B.6. Cost Contribution Arrangements

Introduction

B.6.1. This chapter provides guidance on the use of cost contribution arrangements (CCAs) and the application of the arm's length principle to CCAs for transfer pricing purposes. CCAs are contractual agreements between associated enterprises in an MNE group in which the participants share certain costs and risks in return for having a proportionate interest in the expected outcomes arising from the CCA. CCAs may also include independent parties. CCAs may be used for a broad range of purposes such as acquiring or creating tangible assets, acquiring or creating intangibles, and providing intra-group services. In relation to intangibles, the CCA will set out the interest of each participant in the intangibles to be developed. For services, the CCA will set out the services that each participant is entitled to receive. For CCAs involving tangible assets, the CCA will set out the interest of each participant in the tangible assets.

B.6.2. A CCA will satisfy the arm's length principle if a participant's share of contributions to the CCA is in proportion to its share of benefits or expected benefits under the CCA.

B.6.3. CCAs offer significant administrative benefits. As associated enterprises perform intra-group services for other group members and also benefit from intra-group services provided by other group members, a CCA can provide a mechanism for replacing a web of separate intra-group arm's length payments with streamlined net payments based on aggregated benefits and aggregated costs associated with the services. Similarly, a CCA for sharing in intangible development can eliminate the need for complicated cross-licensing payments and replace it with a more streamlined sharing of contributions and risks, with effectively joint ownership of the resulting intangible.

B.6.4. CCAs are used to develop future benefits such as tangible assets, intangibles or to provide intra-group services. MNE groups use CCAs to share the costs and risks of developing intangibles. These activities involve risk as the expected benefits may not be realized. For example, it is uncertain whether research and development will result in the creation of an intangible which can be exploited by the participants.

Given the degree of risk involved, the sharing of costs and the expected benefits may be a preferred approach. Moreover, a single associated enterprise may not have the resources or the capacity to individually carry out the development by itself. Another advantage of a CCA is the flexibility to make contributions in the form of tangible assets, intangibles and services. A CCA may provide that the participants are allowed the exclusive right to exploit the intangible in specific countries or regions. A participant in a CCA must be able to use its interest in the intangibles and thus the participants cannot be required to pay royalties for the use of intangibles developed under the CCA.

B.6.5. Broadly, there are two distinct categories of CCAs: arrangements for sharing in the costs and benefits of intercompany services (service sharing arrangements), and arrangements established for the development, production, or obtaining of intangibles or tangible assets (development arrangements, most typically intangible development arrangements). Both types of arrangements involve the sharing of contributions and the sharing of anticipated benefits. Contributions may be in the form of cash, tangible assets, intangibles, and services. While both types of CCAs derive from the same underlying framework of sharing relative contributions in proportion to relative benefits, the motivation for these arrangements and some of the practical issues of implementing the arrangements may not be the same.

B.6.6. In service sharing arrangements, for example, an MNE may decide to centralize its human resources operations or information technology (IT) function in an associated enterprise so the participants will share the costs of providing these services. The advantage of intra-group service CCAs is that they provide for economies of scale to the participants, resulting in a lower proportional cost for these services than if each participant were providing the services in-house. For example, an MNE group may decide to have its IT services provided by a participant in a low-cost country which has an established history of being an international leader in IT. The centralization of IT provides the group with access to high quality IT services provided at a lower cost through economies of scale and potential location savings.

B.6.7. Some of the savings from centralizing functions may arise from preventing unnecessary duplication of functions within an MNE group. The savings that arise from centralizing services provided in an associated enterprise will usually be immediate. The services that may be the subject of a CCA include management, administrative and technical services, marketing and purchasing of raw materials or products.

B.6.8. On the other hand, for example in an intangible development CCA, participants within an MNE may decide to share in the costs, risks and potential benefits from undertaking a project to develop a new product such as a pharmaceutical product. Contributions may include patents and other existing intangibles relevant to the development, research and development services, and use of laboratories. Potential benefits might include the exclusive rights for each of the participants to exploit the intangible in its own market. There may be a significant time lag between development activities and the creation and exploitation of intangibles.

