
THE WORLD TAX REVIEW

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The order of proof has changed. The groups that move first will write their own narrative.

Prepared by the academic researchers and practitioners of the World Tax Research Centre (WOTRE), an initiative of World Tax Lawyers.

FEATURE

The Cost-Plus Era for Services Just Ended

What the OECD's Chapter VII rewrite means for your service fees and what to do before your next audit

The Short Version

On 1 June 2026, the OECD published a consultation draft that rewrites Chapter VII of the Transfer Pricing Guidelines — the chapter that governs every intra-group service charge in your group.¹

It is the biggest revision in more than a decade, and it changes the sequence of the analysis in a way that changes the outcome. From now on, you delineate the transaction first, you test the benefit second, and you price it third. Your agreements, invoices and fee labels no longer carry the argument. The actual conduct does.

Here is why that matters in practice. For thirty years, the default treatment of an intra-group service has been comfortable: identify a cost pool, pick an allocation key, add a mark-up, benchmark it once, and move on. The draft explicitly abolishes that comfort. It states that no transfer pricing method, no tested party and no cost-based approach may be presumed merely because a transaction is labelled a service.

It introduces profit split guidance for services for the first time.² It adds a dedicated documentation section that tells tax administrations exactly what contemporaneous evidence to ask for. And it ships with more than twenty worked examples that will function, in practice, as an audit playbook.

¹OECD, Public Consultation Document: Revisions to Chapter VII of the OECD Transfer Pricing Guidelines — Special Considerations for Intra-Group Services, OECD, Paris, 1 June 2026; stakeholder comments were due by 22 July 2026.

²OECD TPG 2022, Chapter II, Part III.C (transactional profit split method), paras 2.114–2.152.

Your agreements, invoices and fee labels no longer carry the argument. The actual conduct does.

This briefing does three things. First, it sets out the five changes you actually need to know. Second, it walks through three case studies — a procurement fee charged as a percentage of bill of materials, a marketing and sales fee charged as a percentage of revenue, and a digital platform migrating from cost-plus to a percentage of value — because that is where this guidance gets real. Third, it gives you a documentation checklist and a twelve-month action plan. The overall message is simple: groups that refresh their service arrangements now, on their own terms, will control the narrative. Groups that wait will have the narrative written for them, in an audit, at consultancy rates.

1. Five Things You Need to Know

- **Delineation comes first.** Every service analysis now starts with the accurate-delineation framework from Chapter I³: commercial relations, contractual terms tested against actual conduct, functions performed, assets used, risks assumed. Only after that does the benefit test apply, and only after that do you price. If your documentation opens with a cost pool, it opens in the wrong place.
- **Labels prove nothing.** A management fee invoice is not evidence that a service was rendered, and the absence of a contract does not prove one was not. Auditors will look at who did the work, what was delivered, and why an independent party would have paid for it.
- **The benefit test is ex ante — and that cuts both ways.** Benefits are judged by what was reasonably expected at the time of the activity⁴

³OECD, OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022, OECD Publishing, Paris, Chapter I, Section D.1 (accurate delineation of the actual transaction), paras 1.33–1.66.

⁴OECD TPG 2022, Chapter VII, paras 7.5–7.13 (the benefit test, shareholder activities, duplication and incidental benefits).

— which raises the bar for contemporaneous evidence, but also gives you three genuine wins: failed projects no longer defeat a charge, a loss-making year at the recipient no longer negates the service, and an excessive charge is a pricing adjustment, not a wholesale denial of the deduction.

- **Cost-plus is no longer the default.** Where a service involves significant functional contributions, embedded intangibles or meaningful risks, one-sided cost-plus can no longer be assumed — and the draft's new profit split guidance for services gives administrations a template for the alternative. Digital and data-driven service models are the obvious targets.
- **LVAS survives — but only if it stays in its lane.** The simplified approach for low value-adding services, with its 5% mark-up and no benchmarking requirement, is intact.⁵ But 5% is confirmed to be neither a floor nor a benchmark for anything outside the scheme, pass-through costs may be recharged at zero mark-up, and the consultation's specific questions on shareholder activities, allocation keys and share-based pay tell you exactly where audit attention is heading.

