OPERATIONAL RISK IN TRANSFER PRICING



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OPERATIONAL RISK IN TRANSFER PRICING

Transfer Pricing focuses on economic analysis and the arm's-length position. However, there are many complexities that arise in the development of transfer pricing models that will often mean the most appropriate method for transfer pricing purposes is often difficult to implement and even harder to monitor. In these complex environments, there is a need for clarity around the process steps and the governance needed to ensure the continued accuracy over calculating and implementing transfer pricing charges.



ASSURANCE OVER YOUR TRANSFER PRICING OPERATIONAL CHARGING PROCESSES

In response to what can be highly complex and often long established transfer pricing models that may exist within your business, as well as an increasingly coordinated focus by international tax authorities on transfer pricing, many of our clients have asked us to review their TP processes and offer assurance that provides:-

- Evidence that they have a robust transfer pricing charging process and a level of assurance that can be shared with tax authorities and other stakeholders as needed;
- Have in place a **Transfer Pricing Operating Report** (see next page) that sets out in detail how transfer pricing should be undertaken across the business;
- Demonstrate that their Transfer Pricing Operating Framework is robust, regularised and able to accommodate external regulatory changes and complexities;
- Have confidence over the accuracy, completeness and integrity of spreadsheets and other tools used in the TP calculations;
- Identify optimisation opportunities through enhanced standardisation, simplification or by the use of technology and automation.



OUR PROPOSITION

Our proposition is focused primarily on offering businesses structured reviews and documented clarity over their transfer pricing operational charging processes.

Our approach is collaborative, working closely with you and your teams to provide experienced resource to support and better understand your existing processes while also identifying opportunities to be more efficient through better standardisation, simplification of processes, handoffs and controls or improved use of technology.

TYPICAL APPROACH

The objective of our work is to undertake a current state analysis to map your existing transfer pricing intra-group charging processes.

This will enable:

- the development of an operational transfer pricing charging framework that you can have confidence in as robust, regularised and able to accommodate external regulatory changes and complexities
- The identification of areas for future improvement, for example through enhanced standardisation, simplification or by the use of technology and automation.

01

We start with a kick-off meeting involving a high level review of your business' existing transfer pricing intra-group charging processes.

02

We will carry out facilitated workshops and/or shadow your team so we can really understand and 'live' your transfer pricing charging processes. We base specialists on site to provide resource to walk through your transfer pricing procedures, and to enable us to document these processes.

03

From this, we will be able to develop a standardised process description and flowchart of existing processes, including identifying data sources, tools and extent of automation. This will include the development of a Transfer Pricing Operating Report.

04

We will use our 'Rainbow Analysis Tool' to interrogate your existing spreadsheets for processing integrity issues and include this in our findings.

We will discuss our work and findings collaboratively with you, and walk through our report and recommendations.

OUR TEAM



PAUL DALY
Partner - Head of Transfer Pricing

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Paul heads BDO's Transfer Pricing Team in the UK. He assists clients with transfer pricing studies and documentation exercises, plus the design and implementation of value chain tax structures, as well as dealing with HMRC and tax authorities internationally on inquiries and disputes, including supporting on MAPs and APAs.

Paul's clients range from those taking first steps in establishing overseas operations, through to global businesses outsourcing their worldwide transfer pricing compliance. He has in-house experience and perspective from time in a transfer pricing role within a FTSE100 business and understands the importance of providing grounded, practical advice.



JAMES EGERT
Partner - Head of Tax Risk and Governance

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James Egert leads our tax risk assurance practice, providing advice on large organisations' tax governance, risks and operating procedures for tax. This ranges from SAO and SOX to walking through a group's end-to-end processes for tax, identifying risk areas and seeking out opportunities for enhanced standardization, simplification and automation.

He has worked previously at Deloitte and EY, working for large global multinational businesses across all industries.

James works together with Paul Daly in reviewing and documenting Transfer Pricing Operating processes.

VALUE OF THE PROPOSITION

Our work provides transparency over the implementation of your transfer pricing policy, and assurance that the policy is working as stated. The assurance gained can be shared with internal and external stakeholders, (including tax authorities and auditors), in order to provide comfort around the governance and processes required for transfer pricing compliance.

The separate Transfer Pricing Operating Report (right) provides a working document for all relevant people in your business in terms of expected standards of conduct in how transfer pricing should be undertaken across the business.

WHAT IS A TRANSFER PRICING OPERATING REPORT?

