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Comparable Data used for Transfer Pricing in V4

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- Comparable analysis – key part of the Transfer pricing consideration
- Commercial databases as a source-data ORBIS, Amadeus, TP-Catalyst…
- Comparable Data availability – key issue
- Lack of comparable data → V4????

Do V4 countries face a lack of comparable data?

- Commercial databases – ORBIS and TP-Catalyst
- The counting of the available data included detailed testing of quantitative and qualitative fields (typically, profit & loss accounts data) reported in the database.
- The counting should inform on the availability – or lack of availability – of comparable data under external TNMM, by selected countries.
- Data availability testing:
  - for V4 countries separately, V4, EU27 and EU28

- Counting of companies presenting cumulatively specified data fields was performed. Only the cumulative availability of limited number of data fields – those most typically used under the TNMM – was performed to allow ending up with meaningful, interpretable 'final' sets' data.
- Specified data fields (elements) and other considerations were tested:
  - independence, turnover, operating profit, net income, gross profit
  - Start-ups and loss-making entities
  - detailed testing for selected industry sectors

Data available in selected countries with cumulative reporting of independence, turnover, operating profit, net-Income, financial P/L and gross profit data for 2017 (in bracket %)

Country	No. entities	Independence	Turnover	EBIT	Net Income for the period	Financial P/L	Gross profit
PL	1,837,725 (100%)	13,066 (0.71%)	3,723 (0.20%)	3,667 (0.20%)	3,648 (0.19%)	3,580 (0.19%)	448 (0.02%)
CZ	2,549,391 (100%)	10,498 (0.41%)	5,065 (0.19%)	3,552 (0.14%)	3,552 (0.14%)	3,552 (0.14%)	2 (0.00007%)
HU	1,238,575 (100%)	4,190 (0.33%)	210 (0.01%)	208 (0.01%)	208 (0.01%)	208 (0.01%)	74 (0.006%)
SK	667,303 (100%)	2,314 (0.34%)	1,490 (0.22%)	1,490 (0.22%)	1,475 (0.22%)	1,475 (0.22%)	23 (0.003%)
V4	6,292,994 (100%)	30,068 (0.47%)	10,488 (0.17%)	8,917 (0.14%)	8,883 (0.14%)	8,815 (0.14%)	547 (0.008%)
EU27	48,577,587 (100%)	523,903 (1.07%)	119,754 (0.24%)	109,863 (0.22%)	109,728 (0.22%)	109,532 (0.22%)	4,809 (0.009%)
EU28	54,984,968 (100%)	673,302 (1.22%)	131,050 (0.24%)	120,348 (0.22%)	120,006 (0.22%)	119,810 (0.21%)	9,336 (0.01%)

Gross profit data is generally very scarce, in relative and in absolute values.

Table 2: Ranking table of selected countries data availability for the independence, turnover and operating profit or gross profit data in ORBIS database for 2017 in absolute terms

Position	Country	Cumulative reporting of independence, turnover and operating profit data for 2017	Position	Country	Cumulative reporting of independence, turnover and gross profit data for 2017
1	PL	3,667	1	PL	455
2	CZ	3,552	2	SK	74
3	SK	1,490	3	HU	23
4	HU	208	4	CZ	2
	V4	8,917		V4	554
	EU27	109,863		EU27	4,830
	EU28	120,348		EU28	9,469

- It is absolutely clear that V4 countries release relatively little data to start with – often related to the size of the economic – and the bottom-line quantity is even further decreased after the data availability screenings.

- If we assume that:
  - Only 125 NACE-codes are available (approximately one eighth of the 996 EU NACE-code entries, including primary codes) for illustration purposes.
  - 3 additional comparability screenings are needed, each eliminating 50% of remaining set – e.g. size, functional intensity, products or services.
  - Final set must have 10 comparables.

- A reasonable number to start with is:

$$10 / [(1/125) * 50\%^3] = 10,000 \text{ companies.}$$

- Experience shows, however, that much more are needed, to achieve ultimately sufficient qualitative and quantitative comparability.

- In general, every screening step will result in reducing the set of remaining comparables, while increasing the comparability with the tested party.

- As a result, when this screening is combined with the application of sector and geographical limitations, there may be quite a number of instances where very few or even no comparables are left in the set → as it is visible in case of V4 countries.

- Following table presents historic data availability – if 3-year period is considered. The others, if loss-making and start-ups entities are considered.

