Tax Insights
from Transfer Pricing

HMRC updates GfC7: Value chain analysis and offshore procurement hubs – what UK businesses need to know

January 27, 2026

In brief

What happened?

HMRC has updated its Guidelines for Compliance (GfC7) on transfer pricing, introducing a new subsection 2.2.8 on the use of a value chain analysis (VCA) within a functional analysis and a new subsection 3.8 addressing offshore procurement hubs. These updates explain where a VCA can materially improve the accurate delineation of transactions and practical expectations for designing, implementing, and documenting procurement hub models, including where business restructurings are involved.

Why is it relevant?

The transfer pricing Guidelines for Compliance (GfC) are designed to help businesses understand HMRC's expectations as they plan, implement, manage, and document their transfer pricing, setting out what HMRC considers best practice compliance and higher risk approaches. The guidelines are aimed at all businesses that must apply transfer pricing, both those within the new UK transfer pricing documentation requirements and those who, although exempt from these requirements, must still self-assess that their transfer pricing is arm's length and retain appropriate books and records (including documentation) when filing a tax return.

Following the previous release, HMRC is setting out expectations around when a VCA is proportionate and helpful, particularly in helping to demonstrate how contributions to value creation (including DEMPE and risk control) are evidenced.

For groups with offshore procurement hubs, the guidance sets out HMRC's expectation that these should be remunerated based on genuine functionality rather than scale alone.

Actions to consider

UK businesses should reassess:

- Whether their functional analyses would be materially improved by the inclusion of a VCA for complex or integrated arrangements, high-value intangibles, significant residual profits, or recent restructurings.
- The design and pricing of offshore procurement hubs against HMRC's risk indicators, testing alignment between contracts and conduct, the treatment of group synergies, and the hub's real contribution to economic profit (pre- and post- restructure).
- The sufficiency of contemporaneous records to support delineation, method selection, comparables, and the allocation of savings and risks.

This is also a good reminder of the need for all businesses in the scope of transfer pricing rules to review their transfer pricing governance, documentation, and policies in light of the full GfC guidance. For further details on the GfC, see our previous Tax Insight dated September 24, 2024.

In detail

Part 1 - Value chain analysis (VCA) in functional analysis (new subsection 2.2.8)

HMRC recognizes the VCA as a structured way to understand how value is created, enhanced, and captured across an MNE's activities and how related parties' contributions interrelate. The guidance positions the VCA as a bridge between high-level Master File value creation narratives and UK-specific Local File analysis, improving accuracy and quality in delineation where multiple entities, intangibles, synergies, or significant residual profits are involved. HMRC's message is not that VCA is universally required, but that it is often decisive where one-sided methods struggle to capture integrated contributions or where factual complexity risks misalignment between value creation and remuneration. The updated guidance highlights four practical questions:

- **When is VCA valuable?** HMRC points to integrated supply chains, disbursed strategic decision-making arrangements involving intangibles and unique contributions, business restructurings that shift functional profiles and profit potential, and situations in which residual profits are material and must be traced to underlying contributions. In these settings, a VCA can help with identifying misalignments, improving the accuracy of functional analysis and delineation, informing method choice (including profit splits), and strengthening the documentation narrative.
- **How should proportionality be judged?** HMRC ties the decision to conduct a VCA to a business's materiality and complexity. If the role of the UK business is routine, the transaction immaterial, or the group model simple and decentralized, a standard two-sided functional

analysis may suffice. HMRC suggests it is best practice for taxpayers to include a rationale for conducting a VCA or an explanation as to why the functional analysis is sufficiently robust without it.

- **How does VCA support accurate delineation?** HMRC advocates mapping the value chain, linking activities to entities, assessing functions/assets/risks in context, identifying DEMPE contributions and synergies, and then testing the alignment between contributions and profit allocation.
- **What does a robust VCA look like?** Expected best practice includes definition of scope; mapping of activities end-to-end; identification of key value drivers; allocation of activities to entities; assessment of functional profiles (including risk control and DEMPE functions); evaluation of profit attribution for misalignments; and documenting the analysis contemporaneously. Common pitfalls that HMRC flags are relying on contractual form over conduct; overlooking synergies; treating all functions as equivalent; lacking supporting evidence; applying VCA only to intangibles; and using VCA as a justification tool to retrofit outcomes.

Observations

The new VCA guidance implies that more upfront effort and analysis is required for complex UK fact patterns. The VCA can be a useful approach to strengthen factfinding discipline, particularly around people evidence, governance, decision rights, and risk control. The guidance also provides taxpayers with indicators to help decide when to invest in documenting a VCA and how to link it to a transfer pricing method selection. In practice, a concise, evidence-rich VCA can reduce ambiguity in inquiries, align narratives across transfer pricing documentation files, and lower double tax risk.

Undertaking a VCA can therefore be a valuable exercise. However, it can in some cases be complex depending on the industry in which an MNE operates and the availability of data to enable an objective assessment to be undertaken. A VCA also should not be conflated with a Process Contribution Analysis (PCA), which is a similar but distinct method sometimes deployed to support profit split assessments based on attributing value to people functions.

Part 2 - Offshore procurement hubs (new subsection 3.8)

HMRC historically has focused significant resource on inquiry activity relating to offshore procurement hubs. This new guidance captures HMRC's views on this topic. HMRC's focus is on aligning procurement hub returns with genuine functionality, risk, and contribution, distinguishing value created by active strategic sourcing from synergies that arise from group membership. Remuneration should reflect what the hub actually does and controls, rather than what contracts alone might suggest.

