

Transfer Pricing Benchmark Analysis

COMPANIES WITH AN INTERNATIONAL PARENT, SEPARATE SUBSIDIARY OR SISTER COMPANY ARE AT RISK OF DOUBLE TAXATION.

With over one-third of all world trade consisting of intercompany transactions, transfer pricing has become the most significant international tax issue facing multinational companies today. Given this operating environment, you want clear direction and understanding of the transfer pricing for your company's intercompany transactions so that you can better budget and manage profitability.

To achieve that goal, we'll work with you, applying Aprio's proprietary transfer pricing benchmark analysis. After working with us, you will have information regarding the profit levels required under IRS transfer pricing regulations. In addition, you will have a range of profit levels. We will apply the profit-level indicator to your company's projected operating results. The outcome for this process is that you will have a precise transfer price. Please be aware that this option does not protect you from penalties should the IRS sustain a transfer pricing adjustment.

You can count on our transfer pricing benchmark analysis to perform the following services:

1. Obtain and review the company's related party pricing information.
2. Perform interviews with the company's employees who have knowledge about the company's pricing structure for the products received and services performed by related parties.
3. Review the financial data and other relevant information (intercompany agreements).
4. Select a comprehensive group of external comparable companies for the transfer pricing study. From the original list of the selected companies, we will review and thoroughly screen these comparables and determine the most appropriate group of comparable companies.
5. Make accounting and capital adjustments, if necessary, to the financial analysis of the tested parties and comparable companies.
6. Apply the most appropriate methodology to compare the results derived from the economic analysis to the company's business operations.
7. Issue a TPBA Report.

Transfer pricing is based on the establishment of, and adherence to, an arm's length standard. This standard of conducting intercompany transactions has been part of the U.S. tax system for over 75 years. Although the Section 482 transfer pricing regulations have been in place since 1968, it was not until the more recent Section 6662 penalty regulations went into effect that companies were required to create contemporaneous transfer pricing documentation. Failure to comply with the documentation



Taxpayers can generally avoid penalties that can range from 20 percent to 40 percent by having appropriate transfer pricing documentation on hand before they file their tax returns.

requirements can result in penalties of 20 percent to 40 percent of any additional tax in the United States. Taxpayers can avoid these penalties by showing that they acted with reasonable cause and in good faith when pricing their intercompany transactions.

Recently, the IRS has started a pilot program to improve its efficiency in reviewing taxpayers' transfer pricing documentation. This program highlights the need for taxpayers to have documentation that supports the prices paid in cross-border transactions with foreign-related parties.

To meet the good faith standard, a taxpayer must satisfy stringent documentation requirements that include the production of a transfer pricing study. An Internal Revenue Service ("IRS") compliant study typically consists of the following principal documents:

1. An overview of the taxpayer's business;
2. A description of the organizational structure of the taxpayer's business;
3. Any supplementary documentation not specifically required by the Section 482 regulations;
4. A description of the Best Method Rule;
5. A discussion of the inapplicability of any testing methods that were considered but not successfully employed;
6. A description of the controlled transactions and any internal data used to analyze them;
7. A description of the comparable taxpayers that were used and how comparability was evaluated; and
8. An explanation of the economic analysis involved and the projections relied upon.

These documents must be delivered within a designated amount of time of a revenue authority's request for the documentation (in the U.S., the documentation must be delivered within 30 days of a request from the IRS). Our transfer pricing services are designed to develop documentation customarily requested by the IRS during a transfer pricing examination. Performing a TPBA does not provide the company with all the transfer pricing documents, but gives a company sufficient guidance on pricing to prevail in case of IRS audit.

Over the past several years, over 33 countries have taken the United States' lead and adopted stringent transfer pricing regulations based upon the OECD transfer pricing guidelines. In addition to a stated adherence to the arm's-length principle, a number of countries have also introduced legislation allowing for the imposition of penalties when adjustments are made to taxable profits. As these countries' regulations have gone into effect, new, significant compliance and reporting burdens have been placed on all multinational companies.

About Aprio

Since 1952, clients throughout the U.S. and across more than 40 countries have trusted Aprio for guidance on how to achieve what's next. As a premier, CPA-led professional services firm, Aprio delivers advisory, assurance, tax and private client services to build value, drive growth, manage risk and protect wealth. With proven expertise and genuine care, Aprio serves individuals and businesses, from promising startups to market leaders alike.

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