CCA features

B.6.9. The key feature of CCAs is that the participants agree to share the proportionate costs of creating or acquiring tangible assets, creating or acquiring intangibles or providing services and accordingly, agree that they will have a corresponding proportionate interest in the tangible assets, intangibles, or services created by the CCA. In effect, the participants have joint interests in the tangible assets, intangibles or services and their share of the benefits must be consistent with their contributions to the CCA. The predictability of the benefits of participating in CCAs varies. In some CCAs the benefits may be predictable at the outset but in other cases there may be uncertainty about the outcome. For example, it may be highly uncertain whether research and development will result in the creation of intangibles such as patents, know-how or IT software. In relation to services, a CCA may fail to provide the predicted benefits from economies of scale as a result of certain unexpected contingencies.

B.6.10. The benefits for an MNE in using a CCA may include:

- exploiting economies of scale and global corporate efficiency for commonly required services;
- reducing duplication within an MNE group;
- increasing operational effectiveness through shared activities and synergies within the MNE group;

- the sharing of risks among the CCA participants; and
- exploiting the knowledge of the participants through the sharing of know-how and best practices.

B.6.11. A participant in a CCA involving intangibles is entitled to use its interest in the intangibles in accordance with its share of the intangible and cannot be required to pay a fee or royalty to use its interest in the intangible. This is the case even where legal ownership is held by one associated enterprise on behalf of the group.

B.6.12. The features of CCAs are:

- having at least two participants;
- a sharing of costs between the participants based on anticipated benefits;
- each participant should have a reasonable expectation of benefitting from taking part in the arrangement (mutual benefit);
- the details of the arrangement are documented;
- the form of the CCA and the economic substance are consistent; and
- arrangements exist for the departure of participants (buy out) from the CCA and the entry of new participants to the CCA (buy in).

CCA participants

B.6.13. Under the arm’s length principle, a participant in a CCA must expect to benefit from participating in the CCA. In particular, the participant must have a specific interest in the tangible assets, intangibles or services of the CCA activity and must be capable of using the tangible assets, intangibles or services. The benefit that a CCA participant expects to receive is based on an objective prediction. Nevertheless, the decision is based on an expectation because of the associated uncertainty and there is no requirement that the CCA benefits may be realized as CCAs often involve risk.

B.6.14. In some industries, the facts and circumstances indicate that the research and development project is risky and may fail to realize benefits. For example, in the pharmaceutical industry many research and development projects often fail to result in patents and products which can be exploited commercially. Nevertheless, the pharmaceutical industry is competitive and MNE groups must continue to engage in research and development to remain competitive, as the rewards flowing from the development of a new drug can be very significant. The facts and circumstances suggest that although there is a high risk that an individual pharmaceutical research and development CCA may fail to actually provide benefits to the participants, this may simply reflect the playing out of risks, and is not in itself indicative that the CCA does not satisfy the arm's length principle.

B.6.15. The CCA activities may be carried out by one or more participants, or the activity may be undertaken by an associated enterprise which is not a participant. If a non-participant associated enterprise carries out the CCA activity under the arm's length principle it will require consideration for the work it engages in and it will not, for example, have an interest in any resulting intangibles or tangible assets. The consideration would be determined using a functional analysis and applying the appropriate transfer pricing methods in the Manual.

The value of CCA contributions

B.6.16. To determine if a CCA satisfies the arm's length principle, it is necessary to determine the value of each participant's contributions. All contributions must be identified and valued generally at the time the contributions are made. A participant's contributions may be in the form of cash, tangible assets, intangibles or services. The Guidance provided in this Manual is to be used in valuing contributions and taking into account the mutual sharing of risks by the participants and the expected benefits that will be derived by the participants.

B.6.17. Contributions to a CCA may take many forms. For service sharing arrangements, contributions primarily consist of the performance of the services. For development CCAs, contributions typically include the performance of development activities (e.g., research and development or marketing) and often include additional contributions relevant to a development CCA such as other pre-existing intangibles that will contribute to the development of a CCA intangible.