TYPICAL CONTENTS INCLUDE:

- Transfer Pricing principles
- Transfer Pricing Governance, including accountabilities and responsibilities, escalation mechanisms, risk management
- Transfer Pricing intra-group charging process narratives, process maps
- List of key controls
- List of Transfer Pricing tools (mainly Excel) used in the process.

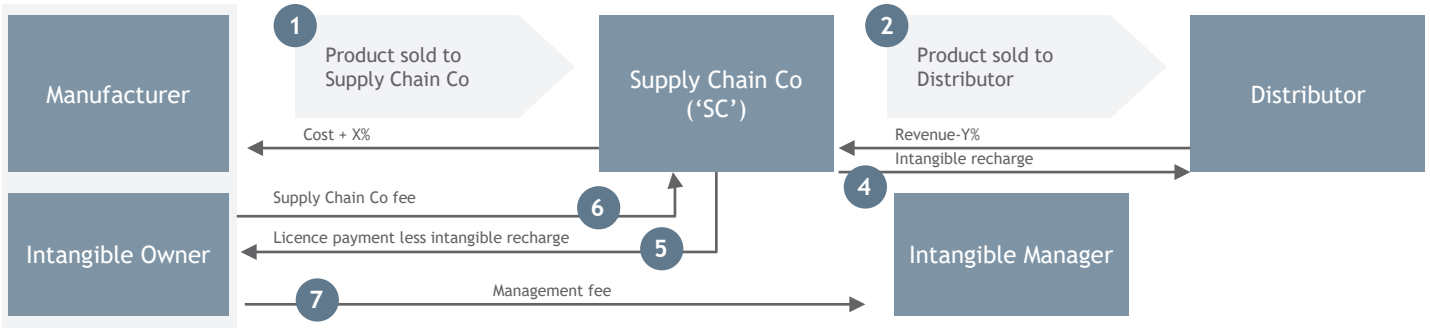
APPENDICES

- Relevant policies (e.g., TP Policy Statement; Documentation policy)
- Transfer Pricing spreadsheet review analysis using our Rainbow Analysis Tool (see right)
- 'RACI' Matrix mapping for defined processes.

