Addis Tax Initiative

Good practices in combatting abusive transfer pricing

WEBINAR #1 A CASE FROM INDIA | **ANDHRA PAPER LIMITED V. ACIT**

1 WEBINAR DETAILS

DATE & TIME
2 July 2026
13:30-14:30 CEST

FORMAT
Online MS Teams
English with French interpretation

SPEAKER
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MODERATOR
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SERIES
Good practices in combatting abusive transfer pricing
Webinar #1

2 THE CASE: ANDHRA PAPER LIMITED v. ACIT

THE SITUATION

- **Andhra Paper Limited**: integrated pulp and paper manufacturer, incorporated in India in 1964; later acquired by International Paper Company USA (IP-USA)
- Paid trademark royalties to IP-USA.

IP logo	**0.50%**
Hammermill	**1%**
HP-branded office paper (back-to-back pass through to third party HP USA)	**2.5% - 4.5%**

- Benchmarked via **CUP method** using external databased (Royalty Stat, ktMINE)
- Audit for AY 2020-2021 → Transfer Pricing Officer (TPO) challenged benchmarking
- Taxpayer failed to respond to TPO notices and did not furnish license agreements → TPO sent arm's length price to NIL.

CASE TIMELINE

1964
Andhra Paper Limited established in India

Later
Acquired by Internaitonal Paper Company (USA)

Royalty payments made to IP-USA

AY 2020-2021
TPO challenges benchmarking: no response & no licence agreements furnished

ITAT (Visakhapatnam) upheld the TPO assessment ALP = NIL

OUTCOME & KEY GROUNDS

ROYALTY DEDUCATION DENIED

ALP = NIL

- Comparables from US SEC filings reflect foreign market and fail strict CUP comparability
- Licence agreements not furnished → no proper CUP analysis possible
- Sales increase alone ≠ proof of trademark benefit
- Andhra Paper already dominant in India pre-acquisition; IP-USA brand had no Indian presence → local company building value for the foreign brand, not vice versa

TAKEAWAY

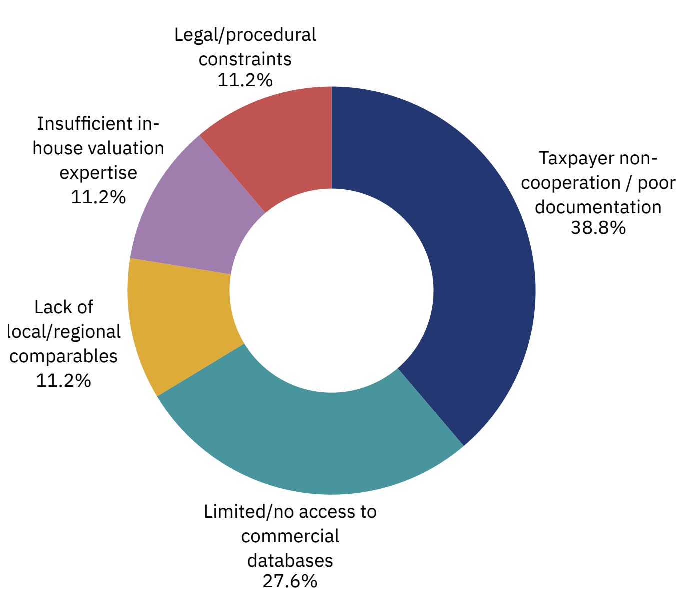
Confirms administrations can challenge unsupported royalty deductions and shift the burden of proof to the taxpayer

Nil outcome driven substantially by non-cooperation, not merits alone

3 WEBINAR HIHGLIGHTS

POLL: What is the biggest obstacle you find when auditing intangibles?

(18 responses)



The two top obstacles (non-cooperation 38%, database access 27%) map exactly onto what decided the Andhra Paper case. Strong message!

MAIN DISCUSSION POINTS

Proving commercial benefit if sales alone isn't enough?
→ DEMPE analysis; depends on the transaction

Which databases give reliable comparables?
→ external US-only databases unfit for CUP (needs internal consistency); adjustments required if used

Why nil, not just a lower rate?
→ tied to taxpayer's non-response + missing global licence; fuller evidence might have changed the outcome

Participant reflection
→ eye-opener that value can flow *from* the local company *to* the foreign trademark (Reverses the usual assumption!)

4 LESSONS FOR ATI PARTNER COUNTRIES

Challenge unsupported royalties
Require proof of genuine commercial benefit from the intangible

Sales growth ≠ benefit
Where entity was acquired, compare pre- vs post-acquisition sales

CUP = strict comparability
Product, geography, contract terms must match; adjust foreign comparables

Value-chain analysis is key
Use DEMPE analysis to locate where intangible value is really created

Watch the direction of value
Established local firms may be building the foreign brand's value locally

Documentation & engagement matter
Much of the assessment's strength came from taxpayer non-response

For more information, please visit www.addistaxinitiative.net

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