2. Where It Gets Real: Three Case Studies

Abstract principles do not get challenged in audits, fee arrangements do. The three arrangements below exist in some form in most large MNEs. For each one, we ask the question the new guidance now forces: what does accurate delineation actually show?

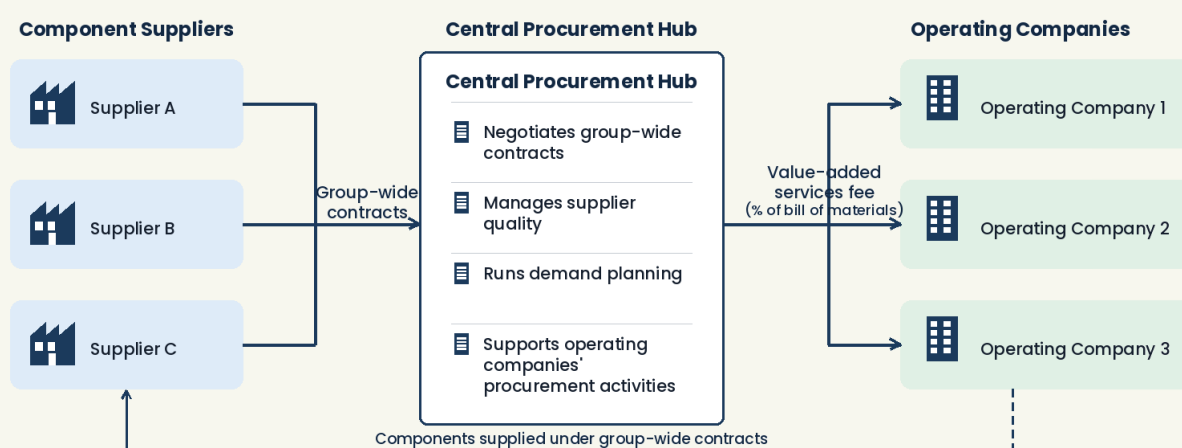
2.1 Procurement and Supply Chain

The fee charged as a percentage of BOM

(a) The facts

Example 1

The setup is common. A central procurement hub — often in Singapore, the Netherlands or Switzerland — negotiates group-wide contracts with component suppliers, manages supplier quality, runs demand planning and recharges operating companies a value-added services fee calculated as a percentage of the bill of materials they purchase through the hub. Two or three per cent of BOM is a typical number, chosen because it tracks the savings the hub generates.



(b) Practical analysis

Run delineation over this and it splits in two. One part is genuinely strategic: multi-year supplier

negotiations, supply-risk management, dual-sourcing decisions. That activity uses scarce expertise, controls economically significant risks and creates value that a percentage-of-value fee can

⁵OECD TPG 2022, Chapter VII, Section D, paras 7.43–7.65 (elective simplified approach for low value-adding intra-group services); the 5% mark-up is set out at para 7.61.

legitimately capture. The other part is transactional: purchase order processing, invoice matching, logistics administration. That is textbook LVAS (i.e., routine, supportive, no intangibles, no significant risks) and belongs in a 5% cost pool. A single blended percentage-of-BOM fee can no longer carry both halves. An auditor who delineates the arrangement will carve out the transactional piece, price it at cost-plus, and challenge the rest.

WHERE THE RISK SITS. The fee base drifts away from the value. Commodity price inflation inflates BOM, so the fee rises even in years when the hub did nothing differently; a spike in component prices can push the effective charge above the savings actually delivered, which fails the benefit test on its own terms. There is also a customs angle. That is, a fee computed on the value of purchased goods invites the question whether it is part of the dutiable customs value. There is also a base-erosion angle in recipient countries that ask why a cost of manufacture is leaking out as a service fee.