B.6.18. There is a difference between current contributions and pre-existing contributions. Examples of pre-existing contributions would include the contribution of patented technology with pre-existing value that is useful towards the development of the intangible which is the subject of the CCA, or the contribution of a tangible asset that had been acquired by one of the participants some time before the commencement of a CCA. Contributions of the pre-existing value of tangible assets and intangibles should be valued using the arm's length principle in this Manual as outlined at Chapter B.5..

B.6.19. Current contributions, on the other hand, are ongoing contributions that should be valued at market value. An example would be the performance of research and development services directed to the objective of the CCA. Such services would be valued on the basis of the functions performed by the participants. The current value of contributions should be determined in accordance with the arm's length principle in this Manual.

B.6.20. Although under the arm's length principle all contributions should be measured at value, it may be easier for participants to measure current contributions at cost. If this approach is adopted, the value attributed to the pre-existing contributions should recover the opportunity cost of the ex ante commitment to contribute at cost resources to the CCA. For example, a contractual arrangement (i.e. the CCA) that commits an existing workforce to undertake work for the benefit of the CCA should reflect the opportunity cost of alternative R&D endeavours (e.g. the difference between the value of the next most valuable use of the research and development staff over anticipated research and development costs) if the research and development performed by the CCA is to be valued at cost. In making this determination it is important not to double count different contributions of value (e.g. the value of the workforce and the value of the intangible contributions).

B.6.21. In certain situations, current contributions may be valued at cost as a practical method of valuing the relative value of the current contributions, e.g. if the difference between value and costs is insignificant. However, if contributions involve a combination of tangible assets, intangibles and services measuring the current contributions at cost may be unreliable for valuing relative contributions and may result in non-arm's length results. If it is claimed that the conditions of a CCA reflect those in comparable uncontrolled transactions, and the uncontrolled transactions use cost for valuing contributions, then the comparability of all the significant economic features of the controlled and uncontrolled transactions must be examined to ensure that the CCA and the uncontrolled transactions are comparable. Another issue that needs to be considered in comparing a CCA to uncontrolled transactions is whether other payments are made in the uncontrolled transactions such as milestone payments.

B.6.22. In some situations budgeted costs may be used for valuing contributions. Budgeted costs may be justified on the basis that contributions to a CCA will reflect expected benefits. There are usually differences between budgeted costs and actual costs in a CCA. A key question is therefore to determine which participants bear the risk that actual costs may be greater or lower than the budgeted costs. Arm's length parties will usually set out how to deal with the differences between budgeted costs and actual costs. Moreover, independent parties are likely to agree on the factors that are taken into account in developing the budget and how unforeseen anomalies are to be treated. If there are significant differences between budgeted costs and actual costs, the reasons for the differences should be examined to ensure that the CCA has not been significantly altered so that the changes may not benefit some of the participants.

B.6.23. As stated above, all contributions by participants to a CCA must be recognized. Contributions to be considered include contributions used exclusively for the CCA and also contributions used partly in the CCA and partly in the participant's business activities. The apportionment of valuation of contributions may be difficult in some situations. A participant may contribute the use of its business premises including tangible assets such as plant and equipment, and the participant may also provide certain services to the CCA. The participant may also be using the business premises and tangible assets concurrently for its own business. In these circumstances the arm's length value of the use of the business premises and the access to the plant and equipment must be determined. The appropriate valuation would be the arm's length rent for non-exclusive possession of business premises and the use of plant and equipment. The apportionment of contributions for valuation purposes should be based on the facts and circumstances and accepted accounting principles. If material changes occur during the life of the CCA, adjustments will be required to the apportionment. How these are treated for tax purposes will depend on domestic law.

Treatment of government subsidies

B.6.24. In many jurisdictions governments provide specific tax incentives and subsidies for research and development, which raises the issue of whether these incentives should be taken into account in determining a participant's contributions to a research and development CCA. The alternative approaches are to value the participant's contribution and disregard the subsidy or to value the contribution taking into account the effect of the subsidy. Under the former approach, the participant enjoys the full benefit of the subsidy itself. Under the latter approach the participant's contribution is reduced by the effect of the subsidy and in effect all participants share the benefit of the participant's subsidy. The determination under the arm's length principle depends on whether independent enterprises would have engaged in these activities in the same circumstances.