Table 3: Summary table of selected countries data availability for 3-year period in absolute terms (relative terms in bracket)

Country	No. independ. entities	No. entities with EBIT margin and turnover (availability for whole period)			No. entities with net-income and turnover (availability for whole period)		
		2017–2015	2016–2014	2015–2013	2017–2015	2016–2014	2015–2013
PL	13,066 (100%)	2,513 (13.23%)	2,595 (19.86%)	2,670 (20.43%)	2,515 (19.24%)	2,595 (19.86%)	2,674 (20.46%)
CZ	10,498 (100%)	2,629 (25.04%)	2,910 (27.72%)	2,917 (27.78%)	2,630 (25.05%)	2,911 (27.72%)	2,918 (27.79%)
HU	4,190 (100%)	189 (4.51%)	183 (4.37%)	183 (4.37%)	190 (4.53%)	184 (4.40%)	185 (4.41%)
SK	2,314 (100%)	1,300 (56.17%)	1,298 (56.09%)	1,240 (53.58%)	1,286 (55.57%)	1,261 (54.49%)	1,168 (50.47%)
V4	30,068 (100%)	6,631 (22.05%)	6,986 (23.23%)	7,010 (23.31%)	6,621 (22.02%)	6,951 (23.11%)	6,945 (23.09%)
EU27	523,903 (100%)	92,785 (17.71%)	95,468 (18.22%)	95,816 (18.29%)	97,944 (18.69%)	95,577 (18.24%)	95,880 (18.30%)
EU28	673,302 (100%)	99,892 (14.83%)	103,357 (15.35%)	104,957 (15.58%)	99,941 (14.84%)	103,303 (15.34%)	104,663 (15.54%)

- The profitability of companies in all V4 countries was verified to identify loss-making companies on an annual basis (2017, 2016, 2015, 2014, 2013), and over 3-year periods - with permanent losses, over three 3-year periods (2017-2015, 2016-2014 and 2015-2013) per researched country.

- Definition of a company in a loss position: a company has been characterised as a loss-making entity if the operating result is negative. The operating result is the result after all operating expenses, also often referred to as EBIT (Earning Before Interest and Taxes).

- The company was not considered as a loss-making entity in case no data was provided.

Table 4: Loss-making entities – EBIT is negative – in absolute terms (relative terms in bracket)

Country	No. independ. entities	No. loss-making entities					No. loss-making entities for a whole 3-year period		
		2017	2016	2015	2014	2013	2017–2015	2016–2014	2015–2013
PL	13,066 (100%)	1,186 (9.07%)	981 (7.50%)	1,145 (8.76%)	997 (7.63%)	900 (6.88%)	264 (2.02%)	276 (2.11%)	258 (1.97%)
CZ	10,498 (100%)	1,803 (17.17%)	2,013 (19.17%)	1,496 (14.25%)	1,290 (12.28%)	1,233 (11.74%)	625 (5.95%)	653 (6.22%)	632 (6.02%)
HU	4,190 (100%)	75 (1.78%)	73 (1.74%)	78 (1.86%)	70 (1.67%)	76 (1.81%)	34 (0.81%)	30 (0.71%)	36 (0.85%)
SK	2,314 (100%)	531 (22.94%)	491 (21.21%)	484 (20.91%)	533 (23.03%)	530 (22.90%)	239 (10.32%)	246 (10.63%)	253 (10.93%)
V4	30,068 (100%)	3,595 (11.95%)	3,558 (11.83%)	3,203 (10.65%)	2,890 (9.61%)	2,739 (9.10%)	1,162 (3.86%)	1,205 (4.00%)	1,179 (3.92%)
EU27	523,903 (100%)	41,856 (7.98%)	43,846 (8.36%)	44,662 (8.52%)	42,891 (8.18%)	40,412 (7.71%)	19,269 (3.67%)	20,542 (3.92%)	20,983 (4.00%)
EU28	673,302 (100%)	46,003 (6.83%)	48,343 (7.17%)	49,159 (7.30%)	47,593 (7.06%)	45,310 (6.72%)	20,528 (3.04%)	21,839 (3.24%)	22,382 (3.32%)

- Definition of a start-up company: a company is characterised as a start-up company it has been in existence for less than (or) 3 years.

- However, some EU MS apply a 3-year period, other a 5- or 7-year period.

- The company was not considered as a start-up in case no data were provided.

- For each year (2017 – 2013), the number of companies defined as 'start-ups' was analysed and the overall data quality and availability was assessed.