EXAMPLE OF A PROCESS OVERVIEW FOR A COMPLEX TRANSFER PRICING CHARGING MODEL

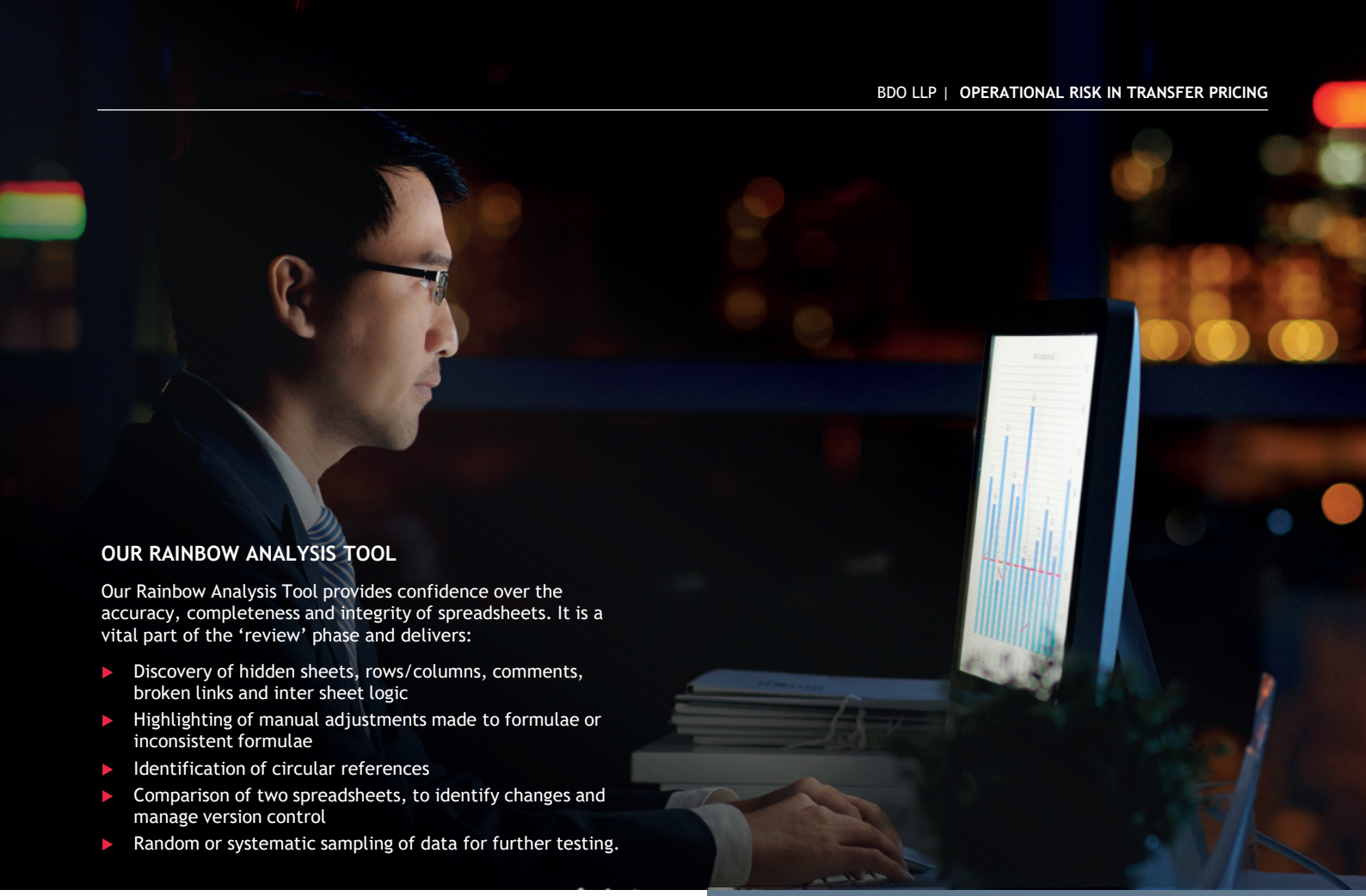
TRANSFER PRICING MODEL

Manufacturer sells to Supply Chain Co for export to overseas distributors. Example is Product A manufactured in Country A and sold in Country B.



The process steps for the Model are as follows.

Step	Transaction	Payee	Payor	Transfer Price	Profit	When price set	When transaction
1	Product Sale	Manufacturer	Supply Chain Co	Cost + X%	X%	P12 of prior year	Throughout year
2		Supply Chain Co	Distributor	Revenue-Y%	Residual profit	P12 of prior year	Throughout year
3		Distributor	Third party	Revenue	Y%	On sale	Throughout year
4	Intangibles recharge	Distributor	Supply Chain Co	Supply Chain Co finance	Supply Chain Co Finance	In year	In P12
5	Licence payment	Intangible Owner	Supply Chain Co	Licence payment less any intangible recharge	Licence payment	In year	In P12
6	Licence fee	Intangible Owner	Supply Chain Co	Licence fee less SC fee	SC fee	P9	P10
7	Marketing fee	Intangible Manager	Supply Chain Co	Marketing fee less any intangible recharge	Marketing fee	P12 in current year	In P12



OUR RAINBOW ANALYSIS TOOL

Our Rainbow Analysis Tool provides confidence over the accuracy, completeness and integrity of spreadsheets. It is a vital part of the 'review' phase and delivers:

- Discovery of hidden sheets, rows/columns, comments, broken links and inter sheet logic
- Highlighting of manual adjustments made to formulae or inconsistent formulae
- Identification of circular references
- Comparison of two spreadsheets, to identify changes and manage version control
- Random or systematic sampling of data for further testing.

Product sold to third party

Key
Payment Flow

Who sets price	'Responsible' Process owner	'Accountable' Person
Manufacturing Finance team	Business Finance team	Business Finance team
Manufacturing Finance team	Business Finance team	Business Finance team
Manufacturing Finance team	Business Finance team	Business Finance team
Manufacturing Finance team	Business Finance team	Business Finance team
Supply Chain Co finance team	Supply Chain Co finance	Supply Chain Co Finance
Supply Chain Co finance team	Supply Chain Co finance	Supply Chain Co Finance
TP function	TP function	Group Tax

"A rapid diagnostic of our year-end and other tax spreadsheets identified some glaring errors in formulae and links. A few 'quick wins' later, and we had minimal reconciliation errors, problem-free roll-forwards and more touch-of-a-button calculations. We had a 'health report' that we shared with our auditors to offer greater assurance over our spreadsheet controls."

TAX MANAGER, FTSE 250 BUSINESS

CREDENTIALS

Our team has worked with organisations across all industries in developing Transfer Pricing Operating Reports and providing assurance over the governance, effectiveness and accuracy of the transfer pricing operational charging process. An example includes one of the largest international consumer goods companies to provide assurance and successfully articulate a highly complex TP operational charging process so that its accuracy could be readily communicated to HMRC and understood by new team members.

FOR MORE INFORMATION:

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