Predicting expected benefits

B.6.25. For an associated enterprise to participate in a CCA it must have an expected and identifiable benefit. An associated enterprise's expected benefit is important in determining the enterprise's contribution and whether the allocation method (e.g. allocation key) used by the MNE group is acceptable for the tangible assets, intangibles or services. An associated enterprise's contributions must reflect its anticipated share of expected benefits in order to satisfy the arm's length principle. An independent enterprise would not engage in a CCA unless it is able to identify a proportionate expected benefit. The notion of expected benefit is broad and means an economic advantage that may be in the form of reduced costs, increased income or maintaining its commercial and financial position. For intra-group services one of the main advantages which would be expected from the centralized provision of services would be the cost reduction achieved through economies of scale. The analysis of the expected benefits must be based on an associated enterprise's facts and circumstances.

B.6.26. 'Allocation keys' are often used by MNEs as an indirect method to approximate the respective future benefits of each participant in a CCA. An allocation key may be based on factors including: turnover, gross profit, net profit, the number of employees and capital. The allocation key used is a proxy for determining the nexus between the contribution and the participant's entitlement in expected benefits; the factors to be used must be determined on the facts and circumstances of the CCA.

B.6.27. The determination of a participant's contributions should be based on objective projections of its expected benefits and the respective advantages that they will provide to the participants. The projections should reflect projections that would have been made by independent parties in similar circumstances. A tax authority reviewing projections should only review them on the basis of information available to the participants rather than using hindsight which would be deemed unfair. In addition, CCAs should provide for adjustments to be made to contributions during the course of the CCA on a prospective basis to reflect changes in the ratio of the expected benefits of the participants.

B.6.28. For some CCAs, such as for intangible development, the benefits from the CCA will be realized in the future, and the time lag between commencement and realization may be significant. Accordingly, it can be difficult to measure the expected benefits flowing from research and development CCAs. Discounted income or cash flow methods are often used (See sections B.5.6.8 to B.5.6.29 of Chapter B.5. Under the arm's length principle a participant's contributions to a CCA must be consistent with its share of the expected benefits. This requires a direct approximation of a participant's expected benefits and ensuring that its contributions reflect its expected benefits. Consequently, if a participant is expected to receive a significant direct benefit if the goals of the CCA are realized, the participant should make a significant contribution.

Example 1

Assume that Company A and Company B enter into a CCA in Year 1 to develop new technology. At the inception of the CCA it is projected that the development process will take five years and that once the new technology is commercialized in Year 6 Company A will receive 75 per cent of the benefits and Company B will receive 25 per cent of the benefits. Total development costs are 100 each year.

In years 1, 2 and 3, Company A pays 75 in CCA related costs and Company B pays 25 in CCA related costs. At the end of Year 3, regulatory changes take place in the expected market for the new technology in Company A's territory. As a result of those changes, it is projected in year 4 and thereafter that Company A will derive 50 per cent of the total benefits and Company B will also derive 50 per cent of the projected benefits over the useful life of the technology being developed. As a result of the changes in total projected benefit shares, Company B should make balancing payments to Company A equal to 75 (the difference between 25 per cent and 50 per cent of the costs incurred in Years 1, 2 and 3). This balancing payment should be made in Year 4. Also in Year 4 and Year 5, based on the new benefit ratio calculation, Company A and Company B should each pay 50 of the current annual CCA related costs. Thus, at the end of the development period, both Company A and Company B would have paid 50 per cent of the CCA development costs and each would anticipate receiving 50 per cent of the benefits of exploiting the new technology, as follows:

Year 1	Year 2	Year 3	Balancing Payment Year 4	Year 4	Year 5	Total
75	75	75	(75)	50	50	250
25	25	25	75	50	50	250

Non-arm’s length CCAs

B.6.29. A CCA will fail the arm’s length test if the participant’s contributions are inconsistent with their share of the expected or realized benefits. As a consequence, other participants will be receiving a corresponding excessive share of the benefits and accordingly, an adjustment based on the facts and circumstance of the case may be required. The potential adjustments a tax authority may make in the case of a participant failing to comply with the arm’s length principle are to alter the contributions or to disregard the terms of the CCA.

