
INTERNATIONAL TAX
CASE SUMMARY

SLOVAKIA vs

MINEBEA ACCESS SOLUTIONS

SEPTEMBER 2024

ACADEMY OF TAX LAW

PUBLISHING SERVICES

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HEAD OF ACADEMICS



Welcome to the Academy of Tax Law's case and judgment summaries. These documents have been carefully curated to support professionals, students, and researchers navigating the complex landscape of international tax and transfer pricing. At the Academy, we understand that tax law is ever-evolving, with key rulings continuously shaping its practice.

Each summary you'll find here is designed to provide not just the facts, but the context and implications of pivotal legal decisions. These case summaries are created to serve as a valuable resource for legal teams, multinationals, revenue authorities, and academics, offering insights that go beyond the surface. Our goal is to ensure you remain informed and prepared, whether you are dealing with tax planning, dispute resolution, or risk management.

We believe that knowledge is the foundation of sound decision-making, and with these resources, we hope to empower you in your professional journey. As you delve into the analysis, remember that staying ahead in tax law requires not just understanding the rules but how to apply them in a dynamic, global environment.

Thank you for choosing the Academy of Tax Law as your partner in this ongoing learning experience.

Sincerely,
Dr. Daniel N Erasmus

PART 1

SUMMARY

JUDGEMENT SUMMARY

CASE OVERVIEW

Court: Supreme Administrative Court of the Slovak Republic

Case No: 2Sfk/36/2023

Applicant: Minebea Access Solutions Slovakia s.r.o.

Defendant: Financial Directorate of the Slovak Republic

Judgment Date: 24 September 2024

Full Judgment: [CLICK FOR FULL JUDGMENT](#)

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JUDGMENT SUMMARY

The Minebea Slovakia transfer pricing case highlights the intricate challenges of aligning intra-group transactions with arm's length principles. In this landmark ruling, the Supreme Administrative Court of Slovakia dismissed a cassation complaint filed by Minebea Access Solutions Slovakia s.r.o., a subsidiary of the Valeo Group. The decision upheld a tax authority adjustment that disallowed the deduction of €1,837,565.62 for management and technical services and increased the taxable base by €6,288,398 through the application of the median operating margin method.

The crux of the dispute revolved around the deductibility of costs related to services provided by Valeo Securite Habitacle S.A.S., a related entity. The tax authority found that Minebea failed to provide sufficient evidence substantiating the provision and economic benefit of these services. Additionally, the tax authority reclassified Minebea as a contract manufacturer with limited decision-making functions, rather than an independent entity, thus subjecting its transfer pricing to heightened scrutiny.

The ruling by the Supreme Administrative

Court reinforced the principle that taxpayers bear the burden of proof to justify deductions and demonstrate compliance with transfer pricing regulations. The court found that the tax authority acted in line with Slovak tax law and OECD Transfer Pricing Guidelines when applying the Transactional Net Margin Method (TNMM) to adjust Minebea's taxable income.

Key procedural issues, including restrictions on witness examination and the rejection of a power of attorney, were also addressed. The court dismissed these objections, ruling that they did not materially affect the fairness or validity of the tax authority's findings.

This judgment has significant implications for multinational enterprises (MNEs) operating in Slovakia and beyond. It emphasizes the necessity of robust documentation, proactive tax risk management, and compliance with international transfer pricing standards to mitigate disputes. For revenue authorities, the case underscores the importance of clear methodologies and consistent application of transfer pricing principles.

KEY POINTS OF THE JUDGMENT

BACKGROUND

Minebea Access Solutions Slovakia s.r.o. is a Slovak subsidiary of the Valeo Group, a global automotive component manufacturer. In 2011, Minebea claimed deductions for management and technical services provided by Valeo Securite Habitacle S.A.S., amounting to €1,837,565.62. The Slovak tax authority, during an audit, raised concerns about the legitimacy of these costs and their compliance with transfer pricing regulations.

