Transfer Pricing: OECD updates to the rules on intra-group services

July 2026

In brief

What happened?

On 1 June 2026, the OECD released a public consultation document proposing substantive updates to the guidance on intra-group services (Chapter VII of the Transfer Pricing [TP] Guidelines), with comments due by 22 July 2026 and a public consultation planned for November 2026.

The draft brings the guidance in line with the post-BEPS environment, strengthening the framework for the TP treatment of services and providing clarifications on areas that have long been sources of contention between taxpayers and tax authorities. In particular, the proposed updates touch on the benefits test, duplicative services, the distinction between shareholder and stewardship activities, cost allocation methodologies, and mark-up principles.

Importantly, the draft also addresses the increasingly relevant interplay between services and intangible property (IP), underscoring the importance of a robust and disciplined approach to the TP treatment and pricing of IP-enabled intercompany services. The guidance on low value-adding intragroup services (LVAS) remains unchanged. This draft has not yet reached consensus and should not be relied upon as formal guidance.

Why is it relevant?

The updated guidance has practical significance as it provides taxpayers with greater clarity on the principles applicable to intra-group services. For MNCs currently facing audits or disputes, the clarifications offer a stronger reference framework to support / defend their positions. For MNCs planning new arrangements, the guidance provides a more predictable basis to design and document intercompany service models. In general, the draft presents a timely opportunity to review existing positions and ensure continued compliance against the evolving standard.

Given the pervasive role of intra-group services across MNEs, the practical reach of these proposed revisions is broad, particularly for Middle Eastern groups with regional headquarters, shared service centres, technology/IT hubs, management support functions, R&D support and brand/franchise services. Taxpayers with material inbound or outbound service flows will need to proactively assess how the proposed updates apply to their current arrangements.

The consultation process enables taxpayers to obtain greater certainty on key issues and provide feedback on compliance obligations that may impose disproportionate administrative burdens.

In detail

The project is led by Working Party No. 6 of the Committee on Fiscal Affairs (CFA), not in its Inclusive Framework format. OECD members will decide the outcome; non-OECD countries including Argentina, China, and India may observe but do not vote.

Observation: The CFA focus may support a more technical and administrable update, but the final guidance could have uneven traction outside the OECD, particularly in countries where intra-group services disputes are already a significant audit focus.

Section	2022 Guidance	What the consultation draft proposes
B.1 – Benefit test	Sought to assess whether an independent enterprise would have paid for the activity. Limited elaboration on what constitutes a 'benefit' or its relationship to pricing.	Clarifies that: • A benefit need not be guaranteed, only reasonably expected at inception. • Multi-year data helps assess whether a benefit was reasonably expected, and whether independent parties would continue paying where an activity consistently fails to deliver. • The benefit test and the arm's length charge are separate analyses. A service should not be denied solely because the price is not arm's length. • The test must be applied at each recipient entity's level.
B.2 – Shareholder activities, duplication, incidental benefits, on-call services	Listed five categories of non-chargeable shareholder activities. Brief guidance on duplication and incidental benefits. Limited recognition of on-call arrangements.	• Distinguishes 'shareholder activities' from 'stewardship activities' *(the latter can give rise to a benefit and hence could be chargeable).* • Confirms senior management activities are not automatically shareholder activities. • Expands duplication exceptions to include regulatory requirements. • Distinguishes incidental benefits from passive association. • Endorses retainer-type charges for on-call services.
B.3 – Service / intangible interplay	Brief reference to bundled transactions. No guidance on when a service creates or transfers an intangible.	Recognises that it can be "difficult to distinguish between the transfer of intangibles and the provision of services." New guidance where strategic advice using proprietary know-how effectively transfers that know-how. New example where an AI-driven healthcare service results in transfers of intangibles.

Section	2022 Guidance	What the consultation proposes
C.1 – Direct-charge and indirect-charge approaches	Distinguished direct and indirect charges but limited guidance on allocation keys.	Allows multiple allocation keys per cost base if no double-counting. Requires consistent application across recipients and years. OECD has invited public views on adiditonal allocation key guidance.
C.2 – Transfer pricing methods for services	Brief guidance focused on cost-based methods. No services-specific guidance on CUP or profit split. Pass-through costs are mentioned only in passing.	Pricing guidance broadened beyond cost-plus: • Cost-based methods are not presumed; new CUP guidance (with limits for geographic or functional differences). • Profit split may suit highly integrated or unique-value services; TNMM may be unreliable if the provider holds valuable IP. • Pass-through costs: no mark-up for pure paying-agent functions; mark-up where the provider adds value. • LVAS 5% mark-up is not a floor for other services. • Stock-based compensation remains unresolved. • Tax authorities may forgo a mark-up analysis where revenue at stake is too small.
D – Documentation	General documentation in Chapter V only. No services-specific guidance.	New services-specific documentation guidance: • Contemporaneous evidence of expected benefit. • Provider–recipient communications, deliverables and cost breakdowns. • Allocation key justifications and pass-through cost identification. Expressly not a mandatory checklist, which is proportionate to materiality.
Annex I – Examples 1–21	Only a handful of abstract examples.	Twenty-one detailed, fact-specific examples covering: benefit test, shareholder activities, duplication, passive association, CUP limitations, profit split, manufacturing, service/intangible boundary, routine services, tested party selection, LVAS mark-up, pass-through costs, documentation.

Renewed focus

Beyond the technical detail, four shifts stand out as the most important for taxpayers to understand, apply and document:

1. Shareholder vs. stewardship activities. The draft draws a much sharper line between shareholder activities, which are performed solely in the parent's ownership interest and are not chargeable, and stewardship activities, which deliver economic value to recipients and can be chargeable.