1. Balancing payments

B.6.30. A CCA will satisfy the arm’s length principle if the value of every participant’s proportionate share of the total contributions is reflected in the participants’ share of the expected benefits. If a participant’s share of overall contributions is inconsistent with the participant’s share of the expected benefits, the contributions of at least one participant is excessive and correspondingly the contributions of at least one other participant will be inadequate. In this situation, under the arm’s length principle a balancing payment is required by the participants whose contributions are inadequate. The balancing payment will increase the value of contributions of the payer and decrease the value of contributions by the payee.

B.6.31. Participants may also make an additional contribution to a CCA if the participant’s proportionate contributions are too low when compared to its expected benefits. Adjustments may be the result of a periodic review of a participant’s contributions and its relative share of the expected benefits. In some cases, the need for periodic adjustments is anticipated at the commencement of the CCA.

B.6.32. Balancing payments may also be required by tax authorities. A tax authority may make an adjustment to remedy an identified imbalance in contributions to the CCA relative to the participant's share of anticipated benefits. An adjustment may be required if a participant's contributions in the form of tangible assets, intangibles or services were under-valued. An adjustment may also be required when a participant's share of expected benefits is too low relative to its share of expected costs because the allocation key has failed as a proxy for expected benefits or when changes occur during the life of the CCA that would suggest the initial anticipated benefit shares have changed.

B.6.33. When such deficiencies are identified they may be remedied by a balancing payment. A tax authority examining a CCA and concluding that an adjustment is required may treat a participant as receiving a notional balancing payment which may result in a corresponding payment being made between the participants. Nevertheless, if a CCA has been established in good faith, tax administrations should be cautious in making adjustments, and only consider them when the participant's relative contributions are excessive compared to its share of the expected benefits over several income years rather than in one income year. When required, balancing payments should be calculated to ensure that each participant's share of the total contributions over the life of the CCA is consistent with that participant's share of the projected benefits over the useful life of the tangible assets and intangibles developed under the CCA.

2. Disregarding the CCA terms

B.6.34. If an analysis of a CCA discloses that the terms of the CCA differ from the economic reality, a tax authority may disregard some of the terms of the CCA consistent with the determination of the accurately delineated transaction. In addition, paragraphs B.2.3.1.4. - B.2.3.1.8. apply with respect to the ability of tax authorities to disregard CCA arrangements.

B.6.35. A tax authority may conclude that a participant is unlikely to benefit from a CCA or that any expected benefits would be trivial especially if its contributions are significant. In this case, a tax authority may conclude that the arrangement fails to comply with the arm's length principle as an independent enterprise would not participate in such an arrangement, and thus disregard the CCA.

CCA entry, withdrawal and termination

B.6.36. At the time a CCA is established, one or more participants may be required to make a payment for their share of tangible assets, intangibles or other contributions of pre-existing value made available to the CCA by other participants. Similarly, after a CCA is established, an associated enterprise entering the CCA as a new participant may be required to make a payment in return for acquiring an interest in the benefits that have been created under the CCA. A participant withdrawing from a CCA is required to receive a payment for its share of the value of the CCA. In addition, existing participants in a CCA may either increase or decrease their involvement in a CCA. These situations are considered below.

Buy-in

B.6.37. When an associated enterprise joins a CCA, either at the commencement of the CCA or as a new participant after the CCA has been in operation, the associated enterprise may obtain an interest in contributions of pre-existing value made by other participants or in the realized benefits of the CCA created by such participants. This may include, for example, intangibles, other rights and work-in-progress. As the new participant acquires an interest in such benefits, the arm's length principle requires the participant to make an arm's length payment for this transfer from the other participants that created the pre-existing value. The sum payable for pre-existing benefits by a new participant on entering the CCA is called a 'buy-in' payment.