The tax authority identified inconsistencies in Minebea's documentation. The submitted invoices lacked detailed descriptions of the services provided and failed to substantiate their economic benefit to Minebea. Furthermore, the tax authority recharacterized Minebea as a contract manufacturer with limited risk and decision-making autonomy,

reliant on the Valeo Group for strategic planning, supplier selection, and pricing.

To ensure compliance with the arm's length principle, the tax authority applied TNMM and compared Minebea's operating margin (0.91%) to the median of comparable independent entities (5.23%). The resulting adjustment increased Minebea's taxable income by €6,288,398.

Minebea contested these findings, asserting that it functioned as an independent manufacturer with significant responsibilities and claiming that the tax authority's adjustments were flawed. The case progressed through the Slovak administrative and judicial system, culminating in the Supreme Administrative Court's review.

KEY POINTS

OF THE JUDGMENT

CORE DISPUTE

The Minebea case centered on two primary issues:

- 1. Deductibility of Costs for Management and Technical Services:** Minebea claimed that the costs related to intra-group services were legitimate and deductible. The tax authority argued that the provision of services was not substantiated with adequate documentation, rendering the expenses ineligible for tax deduction.
- 2. Reclassification of Minebea's Functional Profile:** The tax authority reclassified Minebea as a contract manufacturer with limited functions and risks.

Minebea contested this characterization, claiming that it operated as a full-fledged manufacturer with substantial independence.

The broader dispute revolved around compliance with transfer pricing regulations, particularly the arm's length principle. Minebea challenged the tax authority's use of TNMM and its comparability analysis, arguing that the adjustments did not adequately reflect its business realities. Procedural objections, including witness examination restrictions and rejection of a power of attorney, were also raised but ultimately dismissed by the court.

KEY POINTS

OF THE JUDGMENT

COURT FINDINGS

The Supreme Administrative Court ruled in favor of the tax authority, upholding its adjustments and methodology. Key findings included:

- 1. Failure to Substantiate Management Fees:** The court found that Minebea failed to provide adequate evidence to substantiate the provision and benefit of the claimed management and technical services. The invoices were deemed insufficiently detailed, and other supporting documents lacked necessary specificity.
- 2. Validation of TNMM Application:** The court endorsed the use of TNMM, highlighting its alignment with OECD guidelines. It found the tax authority's comparability analysis and margin

adjustments reasonable given the absence of reliable internal benchmarks.

- 3. Functional Reclassification as a Contract Manufacturer:** The court agreed with the tax authority's assessment of Minebea's functional profile, citing its reliance on group-level decisions and limited independent functions.
- 4. Dismissal of Procedural Objections:** The court rejected Minebea's claims of procedural unfairness, ruling that the taxpayer's rights were not infringed during the administrative proceedings. The ruling emphasized the importance of detailed documentation and robust compliance with transfer pricing regulations.

KEY POINTS

OF THE JUDGMENT

OUTCOME

The court dismissed Minebea's cassation complaint, affirming the adjustments made by the tax authority. No costs were awarded to either party. The judgment highlighted the taxpayer's failure to meet the evidentiary burden required to substantiate deductions and demonstrate compliance with transfer pricing norms.

The outcome underscores the necessity for MNEs to maintain detailed records of intra-group transactions and ensure alignment with arm's length principles. The case also reaffirms the tax authority's discretion in applying transfer pricing adjustments and the courts' willingness to support such measures when grounded in OECD guidelines and domestic law.

TP METHOD

HIGHLIGHTED (IF ANY)

The Transactional Net Margin Method (TNMM) was pivotal in the Minebea Slovakia case as the transfer pricing method applied by the tax authority. TNMM evaluates a taxpayer's net profit margin relative to an appropriate base (e.g., costs or sales) and compares it to the margins of independent companies engaged in similar activities under comparable conditions. This method is particularly suited for analyzing routine functions and limited-risk entities, such as contract manufacturers.

The Slovak tax authority determined Minebea's operating margin for 2011 to be 0.91%, significantly below the 5.23% median operating margin of comparable independent companies. The authority used operating costs as the profit level indicator (PLI), which is common for contract manufacturers, and adjusted Minebea's taxable income by €6,288,398 to align it with the arm's length range.