WHERE THE OPPORTUNITY SITS. Properly delineated, the strategic half of a procurement hub is one of the most defensible value-based fees in transfer pricing. If you can evidence, ex ante, that the hub's negotiations were expected to deliver 4–6% savings against the

recipient's alternative procurement cost, a fee at half that rate shares the value the way two independents would. The fix is not to abandon the percentage of BOM, rather, it is to unbundle the arrangement, document the savings methodology before the year starts, and cap or collar the fee so it cannot detach from the benefit it prices.

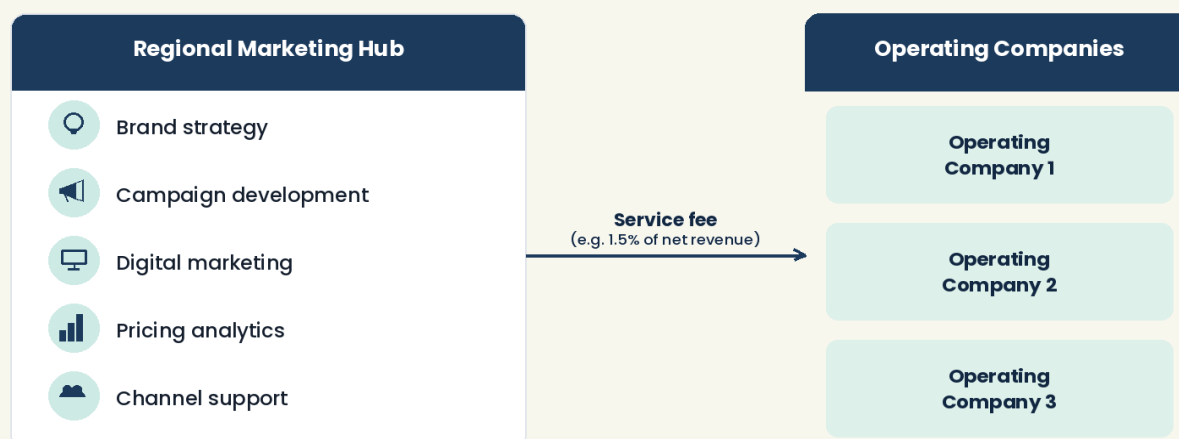
2.2 Marketing and Sales

The fee charged as a percentage of revenue

(a) The facts

Example 2

The second setup is just as common: a regional marketing hub charges group companies a fee for brand strategy, campaign development, digital marketing, pricing analytics and channel support, computed as a percentage of each recipient's net revenue (say 1.5%). It is usually described in the agreement as a service fee, but in substance it is priced exactly like an external sales commission, and third-party commission rates are precisely the comparable uncontrolled prices the new method-neutral framework invites you to test against.



(b) Practical analysis

Delineation does two things here. First, it asks who actually does the selling. If the hub employs account managers who negotiate prices and close orders, what you have may not be a service at all — it may be a commercial agency or commissionaire arrangement, with very different legal, VAT and

withholding tax consequences, and the 'service fee' label will not protect you. Second, it separates brand stewardship — building the group's brand, a benefit that accrues partly to the trademark owner — from local market activation, which benefits the recipient directly. Charging the full revenue percentage to recipients for work that partly enhances the parent's

intangibles is exactly the kind of mismatch the benefit test now targets.

WHERE THE RISK SITS. Revenue-based fees are procyclical in the wrong direction: the recipient pays the most in its best years and still pays in loss-making years, which is where the ex-ante benefit test earns its keep — the charge survives a downturn only if the expected benefit was documented before the downturn. Watch also for duplicative local marketing spend wiping out the expected benefit, and for withholding tax: many treaties treat commission-style payments differently from service fees, and a recharacterisation can reopen years of WHT positions.

WHERE THE OPPORTUNITY SITS. Third-party marketing agencies and sales agents charge percentages of revenue every day — that is a real CUP market, and the draft's abolition of the cost-plus presumption works in your favour: you no longer have to force a value-based arrangement into a cost-plus straitjacket because that was the default. Build the fee as a genuine commission

benchmark, document the service catalogue against what agencies actually provide, exclude pure brand-building from the chargeable pool, and the arrangement becomes more defensible than the cost-plus version it replaces.