Scope and functions

HMRC describes procurement hubs as centralized structures sourcing goods or services from third parties without significant modification, often for multiple group entities. The functional spectrum ranges from basic volume aggregation and tactical sourcing to complex strategic sourcing including new product development, category strategies, supplier innovation, quality and compliance oversight, spend analytics, market intelligence, and the management or exploitation of related intangibles (e.g., proprietary sourcing tools, category knowhow). The complexity of these functions and the skill and decision-making they require should drive the appropriate return.

Synergies versus services

HMRC draws a clear distinction: the hub should be remunerated for active coordination and strategic contributions, but group synergies (such as volume discounts, elimination of duplicate costs, and economies of scale) are benefits to be shared among recipients, typically in proportion to their participation (e.g., purchase volumes), after the hub's service is appropriately priced. Labeling volume aggregation as a value-adding activity or charging flat fees without evidence of commensurate value creation are key risk indicators.

Method selection

Regarding transfer pricing methods commonly used in procurement hubs, the guidance recognizes the relevance of:

- Cost plus or transactional net margin method (TNMM) for benchmarkable, routine activities.
- Comparable uncontrolled price (CUP) method, whether internal or external, where reliable and comparable.
- Transactional profit split where hubs require significant skill and create substantial value that is integrally linked to others' contributions.

The application of the appropriate method requires accurate delineation. Where strategic sourcing is linked to the functions and risk control of other entities, a one-sided return without robust adjustments may be unreliable. Conversely, if the hub is limited to administrative coordination with minimal risk control, routine cost plus could be appropriate.

Business restructurings involving procurement

Business restructurings include the movement or centralization of procurement functions, assets (including intangibles), or risks to a hub to replace sourcing/buying by multiple affiliates. HMRC expects contemporaneous evidence of pre- and post-restructured functions, assets, and economically significant risks, anchored in contracts and tested against actual conduct. The analysis should identify who made what decisions, where risk was controlled, what changed operationally, and whether any loss of profit potential or transfers of assets/rights require compensation. HMRC places importance on volumes and product variation in evaluating complexity: higher managed volumes or more heterogeneous categories may increase functional complexity and justify higher returns if the hub demonstrably manages the associated risks and decisions.

HMRC flags several risk indicators for procurement hubs (applicable even without a formal restructuring), including tax-driven location choices without matching substance and decision-making, disproportionate profit allocations or fees for mere volume aggregation or group synergies, and misalignments between contracts and actual conduct.

HMRC emphasizes several best-practice approaches to mitigate compliance risks, including conducting a proportionate VCA linked to value drivers, maintaining robust documentation of key decisions and testing options realistically available, ensuring arm's length compensation for transfers, and evidencing location-linked substance and remuneration.

Pricing involving procurement hubs

HMRC frequently observes inaccuracies arising from excessive procurement hub rewards where functionality is limited, which might lead to profit shifting out of the UK or other group entities.

Therefore, pricing analyses should distinguish savings arising from legitimate strategic functionality and streamlining (e.g., genuine cost reductions achieved through skilled intervention) from improvements attributable to bargaining power or scale (synergies) that likely would accrue without the hub's performance. It is highlighted that hypothetical savings are not sufficient, but savings actually realized should be quantified and separated from avoided cost increases that reasonably would have been prevented by group scale in any event.

HMRC flags several pricing risk indicators for procurement hubs, namely flat commission structures that do not scale with value, over-attributing value to mere volume aggregation, reliance on inappropriate benchmarks, and failure to consider options realistically available or independent returns.

HMRC emphasizes best-practice approaches to mitigate pricing risks, including aligning remuneration to complexity and performance, continuously measuring and re-baselining savings, appropriate benchmarking, passing aggregation benefits back to contributors, and allocating a gain share only where functionality drives significant savings beyond synergies.

Documentation expectations

HMRC expects robust and evidence-supported documentation that is contemporaneous and UK-specific. For procurement hubs, this expectation extends to people/decision rights and governance for hub and recipients, procurement processes, category strategies, supplier governance, savings identification methodologies, and clear treatment of passthrough costs versus input costs.

A final caution concerns VAT and other indirect taxes when giving effect to adjustments or charges. HMRC expects clarity on whether payments represent consideration for goods/services (and where reverse charge applies), changes to consideration, or out-of-scope items. Transfer pricing and indirect tax consequences should be assessed in tandem when implementing hub policies and adjustments.

Observation: The new guidance on offshore procurement hubs reflects existing HMRC practice in auditing those arrangements but provides further clarity on expectations for designing and documenting them. Finally, while the guidance focuses on offshore hubs (from the UK's perspective) it is equally relevant to UK-located procurement hubs.

The takeaway

HMRC's updates sharpen the focus on substance, proportionality, and evidential quality in two areas that frequently drive inquiries. For complex business models, a VCA can help explain and substantiate the broader rationale for the group transfer pricing model and help mitigate further inquiries. For procurement hubs, the pricing should begin with an assessment of what value the hub contributes, the risks it controls, which synergies arise from group scale, and how savings and value are shared across participants. Flat commissions unrelated to functionality or restructurings without contemporaneous evidence of who decided what and where, are pressure points.

A practical roadmap for UK groups is to revisit the need for VCA in high-risk areas, localize central documentation with UK-specific facts and people evidence, and assess whether procurement hub returns can be supported by reference to hub contributions.

Let’s talk

For a discussion of how this guidance might affect your business, please contact:

Transfer Pricing - UK

James Andrews
+44 (0)7483 407959
james.andrews@pwc.com

Sonia Watson
+44 (0)7841 567087
sonia.watson@pwc.com

Nat Paxton
+44 (0)7841 074300
nat.d.paxton@pwc.com

Transfer Pricing Global and US Leaders

Ian Dykes
Global Transfer Pricing Leader
+44 (0)7803 149718
ian.dykes@pwc.com

Brian Burt
US Transfer Pricing Leader
+1 646 498 3993
brian.t.burt@pwc.com