ranging from 1.5% to 5.5%.

Depending on how *Amount B* is transposed into local laws it can apply either as an option for taxpayers (“safe harbour”) or as a mandatory rule. ◊

The below Appendices provide a detailed summary of the Amount B guidelines. For the complete guidelines please refer to the 2024 OECD Report on Amount B: Pillar One - Amount B: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, <https://doi.org/10.1787/21ea168b-en>

Appendix 1: Determining the return for the tested party

1 Pricing Matrix

To determine the return for a tested party involved in in-scope transactions the following 3-step process is followed:

Step 1 – *Determine the relevant industry grouping(s)*. In order to determine the applicable return on sales, the tested party is categorized in one or more industry groups based on the products it distributes. If more than one industry groupings apply, the proportion of the sales is decisive. In case at least 80% of sales fall within one grouping, the entire sales is deemed to fall into that grouping. If more than 20% of sales fall into a second and/or third grouping a weighted average return should be calculated.

	Industry Grouping
Group 1	perishable foods, grocery, household consumables, construction materials and supplies, plumbing supplies and metal.
Group 2	IT hardware and components, electrical components and consumables, animal feeds, agricultural supplies, alcohol and tobacco, pet foods, clothing footwear and other apparel, plastics and chemicals, lubricants, dyes, pharmaceuticals, cosmetics, health and wellbeing products, home appliances, consumer electronics, furniture, home and office supplies, printed matter, paper and packaging, jewellery, textiles hides and furs, new and used domestic vehicles, vehicle parts and supplies, mixed products and products and components not listed in group 1 or 3.
Group 3	medical machinery, industrial machinery including industrial and agricultural vehicles, industrial tools, industrial components miscellaneous supplies.

Step 2 – *Determine the relevant factor intensity*. The factor intensity is determined based on the net operating asset intensity (OAS) – ratio of net operating assets to net revenue – and net operating expense intensity (OES) ratio of net operating expenses to net revenue. This determines which part of the pricing matrix (low, medium, or high intensity) the company falls into (i.e. factor intensity classification A, B, C, D, and E).

Step 3 – *Determine return on sales*. Based on the industry grouping and factor intensity (steps 1 and 2), the tested party’s appropriate return on sales can be identified by using the below pricing matrix. The return will produce a range equal to the return on sales percentage derived from the below pricing matrix plus or minus 0.5%

Industry Grouping	Industry Grouping 1	Industry Grouping 2	Industry Grouping 3
Factor Intensity			
(A) OAS 45% or more, any level of OES	3.50%	5.00%	5.50%
(B) OAS 30% to 44.99%, any level of OES	4.00%	3.75%	4.50%
(C) OAS 15% to 29.99%, any level of OES	2.50%	3.00%	4.50%
(D) OAS less than 15%, OES 10% or more	1.75%	2.00%	3.00%
(E) OAS less than 15%, OES less than 10%	1.50%	1.75%	2.25%

2 Operating Expense Cross-Check

An "operating expense cross-check" serves as a guardrail to keep the return on sales within reasonable limits. If a calculated return falls outside this range, adjustments are made using a "cap-and-collar" method.

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

The operating expense cross-check applies to all in-scope transactions and requires to apply the following 4-step process:

Step 1 – the return on sales for the tested party will be determined in accordance with the above pricing matrix and compute an equivalent return on operating expense derived from that return.

Step 2 – the applicable operating expense cap and-collar range will be derived from the table above. The applicable cap rate is determined by reference to: (i) the factor intensity classification of the tested party, and (ii) whether the tested party is subject to the default cap rates or alternative cap rates for qualifying jurisdictions.

Step 3 – the equivalent return on operating expense of the tested party will be compared against the operating expense cap-and-collar determined in Step 2.

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Step 4 – where the equivalent return on operating expense of the tested party determined in Step 1 falls within the operating expense cap-and-collar range, no further adjustment is required to the return on sales calculated in the pricing matrix. However, where the equivalent return on operating expense of the tested party determined in Step 1 exceeds the operating expense cap, the return on sales of the tested party will be adjusted downwards until it results in an equivalent return on operating expense equal to the operating expense cap. Conversely, where the equivalent return on operating expense of the tested party falls below the operating expense collar, the return on sales of the tested party will be adjusted upwards until it results in an equivalent return on operating expense equal to the operating expense collar.

