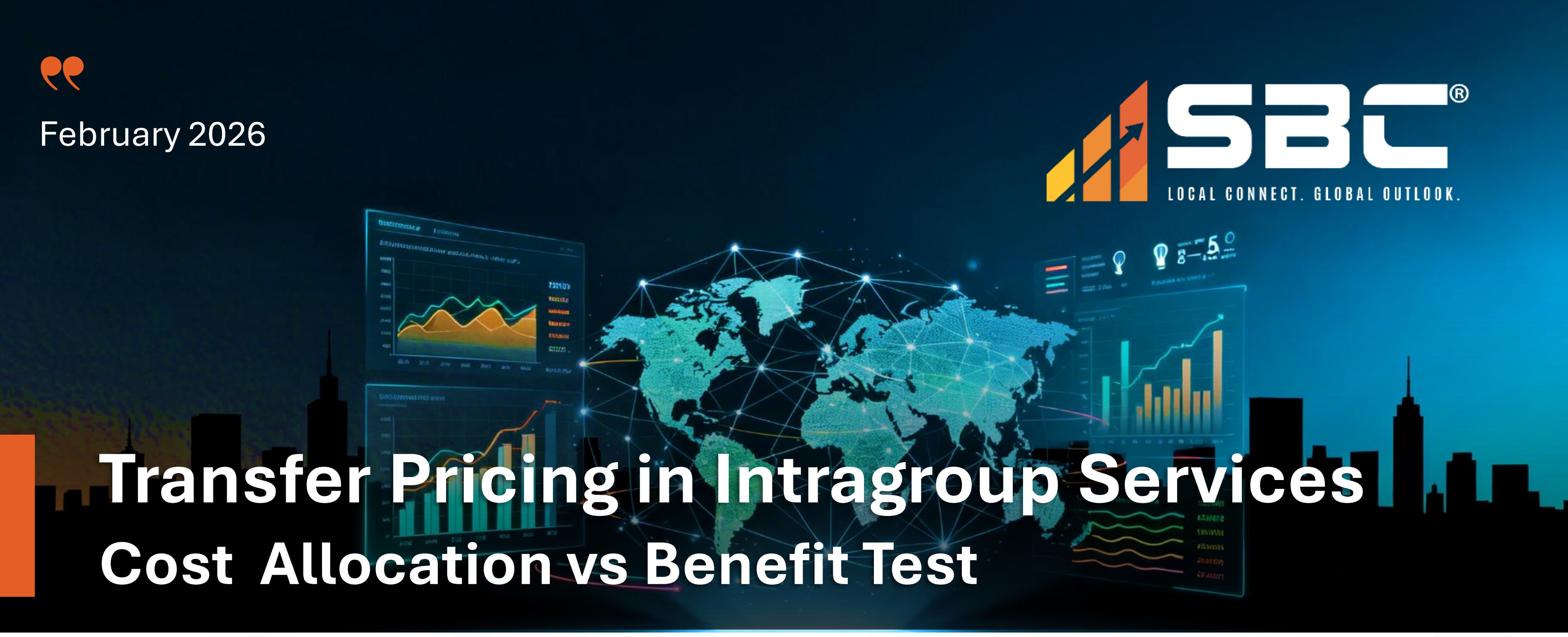

February 2026

Transfer Pricing in Intragroup Services

Cost Allocation vs Benefit Test

What are Intra-Group Services :

- Intra-group services refer to activities performed by one or more entities within a multinational group that provide a clear economic or commercial benefit to other group members. Just as an independent business may choose to obtain a service from an external provider or perform it internally, group entities may similarly source services either from third parties, from other related entities, or undertake them in-house.
- These services may include both externally available functions - such as legal or accounting support and internally oriented functions like internal audit, HR, or administrative support. To ensure compliance, any service that qualifies as an intra-group service must be properly identified and remunerated in line with the Arm's Length Principle.

Transfer Pricing Analysis Core Questions

Whether Intragroup service has actually been provided?

Whether the charge for Intra-group service is in accordance with the ***Arm' Length Principle?***

Non-Chargeable Intra-Group Services

Under OECD transfer pricing principles, an intra-group charge is permissible only where the benefits test is satisfied i.e., the activity provides economic or commercial value that an independent enterprise would be willing to pay for. The following activities generally do not justify a recharge:

- **Shareholder activities** (e.g., consolidated reporting, parent-level governance, capital raising)
- **Duplicative services** already performed in-house or by third parties
- **Incidental or passive benefits** arising merely from group affiliation (e.g., improved credit standing without a formal guarantee)

Transfer Pricing in Intragroup Services

Cost Allocation vs Benefit Test

Benefit Test

The test confirms that services have genuine economic or commercial value to the recipient entity.

This can be determined by considering the following non-exhaustive factors :

1. Whether the benefit has economic or commercial value that an independent party would be willing to pay for or perform itself.
2. Whether the activity is performed for another party that receives or reasonably expects to receive a benefit, even if the benefit does not ultimately materialize.
3. Whether the activity is commercially or practically necessary for the recipient and one an independent party would pay for; otherwise, the benefit may be too remote or incidental.

Cost Allocation Framework for Intra-Group Services

High Value-Adding Intra-Group Services

Activities that directly support a group's core business and value creation, often involving strategic functions, unique intangibles, or significant risk with a direct impact on profitability.

Low Value-Adding Intra-Group Services

Routine, supportive activities that do not form part of a group's core profit - generating functions and typically involve administrative or back-office support without significant risk or unique intangibles.

Pass-Through Costs

Pass-through costs occur when one group entity pays expenses on behalf of another purely as a paying agent, without adding value. These costs may be recharged at actual cost if incurred for the recipient's benefit and without enhancement, though an arm's length margin may apply for any coordination or administrative services performed.

Cost Allocation vs Benefit Test: What's the Difference

Cost Allocation	Benefit Test
• Focuses on how costs are distributed among group entities • Applies after confirming that a service has been provided • Uses allocation keys linked to expected benefits (e.g., headcount, revenue, usage) • Primarily a quantitative exercise • Ensures costs are shared fairly and consistently • Includes application of appropriate mark-ups	• Focuses on whether a service should be charged at all • Determines if the activity provides economic or commercial value • Asks whether an independent party would pay for or perform the service • Primarily a qualitative assessment • Eliminates shareholder, duplicative, or incidental activities • Acts as a precondition to cost allocation

How can SBC help?

- **Assess intra-group service arrangements** to determine whether they meet the benefit test and comply with the arm's length principle
- **Design appropriate cost allocation frameworks**, including selection of rational allocation keys aligned with business operations
- **Conduct benchmarking analyses** to determine arm's length mark-ups for high-value services
- **Review and optimize intercompany agreements** to ensure clarity, consistency, and regulatory compliance
- **Apply the benefit test** to determine whether intra-group services create genuine economic value and are chargeable under the arm's length principle.

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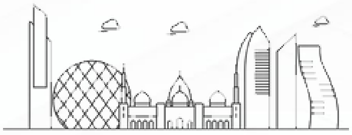

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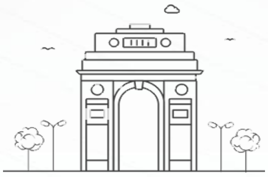

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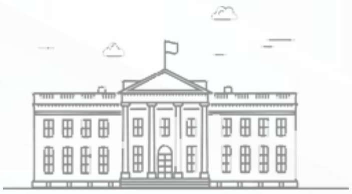

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