The TNMM was deemed appropriate due to:

1. Minebea's Functional Profile: As a

contract manufacturer, Minebea's routine functions and limited risks aligned with the TNMM's focus on overall profitability rather than transaction-specific pricing.

2. Limited Internal Data: The absence of reliable internal comparables necessitated the use of external benchmarks.

3. Consistency with OECD Guidelines: TNMM is widely accepted for entities with straightforward functional profiles and was applied in line with Slovak law.

Minebea challenged the selection of comparables and argued that group-specific factors affecting profitability were overlooked. However, the court upheld the application of TNMM, emphasizing its practicality and the fairness of using the median margin to reflect arm's length profitability.

The case underscores the importance of robust documentation, accurate functional classification, and proactive alignment of profitability with independent benchmarks to mitigate disputes involving TNMM.

PART 2

SIGNIFICANCE

MAJOR ISSUES

AREAS OF CONTENTION

The Minebea Slovakia case raised several significant issues, primarily centered around the deductibility of expenses, functional reclassification, and procedural fairness.

1. Substantiation of Management Fees: The primary contention was Minebea's inability to adequately substantiate the claimed management and technical service fees. The Slovak tax authority argued that the invoices provided by Valeo Securite Habitable S.A.S. were overly vague, lacking details on the specific services rendered or their economic benefit to Minebea. While the company provided contracts and invoices, these documents contained general descriptions such as "management and technical services" without supporting documentation like service reports or detailed correspondence. This led the tax authority to question the validity of the expenses, classifying them as fictitious and disallowing the deductions.

2. Functional Profile Classification: Another key issue was the tax authority's reclassification of Minebea as a contract manufacturer with limited functions and risks. According to the tax authority, Minebea was heavily dependent on the Valeo Group for strategic decisions, supplier selection, pricing, and technological support. Minebea contested this, asserting that it functioned as a full-fledged manufacturer, managing production processes, maintaining facilities, and owning inventories. The court upheld the tax authority's classification, emphasizing Minebea's reliance on the group's strategic guidance and limited independent decision-making.

3. Procedural Concerns: Minebea also raised procedural objections, including claims of restricted witness examination and the rejection of a power of attorney. However, the court dismissed these concerns, ruling that no procedural irregularities affected the fairness or validity of the tax authority's conclusions.

These issues illustrate the importance of robust documentation and clear functional analysis in defending against transfer pricing adjustments.

EXPECTED OR CONTROVERSIAL?

The decision in the Minebea Slovakia case was largely expected, given the taxpayer's failure to meet documentation and evidentiary requirements as prescribed under Slovak tax law and the OECD Transfer Pricing Guidelines. However, aspects of the ruling may still be viewed as controversial, especially concerning the procedural fairness and the interpretation of the arm's length principle.

1. Expected Outcome

The court's emphasis on the taxpayer's burden of proof aligns with well-established legal principles in transfer pricing cases. Taxpayers are required to substantiate deductions with detailed documentation, including contracts, invoices, and proof of service delivery. Minebea's inability to provide sufficient evidence for the management and technical service fees rendered its position untenable. Furthermore, the application of the Transactional Net Margin Method (TNMM) to assess the taxpayer's operating margin was consistent with international guidelines and widely accepted practices for entities with routine functions and limited risks, such as contract manufacturers.

2. Procedural Controversies

Despite the expected outcome, certain procedural elements of the case could be seen as contentious. Minebea argued that its rights were violated during witness examinations and by the rejection of its power of attorney. The court dismissed these objections, emphasizing that no procedural irregularities materially affected the outcome. However, some practitioners may argue that the taxpayer's procedural concerns warranted greater consideration to ensure a fair hearing.

3. Transfer Pricing Challenges

The judgment underscores the difficulties taxpayers face in defending intercompany service fees. Intra-group services, particularly those involving management and technical support, are often scrutinized for their relevance and economic benefit. The court's strict interpretation of evidentiary standards may be viewed as overly stringent by some taxpayers and advisors.

