Case 2: Sophia’s Dream Group
Task 3: Court Room Finale

Sophia's Dream Group (SDG) acquires raw materials (tomato vines and tulips) for its 3D printing material from 3 European Countries: Portugal, Greece and the Netherlands. The tomato vines and tulips are by-products of crops and bulbs grown by third-party farmers in these countries for their respective markets.

The vines and tulips are sourced from the farms and initially processed (reduced to pastes) in pop-up workshops in those countries. The pastes are then transported to the SDG factory in Hungary to be turned into the printing material.

The raw materials have a negligible cost and the only alternative market is for the waste to be reduced to and sold as compost. The open market price for compost ranges from €70 - €200 per ton, with a 50% - 100% taxable profit margin for the farmers.

Sophia's Dream Blend Kft has invested heavily in plant and equipment, including the transportable workshops. They have also invested in staff training to utilize the manufacturing process patented by *SD- Lux, SARL*.

SDG do not have any significant competitors that currently utilize the same raw materials at this time. The cost to acquire the raw materials is €40 per ton. The quantity purchased each year is 240,000 tons, evenly split between Portugal, Greece and the Netherlands.

SDG strives to maximize after-tax profits.

Learning and Reference Materials:

- video recording(s) on transfer pricing (BEPS Actions 8-10; 13);
- OECD Commentary (paragraphs 1-2, 5-6 and 11 only) to Article 9
- OECD (2017) Transfer Pricing Guidelines
    - Chapter 1, Sections A&B (paragraphs 1.1-1.2; 1.8-1.9, only)
    - Chapter 2, Part I, Section A (paragraphs 2.1-2.5; 2.12, only)
    - Chapter 2, Part II, Sections A-D (paragraphs 2.13-2.18; 2.25-2.26; 2.45-2.47 and 2.60 only)

TAX AUTHORITIES

Representing the interests of Portugal and Greece

Tax Authorities:

A Foreign MNE (Sophia's Dream Group) is operating transportable workshops in your country. The activities constitute the beginning stage of a vertically integrated supply chain for the market leader in eco-fashion.

The Group purchase tomato vines from local famers, which are the by-products of crops grown for market. The vines are processed (reduced to a paste) in the workshops, and then transported to a factory in Hungary. The costs recognized by the Hungarian subsidiary equals a negligible fee for the farmers, the operating costs of the workshops, and the direct and indirect processing and transport costs. No profit is being realized in your country and therefore no tax revenue is being generated.

Upon further investigation, you have found two other countries within the EU with a similar presence. You have decided to work together to build your respective cases challenging the absence of a reasonable profit attribution for production of the pastes.

Your case will take into consideration the *OECD Transfer Pricing Guidelines (2017)*, with specific reference to the *Comparable Uncontrolled Price (CUP)* and *Cost+* methodologies. You will also consider the following known information:

- Sophia's Dream Group is a market leader in Eco-fashion;
- Tomato vines and tulips are essential ingredients in their 3D blend;
- A Hungarian entity sources and processes by-products at a cost of €40 per ton;
- They are currently extracting 80,000 tons of by-product from each of the 3 countries;
- There are no fashion competitors that currently utilize the same raw materials at this time;
- There is only one alternative market for the by-products: they may be turned into compost;
- As compost, revenue ranges from €70 - €200 per ton, with a 50% - 75% taxable profit margin;
- The Hungarian corporate tax rate (9%) is significantly lower than those of the other 3 countries (21-26%).

TAX ADVISERS

Representing the interests of Sophia’s Dream Group

Tax Advisers:

Your Firm's most prestigious client, by far, is Sophia's Dream Group. They are taking the fashion world by storm with exclusivity and innovation.

The CFO of SDSA has been served notices from 3 European Countries' Tax Authorities: Greece, Portugal and Netherlands. They are purporting there to be permanent establishments in their respective countries and thereby challenging the absence of profit attributions for the production of the pastes used by Hungarian Company (Sophia's Dream Blend Kft) to make the SDG raw print material for 3D printing.

You and your team are reminded of the following facts:

- Sophia's Dream Group is a market leader in Eco-fashion;
- Tomato vines and tulips are essential ingredients in their unique 3D blend;
- The Group purchases tomato vines from local famers, simple by-products of the crops grown for market;
- Workshops are operated by SDB Kft in Greece, Portugal and Netherlands, the countries of by-product source;
- The vines and tulips are processed (reduced to a paste) in the workshops;
- The paste is then transported to SDB Kft for further processing;
- SDB Kft cover all direct and indirect processing and transport costs and pay negligible fees to the farmers;
- These costs equate to €40 per ton;
- No taxable profits are being realized in those countries;
- Sophia's Dream Blend Kft has invested heavily in plant and equipment and staff training;
- The current extraction from the three countries is 240,000 tons of by-product (equally distributed);
- There are no fashion competitors that currently utilize the same raw materials at this time;
- There is only one alternative market for the by-products: they may be turned into compost;
- As compost, revenue ranges from €70 - €200 per ton, with a 50% - 75% taxable profit margin;
- The Hungarian corporate tax rate (9%) is significantly lower than those of the other 3 countries (21-26%).

Your defense will take into consideration the *OECD Transfer Pricing Guidelines (2017)*, with specific reference to the *Comparable Uncontrolled Price (CUP)* and *Cost+* methodologies.