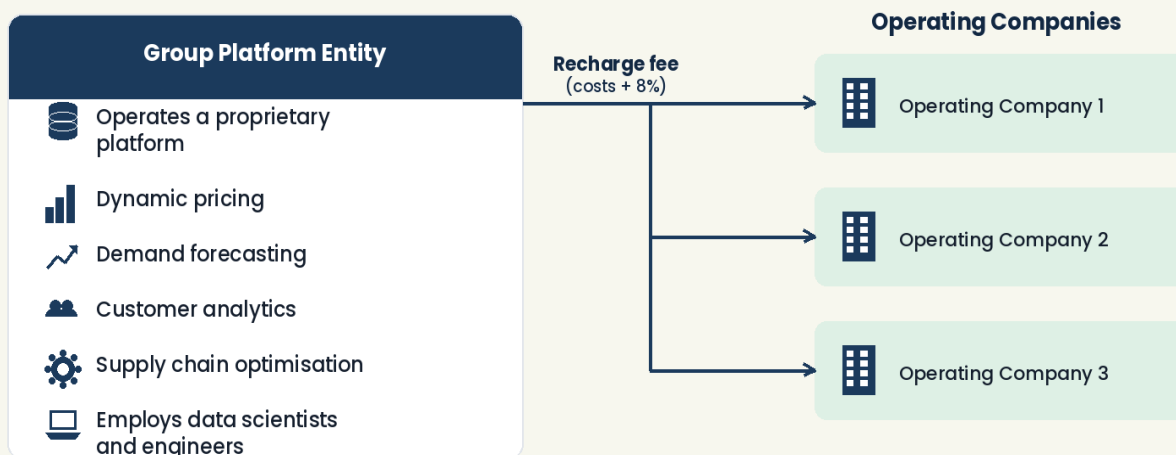
2.3 The Digital Platform

Migrating from cost-plus to a percentage of value

(a) The facts

Example 3

The third setup is the one the drafters clearly had in mind. A group entity employs the data scientists and engineers who built and now operate a proprietary platform — dynamic pricing, demand forecasting, customer analytics, supply chain optimisation. Historically, the platform team recharged its costs plus 8% as an 'IT service'. Everyone in the organisation knows that description stopped being true years ago.



(b) Practical analysis

Delineation makes it official. The team performs significant functions, controls economically significant risks around model performance, and operates a unique and valuable intangible that it develops, maintains and enhances. Under the new guidance, a one-sided cost-plus characterisation is no longer presumed, and the profit split template is on the table. But (and this is the nuance the thought leadership misses) you do not need a profit split to fix this. Real-world comparable uncontrolled prices

exist. Enterprise SaaS vendors sell demand-forecasting, pricing and analytics platforms to independent customers at subscription fees benchmarked to usage, seats, transaction volumes or a percentage of the revenue or savings the platform drives. If your platform does what a third-party SaaS product does, the SaaS pricing model is your CUP, and a percentage-of-value internal fee benchmarked against it is far cleaner than a residual profit split with all its valuation baggage.

WHERE THE RISK SITS. Transition risk is the big one: moving an existing cost-plus platform charge to a value-based fee mid-stream invites the question of what the old arrangement said about the old years — expect auditors to argue the increase proves the historic fee was understated, or that the platform's intangible was transferred when the fee model changed. DEMPE consistency is the second trap: if the platform entity earns the platform return, its development, enhancement, maintenance, protection and exploitation functions must actually sit there, with the funding and risk control to match. And do not let 'profit split creep' run in the other direction — not

every service with software in it is a value driver. Resist characterisation drift both ways.

WHERE THE OPPORTUNITY SITS. A documented SaaS-style CUP does triple duty: it prices the current year, it explains the change from cost-plus as alignment with how independents actually charge for identical functionality, and it preempts the profit split argument by showing the market already prices this transaction one-sided. The groups that move early get to choose their comparables; the groups that wait get the comparables chosen for them.