Overall, while the decision adhered to established principles, it underscores the complexity of transfer pricing disputes and the challenges taxpayers face in meeting evidentiary expectations.

SIGNIFICANCE FOR MULTINATIONALS

The Minebea Slovakia case underscores several critical lessons for multinational enterprises (MNEs) operating in Slovakia and beyond, particularly regarding compliance with transfer pricing regulations and documentation requirements.

1. Importance of Robust Documentation

A central takeaway is the necessity for detailed and precise documentation to substantiate intra-group transactions. The court found Minebea's invoices for management and technical services inadequate due to vague descriptions and a lack of supporting evidence. MNEs must ensure that invoices, contracts, and deliverables clearly specify the services provided, their scope, and the economic benefits derived. Robust documentation can mitigate disputes and justify tax positions during audits.

2. Functional Profile Accuracy

The case highlights the impact of functional classification on transfer pricing adjustments. The tax authority reclassified Minebea as a contract manufacturer, emphasizing its dependence on the group for strategic decisions and limited risks. MNEs must

conduct thorough functional analyses to accurately reflect their roles and risks within the group. Misalignment between functional reality and reported profiles increases the likelihood of challenges from tax authorities.

3. Compliance with Accepted Standards

The court validated the tax authority's use of the Transactional Net Margin Method (TNMM), emphasizing its consistency with OECD guidelines. MNEs must ensure their transfer pricing policies adhere to internationally accepted principles and benchmarks to reduce the risk of disputes.

4. Proactive Tax Risk Management

The judgment demonstrates the importance of proactive tax risk management. Establishing a tax steering committee and engaging transfer pricing experts can help MNEs identify risks, ensure compliance, and prepare robust defenses against audits.

For MNEs, this case serves as a reminder of the financial and reputational risks associated with non-compliance and the need for meticulous planning and adherence to global transfer pricing standards.

SIGNIFICANCE

FOR REVENUE SERVICES

The Minebea Slovakia case provides valuable insights for revenue services, demonstrating the effectiveness of robust enforcement and adherence to international standards in transfer pricing audits.

1. Validation of Adjustment Practices

The court's endorsement of the tax authority's application of TNMM affirms the validity of using internationally recognized methodologies, such as those outlined in the OECD Transfer Pricing Guidelines. This judgment empowers revenue services to confidently apply these methods to address transfer pricing risks and ensure compliance.

2. Emphasis on Documentation and Audits

Revenue authorities can draw lessons on the importance of scrutinizing taxpayers' documentation. The tax authority's decision to reject unsubstantiated deductions for management fees highlights the need for comprehensive audits. By requiring taxpayers to provide detailed evidence of intra-group transactions, revenue services can safeguard

tax bases and deter non-compliance.

3. Functional Analysis and Profiling

The case illustrates the importance of conducting detailed functional analyses during audits. Reclassifying Minebea as a contract manufacturer was a key factor in justifying the transfer pricing adjustments. Revenue services should focus on accurately assessing taxpayers' functions, risks, and economic roles within multinational groups to strengthen their cases.

4. Procedural Integrity

The court's dismissal of procedural objections highlights the importance of maintaining procedural fairness in audits and disputes. Adherence to due process reduces the risk of successful challenges during litigation.

The case reinforces the role of revenue services as protectors of the tax base and sends a clear deterrent message to taxpayers about the consequences of insufficient compliance with transfer pricing regulations.

RELEVANT CASES

APPLE VS EU

The dispute focused on intra-group transactions and state aid, where Apple's transfer pricing practices were scrutinized for artificially reducing its taxable income. Similar to Minebea, the case emphasized the need for transparency and adherence to international transfer pricing standards.

[CLICK HERE TO READ THE CASE SUMMARY](#)

FIAT CHRYSLER VS EU

This case involved allegations of state aid through transfer pricing arrangements that misaligned with the arm's length principle. Like the Minebea case, it highlighted the importance of robust documentation and functional analysis in determining compliance with transfer pricing regulations.