3 *Adjustment for Data Availability in Qualifying Jurisdictions*

The data availability mechanism is intended to account for cases where there is no or insufficient data in the global dataset for a particular tested party jurisdiction and that jurisdiction is a qualifying jurisdiction.

Where a tested party is located in a qualifying jurisdiction, an adjustment will be made to the return initially determined. A relevant taxpayer in an aforementioned qualifying jurisdiction will earn an adjusted return in accordance with the following formula:

$$\text{Adjusted return on sales} = \text{ROS}^{\text{TP}} + (\text{NRA}^{\text{J}} \times \text{OAS}^{\text{TP}})$$

Where:

- i. ROS^{TP} is the return on sales percentage of the tested party calculated.
- ii. NRA^{J} is the net risk adjustment percentage of the qualifying jurisdiction derived from the table below, where the applicable category is determined by reference to the sovereign credit rating⁵ of the qualifying jurisdiction of the tested party applicable on the first day of the relevant fiscal year.⁶
- iii. OAS^{TP} is the net operating asset intensity percentage of the tested party for the relevant fiscal year but will not exceed 85% for the purpose of computing the adjusted return on sales of the tested party.

Appendix 2: Criteria and Commitment for Covered Jurisdictions

Inclusive Framework (IF) members have committed to respect the outcomes determined under the Amount B approach when applied by "covered jurisdictions." This commitment includes taking reasonable steps to alleviate potential double taxation where bilateral tax treaties exist. The criteria for identifying covered jurisdictions are:

1. **Low- and Middle-Income IF Jurisdictions:** Countries classified by the World Bank as low or middle income, excluding EU, OECD, and G20 member countries.
2. **Willing OECD and G20 Members:** Low- and middle-income IF jurisdictions that are OECD or G20 members and have expressed willingness to apply Amount B by March 2024. Notably, Argentina, Brazil, Costa Rica, Mexico, and South Africa fall into this category.
3. **Non-IF Members:** Any non-IF member meeting the first criterion and expressing willingness to apply Amount B will be added to the list.

As of June 2024, this list includes 66 countries and is subject to review every five years.

Appendix 3: List of Covered Jurisdictions

Afghanistan	Côte d’Ivoire	Jamaica	Nepal	Syrian Arab Republic
Albania	Cuba	Jordan	Nicaragua	Tajikistan
Algeria	Democratic Republic of the Congo	Kazakhstan	Niger	Tanzania
Angola		Kenya	Nigeria	Thailand
Argentina	Djibouti	Kiribati	North Macedonia	Timor-Leste
Armenia	Dominica	Kosovo	Pakistan	Togo
Azerbaijan	Dominican Republic	Kyrgyzstan	Palau	Tonga
Bangladesh		Lao People’s Democratic Republic	Papua New Guinea	Tunisia
Belarus	Ecuador			Türkiye
Belize	Egypt	Lebanon	Paraguay	Turkmenistan
Benin	El Salvador	Lesotho	Peru	Tuvalu
Bhutan	Equatorial Guinea	Liberia	Philippines	Uganda
Bolivia	Eritrea	Libya	Rwanda	Ukraine
Bosnia and Herzegovina	Eswatini	Madagascar	Saint Lucia	Uzbekistan
Botswana	Ethiopia	Malawi	Saint Vincent and the Grenadines	Vanuatu
Brazil	Fiji	Malaysia		Venezuela
Bulgaria	Gabon	Maldives	Samoa	Viet Nam
Burkina Faso	Gambia	Mali	Sao Tome and Principe	West Bank and Gaza Strip
Burundi	Georgia	Marshall Islands	Senegal	Yemen
Cabo Verde	Ghana	Mauritania	Serbia	Zambia
Cambodia	Grenada	Mauritius	Sierra Leone	Zimbabwe
Cameroon	Guatemala	Mexico	Solomon Islands	
Central African Republic	Guinea	Micronesia	Somalia	
	Guinea-Bissau	Moldova	South Africa	
Chad	Haiti	Mongolia	South Sudan	
China	Honduras	Montenegro	Sri Lanka	
Colombia	India	Morocco	Sudan	
Comoros	Indonesia	Mozambique	Suriname	
Congo	Iraq	Myanmar		
Costa Rica		Namibia		

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