B.6.38. The buy-in payment should be based on the arm's length value of the rights that the new participant is acquiring and its interest in the expected benefits of the CCA. If the work of a pre-existing CCA has been fruitless and a change in approach is being considered, there may be no buy-in payment as the new participant is not acquiring an interest in tangible assets or intangibles, rights or work-in-progress. The new participant may also be making a contribution to the CCA in the form of intangibles or other pre-existing tangible assets. The items being contributed would have to be valued under the arm's length principle and a balancing payment made to make up differences if the buy-in payment required is greater than the value of the items being contributed by the new participant. Alternatively, if the value of the intangibles exceeds the required buy-in amount, a balancing payment will be required from the existing participants to the new participant. This may involve a netting of the buy-in payment and the balancing adjustment.

B.6.39. The treatment of a buy-in payment for tax purposes should be determined under the domestic law and tax treaties of the participants' countries. The payment should be treated as a payment to an independent enterprise to acquire an interest in intangibles, rights and work-in-progress.

Buy-out

B.6.40. When a participant leaves a CCA a buy-out occurs in which the departing participant sells its interest in the tangible assets, intangibles and rights under the CCA to the remaining participants. The buy-out amount should be the arm's length value of the departing participant's interest in the CCA. In some cases, the CCA's efforts may not have resulted in any realized benefits and consequently, the payment of consideration to the departing participant is unnecessary. The treatment of a buy-out payment for tax purposes should be determined under the domestic law and tax treaties of the participants' countries. The payment should be treated as a payment from an independent enterprise to acquire an interest in intangibles, rights and work-in-progress.

B.6.41. When new participants join a CCA, or when existing participants leave a CCA, an adjustment to the contributions of the continuing participants may be required to reflect the changes in their proportion of future anticipated benefits.

Termination of a CCA

B.6.42. On the termination of a CCA the participants must receive their respective shares in the tangible assets, intangibles and rights acquired and developed under the CCA. If a participant surrenders its entitlements under the CCA, the other participants would be required to make a payment following the requirements for a buy-out set out above.

CCA Guidelines

B.6.43. CCAs should list the participants and their respective interests in order to minimize the risk of disputes over the ownership of the fruits of the CCA and disputes with tax authorities. Under a CCA the legal owner of tangible assets and intangibles may be one associated enterprise, but the CCA participants have joint interests in the tangible assets and intangibles. A feature of CCAs is that the participants must have an interest in the tangible assets, intangibles or benefit from the services that are the subject of the CCA. In the case of intangibles, a participant must be able to use its interest in the intangibles.

B.6.44. In general, CCAs between associated enterprises should meet the following requirements.[1]

- The participants would include only enterprises expected to derive mutual and proportionate benefits from the CCA activity itself (and not just from performing part or all of that activity).
- The arrangement would specify the nature and extent of each participant's interest in the results of the CCA activity, as well as its expected share of benefits.
- No payment other than the CCA contributions, appropriate balancing payments and buy-in payments would be made for the particular interest or rights in intangibles, tangible assets or services obtained through the CCA.
- The value of participants' contributions would be determined in accordance with these Guidelines and, where necessary, balancing payments should be made to ensure the proportionate shares of contributions align with the proportionate shares of expected benefits from the arrangement.
- The arrangement may specify provision for balancing payments and/ or changes in the allocation of contributions prospectively after a reasonable period of time to reflect material changes in proportionate shares of expected benefits among the participants.
- Adjustments would be made as necessary (including the possibility of buy-in and buy-out payments) upon the entrance or withdrawal of a participant and upon termination of the CCA.

Documentation

B.6.45. Participants in a CCA are required to prepare documentation on the nature of the CCA, the terms of the CCA, and the expected benefits and compliance with the arm's length principle. The documentation should include information on:[2]

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[1] OECD, *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, para. 8.50.