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COCA COLA VS USA

This case revolved around the reallocation of profits within the group, questioning whether the transfer pricing arrangements adhered to the arm's length standard. Like Minebea, it underscored the importance of functional reclassification and reliable comparability analyses in defending transfer pricing positions.

[CLICK HERE TO READ THE CASE SUMMARY](#)

PART 3

PREVENTION

Transfer pricing experts play a pivotal role in helping multinational enterprises (MNEs) navigate the complexities of tax compliance and transfer pricing regulations. These professionals provide invaluable assistance in preparing robust documentation that substantiates intra-group transactions and aligns with the arm's length principle. Proper documentation, including contracts, invoices, and functional analyses, is critical for defending tax positions during audits or disputes.

Experts also bring specialized knowledge to comparability analysis, ensuring that benchmarks are appropriately selected and applied. They assess the functional profiles of entities, identify comparable independent transactions or entities, and apply the correct transfer pricing methodologies, such as the Transactional Net Margin Method (TNMM), to ensure compliance with both domestic laws and international guidelines like the OECD Transfer Pricing Guidelines.

In disputes, transfer pricing experts act as strategic advisors, helping companies present evidence, respond to tax authority challenges, and build a strong case in litigation. Their insights can be instrumental in demonstrating the economic substance of intra-group transactions and addressing adjustments proposed by tax authorities.

Furthermore, experts assist MNEs in developing proactive strategies to mitigate risks, including tax-efficient structuring of intercompany transactions and regular reviews of transfer pricing policies. By engaging transfer pricing professionals, MNEs can better manage compliance risks, ensure alignment with global standards, and protect their financial and reputational interests. The value of such expertise is particularly evident in cases like Minebea, where detailed functional analyses and robust documentation could have strengthened the taxpayer's position.

PREVENTATIVE

MEASURES TO AVOID SIMILAR CASES

TAX RISK MANAGEMENT PROCESS

- Implementing a comprehensive tax risk management process is essential to identify, assess, and mitigate tax risks associated with cross-border transactions. This process should involve:
- Regular reviews of intra-group transactions to ensure they have genuine economic substance.
 - Proactive engagement with tax authorities to seek clarity on the application of anti-abuse rules.
 - Thorough documentation of the business rationale for each transaction to support

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TAX INTELLIGENCE: THE 7 HABITUAL TAX MISTAKES MADE BY COMPANIES

Tax Intelligence: The 7 Habitual Tax Mistakes Made by Companies” by Dr. Daniel N. Erasmus is a must-read for businesses seeking to navigate the intricate world of tax compliance and risk management. By highlighting common pitfalls and offering strategic solutions, Erasmus equips companies with the knowledge to improve their tax practices and secure financial stability.

<https://support.academyoftaxlaw.com/product/tax-intelligence-by-prof-dr-daniel-n-erasmus/>

PREVENTATIVE

MEASURES TO AVOID SIMILAR CASES

TAX STEERING COMMITTEE

- Establishing a tax steering committee can help ensure that tax policies are aligned with the broader business strategy and that transactions are vetted for both commercial and tax implications. A tax steering committee can:
- Review all significant cross-border transactions before they are executed.
 - Ensure that tax decisions are made in the context of overall business objectives, not solely for tax savings.
 - Monitor changes in international tax laws to ensure ongoing compliance and avoid disputes like the X BV case.

DOWNLOAD FREE E-BOOK

DRIVING TAX COMPLIANCE: THE ESSENTIAL ROLE OF THE TAX STEERING COMMITTEE

The eBook “Driving Tax Compliance: The Essential Role of a Tax Steering Committee” by Prof. Dr. Daniel N. Erasmus, Renier van Rensburg, and Gilbert Ferreira, emphasizes the critical importance of establishing a Tax Steering Committee (TSC) within multinational corporations to ensure tax compliance and manage tax-related risks effectively.

<https://support.academyoftaxlaw.com/product/essential-role-of-the-tax-steering-committee/>

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