Table 5: Start-ups entities in absolute terms (relative terms in bracket)

Country	No. independ. entities	No. start-ups					No. start-ups		
		2017 (2014) [1]	2016 (2013)	2015 (2012)	2014 (2011)	2013 (2010)	2017–2015 (2012)	2016–2014 (2011)	2015–2013 (2010)
PL	13,066 (100%)	525 (4.01%)	532 (4.07%)	408 (3.12%)	428 (3.27%)	400 (3.06%)	236 (1.80%)	266 (2.03%)	253 (1.93%)
CZ	10,498 (100%)	496 (4.72%)	265 (2.52%)	238 (2.26%)	239 (2.27%)	333 (3.17%)	114 (1.08%)	129 (1.22%)	144 (1.37%)
SK	2,314 (100%)	53 (2.29%)	93 (4.01%)	81 (3.50%)	72 (3.11%)	105 (4.53%)	54 (2.33%)	52 (2.24%)	73 (3.15%)
HU	4,190 (100%)	3 (0.07%)	8 (0.19%)	6 (0.14%)	8 (0.19%)	44 (1.05%)	4 (0.09%)	5 (0.11%)	8 (0.19%)
V4	30,068 (100%)	1,077 (3.58%)	898 (2.98%)	733 (2.43%)	747 (2.48%)	882 (2.93%)	408 (1.35%)	452 (1.50%)	478 (1.58%)
EU27	523,903 (100%)	9,197 (1.75%)	8,729 (1.66%)	18,477 (3.52%)	18,714 (3.57%)	20,037 (3.82%)	3,969 (0.75%)	4,150 (0.79%)	4,052 (0.77%)
EU28	673,302 (100%)	15,682 (2.32%)	14,669 (2.17%)	23,580 (3.50%)	23,406 (3.47%)	24,278 (3.60%)	4,389 (0.65%)	4,514 (0.67%)	4,369 (0.64%)

1) A year in bracket presents a year of company establishment for the classification of the company as a start-ups.

Table 6: Summary table of selected countries data availability for 3-year period if specified data fields were considered (independence, EBIT margin, loss-making and start-ups entities) in absolute terms (relative terms in bracket)

Country	No. independ. entities	Data Availability		
		2017–2015	2016–2014	2015–2013
CZ	10,498 (100%)	1,890 (18.00%)	2,128 (20.27%)	2,141 (20.39%)
SK	2,314 (100%)	1,007 (43.51%)	1,000 (43.21%)	914 (39.49%)
PL	13,066 (100%)	2,013 (15.40%)	2,053 (15.71%)	2,159 (16.52%)
HU	4,190 (100%)	151 (3.60%)	148 (3.53%)	139 (3.31%)
V4	30,066 (100%)	5,061 (16.83%)	5,329 (17.72%)	5,353 (17.80%)
EU27	523,903 (100%)	69,547 (13.27%)	70,776 (13.50%)	70,781 (13.51%)
EU28	673,302 (100%)	74,975 (11.13%)	77,004 (11.43%)	78,206 (11.61%)

- It is clear, the cumulative application of screening criteria based on loss-making companies (deemed to be subject to other specific economic circumstances) and start-ups (deemed not yet presenting going concern profit) reduces the set before any further detailed qualitative screening is performed.

- The cumulative approach of screening criteria demonstrates the impact on the availability of comparables within a selected country.

- Once further screening is performed for a particular sector, the amount of comparables drops significantly and dataset is too small.

- Therefore, there may be a need to:
  - relax some applied screening criteria
  - consider expanding the region surveyed to access a sufficient number of comparables to perform a meaningful statistical analyses.

- Following table presents an analyses of sectors if Pan-European approach (EU27) is considered.
- Sufficient number of comparables is 720 entities:
  - if 45 basic EU-NACE codes were considered
  - additional comparability screenings is eliminating 50% of remaining set, and
  - Final set must have at least 8 comparables.
- 5-year period, independence and EBIT margin (at least at one year) is considered (Table 7).
- If comparability factors are added – results in Table 8

Table 7: Data availability – sector analyses

Very low data availability		Low data availability		Medium data availability		High data availability		Very high data availability	
Maritime industry[24] plus distribution[25] and fishing[26]	376	Pharmaceutical industry[21] plus distribution[22]	836	Law and accounting[14]	1,712	Accommodation and catering[5]	6,000	Real Estate[3]	15,513
Aeronautics and Space[27] plus distribution[28]	130	R&D[23]	780	Chemicals industry[19] plus distribution[20]	1,610	ICT industry and services[7]	5,379	Construction[4]	11,757
				Textile manufacture[10] plus distribution[11]	1,457	Food production[8] plus distribution[9]	4,843	Crop and livestock production[1] plus distribution[2]	10,348
						Transport and logistics[6]	3,724		
						Banking and Insurance industry[16]	3,587		
						Healthcare[15]	2,757		
						Automotive industry[12] plus distribution[13]	2,714		
						Electrical and electronic industry[17] plus distribution[18]	2,109		