- the participants;
- any other associated enterprises who will be involved;
- any other associated enterprises that may be expected to benefit from the CCA;
- the activities of the CCA;
- the duration of the CCA;
- the measurement of the participants' share of expected benefits;
- the contributions of each participant;
- the consequences of a participant entering the CCA, leaving the CCA or termination of the CCA; and
- balancing payments and adjustments to the terms of the CCA to reflect changes in economic circumstances of the participants.

B.6.46. In addition, the OECD Transfer Pricing Guidelines encourage participants to monitor the operation of a CCA and record:

- changes to the arrangement;
- comparing projections on expected benefits and realized benefits; and
- the annual expenditure of the participants to the CCA, the form of cash contribution and the valuation methods used, and the consistent application of accounting principles to the participants.

Example 2

Company A and Company B are members of a multinational group. Each company performs different services (Company A performs Service 1 and Company B performs Service 2), and Company A and Company B each "consume" both services (that is, Company A receives a benefit from Service 2, and Company B receives a benefit for Service 1).

Assume that the costs and value of the services are as follows:
Costs of providing Service 1 (cost incurred by Company A): 100 per unit

[2] Ibid., para. 8.52.

Market value of Service 1: 120 per unit. That is, the arm's length price that Company A would charge Company B for the provision of Service 1 is 120.

Costs of providing Service 2 (cost incurred by Company B): 100 per unit

Market value of Service 2: 105 per unit (note: assume that this is considered a low-value service)

In year 1 and in subsequent years, Company A provides 30 units of Service 1 to the group and Company B provides 20 units of Service 2 to the group. Company A and Company B enter into a CCA to share the costs and benefits of Service 1 and Service 2. Under the CCA, the calculation of costs and benefits are as follows:

Cost to Company A of providing services:	3000 (60% of total costs)
Cost to Company B of providing services:	2000 (40% of total costs)
Total cost to group:	5000

Contribution made by Company A (market value):
3600 (63% of total contributions)

Contribution made by Company B (market value):
2100 (37% of total contributions)

Total contributions made by group: 5700

Company A consumes 15 units of Service 1 and 10 unit of Service 2.
Company B consumes 15 unit of Service 1 and 10 unit of Service 2.

Benefit to Company A:
1800 + 1050 = 2850 (50% of total value of 5700)

Benefit to Company B:

1800 + 1050 = 2850 (50% of total value of 5700)

Contributions measured at value*:* Under the CCA, Company A should bear the costs associated with 50% of the total value of contributions (5700), or 2850. The market value of Company A's in-kind contribution is 3600. Company B should bear the costs associated with 50% of the total value of contributions, or 2850. The value of Company B's in-kind contribution is 2100. Accordingly, Company B should make a balancing payment to Company A of 750.

Appendix

Differences between CCAs and service arrangements

. It is difficult to distinguish between a CCA and intra-group services allocated through an allocation key. The following differences between CCAs and services arrangements within an MNE group have been identified:[3]

CCAs	**Intra-group service arrangements**
A CCA is an agreement to share costs, risks and benefits where the participants contribute cash, property or services.	Intra-group services are limited to the provision and acquisition of specific services within an MNE group.
The service provider and the recipients are all party to the one CCA.	The associated enterprise providing the services may enter into a separate agreement with each associated enterprise. This may result in the service provider having numerous bilateral agreements for the provision of intra-group services.
If a participant joins or leaves a CCA, a corresponding adjustment is required to be made on the contributions and the entitlements of each associated enterprise.	If an associated enterprise decides to expand a service arrangement or terminate the service arrangement, there is no effect on the other associated enterprises receiving the services.
A detailed written agreement containing the information set out at para.B.6.45.	In some cases written contracts may not be prepared.
The contributions of the participants are measured on a contribution basis.	The service recipient will be charged a service fee which will include a profit-mark up under the arm's length principle for the service provider.

[3] EU Joint Transfer Pricing Forum, Report on Cost Contribution Arrangements on Services not creating Intangible Property, (2012) (JTPF/008/FINAL/2012/EN), para. 12.

The allocation of costs under the arm’s length principle must be based on each participant’s expected benefits under the CCA.	The allocation key is designed as a proxy measure of the expected benefits that the recipient associated enterprise will receive from the services.