3. The New Documentation Standard

What good now looks like

The draft's dedicated documentation section is, in our view, the provision that will change behaviour fastest. It does not create a mandatory checklist (it says so explicitly) but it tells administrations which categories of contemporaneous evidence demonstrate performance of a service and expected benefit to each recipient, and once auditors are told what to ask for, they will ask for it. Because the benefit test is now ex ante, evidence generated at the time of the transaction outweighs anything commissioned later. An analysis written in 2027 to defend a 2025 charge is worth a fraction of a budget paper written in 2025.

Practically, this changes what your finance and tax teams produce during the year, not what your advisers produce after it. The table below maps the new expectations to artefacts your organisation already generates — the point is to capture and file them, not to create new bureaucracy.

TABLE 1

Mapping the draft's documentation expectations to artefacts your organisation already produces

What the draft expects	What proves it	Who should own it
The service was actually performed	Service catalogues, time records, deliverables, steering-committee minutes, system logs	Service provider entity / GBS organisation
A benefit was reasonably expected, ex ante	Budgets, business cases, project mandates, board papers approving the spend	Recipient entity CFO / finance business partner
Benefit per recipient, not just per group	Allocation-key rationale, recipient-level KPIs, savings tracking against baseline	Group tax with recipient controllers
The pool contains only chargeable costs	Shareholder-activity carve-outs, pass-through identification, share-based pay policy	Group tax / shared services controller
The method fits the delineated transaction	Method-selection memo referencing the delineation, not a standing benchmark from 2018	Group tax / transfer pricing team

Two disciplines deserve emphasis. First, version your documentation annually. A delineation memo that is refreshed when the facts change — new platform module, new fee base, hub headcount doubled — is evidence of conduct; the same memo copied forward for five years is evidence of the opposite. Second, make the agreements match the conduct in both directions. In a labels-prove-nothing world, an agreement describing a service that is not performed is as dangerous as a performed service with no agreement.

4. Your Next Twelve Months

The consultation draft will be refined before finalisation, but its architecture — delineate first, benefit second, price third — is not going to reverse. Treat the period before final guidance as a window, not a waiting room. In sequence:

- **Days 0–60: Inventory and triage.** List every material service flow. Score each for delineation risk: value-based fee bases, embedded software, mixed strategic-and-routine streams, recipients in loss, mismatched agreements. The three case studies above are a ready-made scoring template.
- **Days 30–120: Delineate the top five.** Run structured delineation workshops on the highest-risk flows — who performs, who benefits, which functions, assets and risks. Use the draft's twenty-one worked examples as the agenda. Unbundle mixed streams into their strategic and routine components.
- **Days 60–150: Rebuild the benefit file.** For each service category and material recipient, assemble the ex-ante evidence now: budgets, mandates, business cases, savings baselines. This is the single highest-value action in this plan, because it is the one thing you cannot retrofit credibly later.
- **Days 90–180: Fix the fee bases.** For the procurement % of BOM, the marketing % of revenue and the platform fee: unbundle, benchmark against the real CUP markets (commission rates, agency fees, SaaS subscriptions), cap or collar where the base can drift from the value, and document why the change reflects how independents charge.
- **Days 120–240: Refresh agreements and LVAS hygiene.** Rewrite service agreements to describe actual conduct, carve out shareholder activities, confirm LVAS pools are clean, identify pass-through costs for mark-up-free recharge, and settle a defensible policy on share-based compensation in cost pools.
- **Days 180–365: Manage controversy.** Map open audit years against jurisdictions likely to adopt early, assess MAP exposure where adoption is asymmetric, stress-test existing APAs and rulings against the delineation framework, and brief the audit committee before the first information request arrives — not after.

The Bottom Line

The OECD has not changed the arm's length principle. It has changed the order of proof, and with it the burden. The comfortable era in which a standard agreement, a cost pool and a habitual mark-up defended a service charge is closing. The groups that come out ahead will be those that delineate their own service web before an administration does, build benefit evidence while the transactions are happening rather than while the audit is happening, and price their value-based fees against the real-world comparables — commission rates, agency fees, SaaS subscriptions — that have existed all along. Delineate first, price second, document at the time. The checklist above is where to start.

GET IN TOUCH

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