1. NACE 1
2. NACE 4611, 4612
3. NACE L
4. NACE F
5. NACE I
6. NACE H
7. NACE J
8. NACE 10
9. NACE 4617, 4630
10. NACE 13, 14, 15
11. NACE 4616, 4641, 4642
12. NACE 29, 309
13. NACE 45
14. NACE 69
15. NACE 86, 87, 88
16. NACE 64, 65, 66
17. NACE 26, 27, 2823, 3320
18. NACE 4643, 4651, 4652, 4666
19. NACE 19, 20, 22
20. NACE 4612, 4675
21. NACE 21, 325
22. NACE 4645, 4646
23. NACE 72
24. NACE 301
25. NACE 4614
26. NACE 3
27. NACE 303
28. NACE 4614

- Only a few of the Comparability factors are 'testable' in the database:
  - **Characteristics of property and services**: the availability of a business description informing, expectedly on the services or goods traded can be assessed, further through website.
  - **Functional analysis**: functional intensity can be assessed for example by measuring the ratio operating expense on sales. The availability of the data allowing computation of the ratios can be assessed.
  - **Contractual terms**: this information is typically not available in the database.
  - **Economic circumstances**: again, this information is typically not available in the database, on a transactional basis.
  - **Business strategies**: likewise, this information is typically not available in the database

Table 8: Data availability – previous sector analyses plus Business overview and website

Very low data availability		Low data availability		Medium data availability		High data availability		Very high data availability	
Maritime industry[24] plus distribution[25] and fishing[26]	376 **300** 164	Pharmaceutical industry[21] plus distribution[22]	836 **716** 542	Electrical and electronic industry[17] plus distribution[18]	2,109 **1,743** 1,482	Accommodation and catering[5]	6,000 **5,044** 2,317	Real Estate[3]	15,513 **12,861** 3,461
Aeronautics and Space[27] plus distribution[28]	130 **96** 74	R&D[23]	780 **641** 464	Law and accounting[14]	1,712 **1,214** 708	ICT industry and services[7]	5,379 **4,164** 3,006	Construction[4]	11,757 **10,024** 4,336
				Chemicals industry[19] plus distribution[20]	1,610 **1,314** 1,118	Food production[8] plus distribution[9]	4,843 **4,007** 2,606		
				Textile manufacture[10] plus distribution[11]	1,457 **1,251** 826	Transport and logistics[6]	3,724 **2,896** 1,688		
						Banking and Insurance industry[16]	3,587 **2,769** 1,424		
						Crop and livestock production[1] plus distribution[2]	10,348 **2,422** 681		
						Automotive industry[12] plus distribution[13]	2,714 **2,221** 1,522		
						Healthcare[15]	2,757 **2,025** 1,237		

Table 9: Data availability – sector analyses plus Business overview and website – V4

Very low data availability		Low data availability		Medium data availability		High data availability		Very high data availability	
Maritime industry[24] plus distribution[25] and fishing[26]	24 **9** 9	Law and accounting[14]	186 **100** 74	ICT industry and services[7]	567 **336** 268	Construction[4]	788 **563** 382	Real Estate[3]	973 **770** 232
Aeronautics and Space[27] plus distribution[28]	7 **4** 4	Chemicals industry[19] plus distribution[20]	178 **112** 104	Crop and livestock production[1] plus distribution[2]	459 **258** 99				
R&D[23]	48 **27** 23	Transport and logistics[6]	252 **157** 116	Healthcare[15]	552 **224** 148				
Pharmaceutical industry[21] plus distribution[22]	65 **45** 29	Automotive industry[12] plus distribution[13]	180 **139** 103	Food production[8] plus distribution[9]	443 **202** 168				
Textile manufacture[10] plus distribution[11]	67 **48** 41	Electrical and electronic industry[17] plus distribution[18]	267 **192** 171						
Banking and Insurance industry[16]	131 **67** 57	Accommodation and catering[5]	267 **195** 105						

- The application of multiple screening criteria reduces the availability of data in V4 significantly.

- V4 face a lack of comparable data.

- Therefore, expanding the geographic area beyond the boundary of a single Member State, may allow addressing other potential good comparables.

- All V4 Member States may need to consider a pan-European search to identify sufficient comparable data to perform a meaningful statistical analysis.

- Accepting that a relevant market is referred to rather than the national market, could be a solution to perform comparables searches for V4 Member States lacking data.