



The right transfer pricing documentation

Turning compliance into a value added process

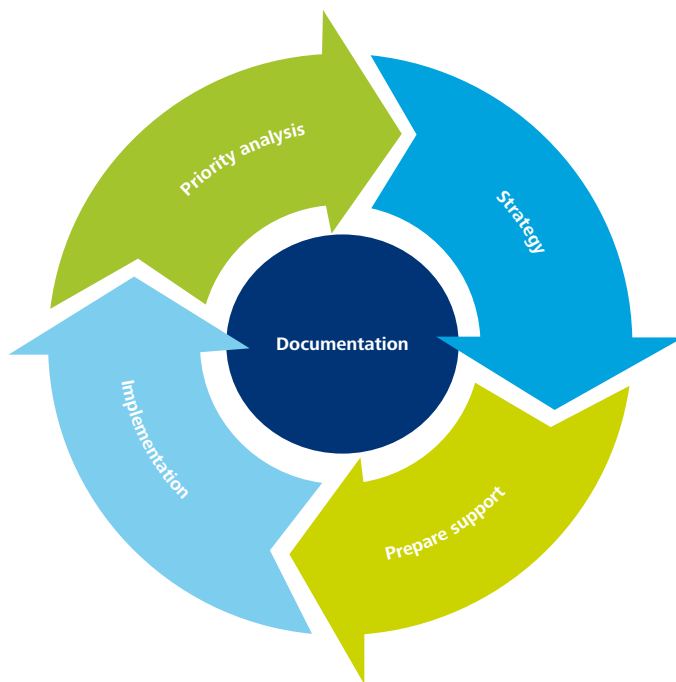
An appropriately developed transfer pricing strategy helps multinationals to optimise their tax position, manage their tax risks and reduce time spent on compliance while, at the same time, ensuring that intercompany pricing policies are consistent with the overall business objectives. Such strategy should address all aspects of transfer pricing management, from planning through implementation, monitoring and defence.

A key aspect of any transfer pricing strategy relates to robust documentation that presents arguments and evidence supporting the pricing of intercompany transactions and seeks to protect group entities against local transfer pricing adjustments and penalties.

Our team of transfer pricing professionals understands the documentation needs of multinationals. We can help you choose the right strategy that supports turning transfer pricing documentation from a compliance problem into a value added business process.

The preparation of documentation is often perceived by multinationals as troublesome, costly and a limited value added compliance process. However, the documentation process, when adequately designed, can bring various benefits including:

- Reduced tax risks (e.g. double taxation, penalties and audit adjustments).
- Improved control and risk management.
- Reduced compliance costs.
- Less disruption to business operations.
- Identification of tax planning opportunities.



To help achieve these value added benefits more consistently and effectively, Deloitte apply a holistic approach to transfer pricing documentation. The approach is focused on assisting businesses to prioritise transactions based on key risk criteria and developing a bespoke strategy to meet business requirements. The approach acknowledges the often limited resources of multinationals and seeks to streamline the documentation process while, at the same time, providing key employees (e.g. senior accounting officers) with additional evidence regarding the controls and risk management procedures applied within the business. In addition, the approach adds flexibility at each level of the process, ensuring that businesses can identify the appropriate work streams to perform in-house and those that can be more efficiently dealt with by outsourcing.

This approach is illustrated in the diagram above and comprises of four interlinked phases:

Priority analysis

The priority analysis phase is key to developing an efficient process and involves:

- Identifying intercompany transactions including common group of transactions.
- Determining the risks associated with each transaction.
- Prioritising the transaction types by reference to materiality and risk.
- Summarising the above findings in a priority analysis matrix.

This exercise often identifies planning opportunities that could lead to significant tax savings.

Strategy

The strategy phase involves agreeing a number of key actions based on the risks and tax planning opportunities, including:

- Transactions/entities/opportunities to focus on.
- Type of documentation required, e.g. long form vs. short form and local vs. global (e.g. master file approach).
- Timing and format of updates to existing documentation (e.g. side letter vs. full report).
- Level of in-house vs. outsourced activities.

Once agreed the key action points can be summarised and prioritised in a strategy matrix.

Prepare support

The actions identified in the strategy matrix then need to be carried out so that the appropriate support can be collated. This will involve:

- Further fact gathering, collected as efficiently as possible based on the requirements identified at the strategy phase.
- Undertaking the economic analysis determined as appropriate in the strategy matrix.
- Preparing the various documentation components.

Multinationals may achieve significant efficiencies by increasing the flexibility of the documentation approach they apply.

Detailed fact gathering may identify new risks and tax planning opportunities and which may require a revision of the strategy matrix.

Implementation

Implementation is an integral part of the compliance process that is sometimes overlooked. Ensuring that the transfer pricing documentation is consistent with business practice is an essential step which requires:

- Management of key stakeholders.
- Effective communication of new/revised policies.
- Incorporation of policies into the ERP systems.
- Preparing and publishing process and policy manuals.
- Appropriate training.
- A clear process for year end reviews/adjustments etc.

Types of documentation

As outlined at the strategy phase above there is a wide range of different types of documentation available.

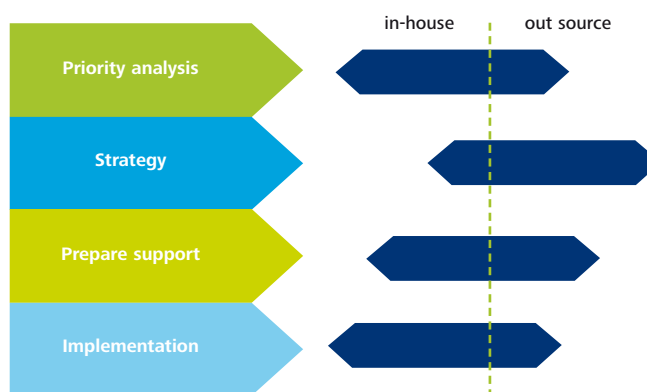
Global vs. local documentation – The merits of each method depend on a range of factors (e.g. how homogeneous are the transactions/businesses, local documentation requirements etc?). Deloitte apply a range of approaches that suit different situations, including:

- Single global or regional report.
- Core report with additional country specific reports.
- Local reports, with a range of common components.

Short form vs. long form – In certain cases it may be sufficient to prepare cost effective short form documentation. Typically, such documentation requires only a brief functional analysis and can significantly reduce the burden on the business to gather detailed information.

Flexible co-sourcing

Deloitte applies a flexible menu based approach when assisting clients with the preparation of transfer pricing documentation. This approach helps to ensure that in-house resources are used where appropriate and external resources are involved where they can add most value. An example of this is illustrated in the chart below:



Marketplace leader

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Deloitte has been ranked Number One in Euromoney's list of *World's Leading Transfer Pricing Advisers* five times in recent years – 2001, 2003, 2005, 2007, and 2009.

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