Senior management activities are no longer automatically treated as shareholder costs. This reclassification can expand the pool of chargeable costs and, equally, expose existing charges to challenge, making a documented functional analysis essential.

2. The benefit test is about expectation, not outcome. A service does not require a benefit to have actually materialised. What matters is that, at the time the activity was performed, the recipient reasonably expected to derive a benefit. A failed outcome, a loss-making year, or an unrealisd projection does not, by itself, negate the existence of a service, provided the expectation is supported by contemporaneous evidence.

3. The benefit test is separate from the arm's length analysis. The draft confirms that the benefit test and the determination of the arm's length price are two distinct analyses. A service that passes the benefit test should not be denied simply because its pricing is not arm's length, the price is corrected separately. Conflating the two is a common error that the guidance now expressly addresses.

4. Methods beyond cost-plus can apply. Cost-plus is no longer the presumed or default method for intra-group services. Depending on the accurate delineation of the transaction, other methodologies, including the CUP method, the transactional profit split method, or another method, may be more appropriate, particularly for services involving unique contributions, valuable IP, or a high degree of integration.

Practical implications for Middle Eastern groups

Intercompany services are a feature of virtually every multinational group operating in the region. The revised guidance raises the bar and given that KSA, UAE, Egypt, and other Middle Eastern jurisdictions follow the OECD transfer pricing framework very closely, these changes are likely to have a direct and material impact.

Cost-plus is no longer the default	MNEs and tax authorities have generally defaulted to the cost-plus as the most appropriate method for pricing intercompany services. Following the proposed updates, taxpayers plus, especially in cases of IP-enabled intercompany services, taxpayers who have historically applied the cost plus would now be required to defend why the cost-plus remains appropriate. Other methods such as the Comparable Uncontrolled Price (CUP) method or profit split may now be more appropriate especially where services involve strategic decision-making, use of proprietary technology, or valuable IP.
Composition of allocable (i.e., chargeable) costs	In practice, stewardship costs have often been treated as non-recoverable shareholder expenses with little or no consequence. The proposed distinction between shareholder and stewardship costs, with the latter now potentially expected to constitute intercompany services, will have an impact on the approach to determining the appropriate cost base and consequently, on the quantum of charges allocated to service beneficiaries.

KSA RHQs under the spotlight	Saudi Arabia's RHQ program requires entities to perform strategic management and coordination for the Group entities. The guidance in the draft public consultation could require MNEs to reassess the TP model to ensure adherence with the arm's length requirements..
UAE headquarters & Shared Services Centers must reassess	The emphasis on accurate delineation, the service/intangible boundary, and the shareholder/stewardship distinction will force a reassessment for many UAE-based holding companies and shared service centers that have historically operated under cost-plus. For UAE Qualifying Freezone Persons (QFZPs), demonstrating compliance with the arm's length standard is critical to continue availing of free zone benefits.
Services/intangibles boundary	While IP is often legally held in one group entity, many Middle Eastern groups operate under structures where the significant people functions that drive the Development, Enhancement, Maintenance and Exploitation of IP may be geographically dispersed. The emphasis on IP-enabled services will require a reassessment of the economic ownership and compensation model under such structures. This could also impact the pricing of development support services, often offshored, potentially triggering withholding tax implications.
Substance over form	The proposed updates re-emphasise this concept – Contracts and labels do not determine the TP character of services. What matters is what the parties to the transaction actually do. Transfer pricing positions that rely primarily on intercompany agreements rather than evidence of what was actually done, in the form of a detailed and documented Functional Analysis, will likely attract more scrutiny going forward.
Double tax risk is growing	Divergent benefit test interpretations across the region increase the risk of charges being denied on one side while taxed on the other. MNEs should proactively consider proactive engagement with tax authorities through Advanced Pricing Arrangements (APAs) or Mutually Agreed Procedures (MAPs) to mitigate this exposure.
Documentation bar is higher	The draft calls for contemporaneous evidence of benefit, provider-recipient communications, deliverables, and allocation key justifications. Most groups in the Middle East will need to upgrade their processes, particularly for centralised head office charges flowing into the region.

Key takeaways

Intra-group services have been a hot topic for decades. While the publication seeks to simplify and clarify long-standing areas of contention, it simultaneously opens the door to broader interpretation and, in turn, greater scrutiny from tax authorities.

The practical consequence is that Middle Eastern companies now have homework to do, and they need to rethink and re-evaluate the pricing of the management fee transactions. This exercise begins with identifying routine versus non-routine services, assessing the substance behind each arrangement and the benefits delivered to recipients, and on that basis, arriving at the most appropriate methodology to apply. Cost-plus can no longer be assumed; it must be justified.

Our recommendations

Classify your services

Map every intercompany service.

Identify which involve unique contributions, significant risks, or high degrees of integration.

Stress-test the benefit test

Can you substantively prove specific value at an entity level?

Challenge your method

Why is cost-plus right for this transaction? If the answer is "convention," that's not enough.

Apply Section B.3

Evaluate all complex arrangements through the services /intangibles lens.

Review shareholder boundary

Should shareholder costs be re-classified as stewardship services or vice versa?

Upgrade documentation

Build contemporaneous evidence of benefit into your compliance processes.

Engage with us

We can help assess your arrangements, identify exposures and provide input to the OECD.

How can we help

For a deeper discussion of how the OECD's proposed changes might affect your business, please contact the PwC Middle East Transfer Pricing team:

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