

Bridging the Implementation Gap

Transfer Pricing Implementation & Monitoring



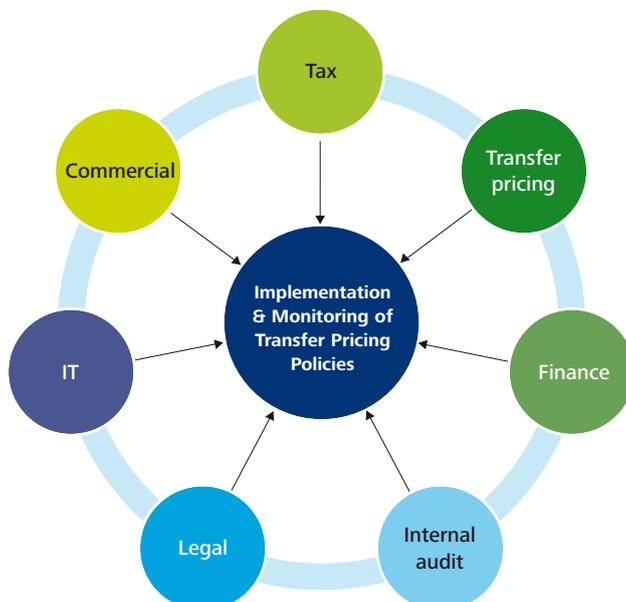
With increasing levels of sophistication and transfer pricing expertise both within the tax departments of multi-national groups and tax authorities, the next big challenge is ensuring that carefully presented policies are fully implemented and regularly monitored.

Over half of transfer pricing adjustments arise from inadequate implementation & monitoring of transfer pricing policies.
Deloitte survey

Bridging the gap from a chosen transfer pricing policy to a set of systems and processes that reliably deliver tax returns consistent with the policy can present a significant challenge for businesses. Success requires an integrated approach across departments involving tax, transfer pricing, finance, internal audit, legal, information technology and commercial operations.

Deloitte has drawn together a cross-functional team of experts to support companies in tackling this issue and help to bridge the “implementation gap” between policy and practice.

In many jurisdictions, penalties are likely to be automatic when the issue is not whether the policy is arm’s length, but simply that the policy has not been followed.



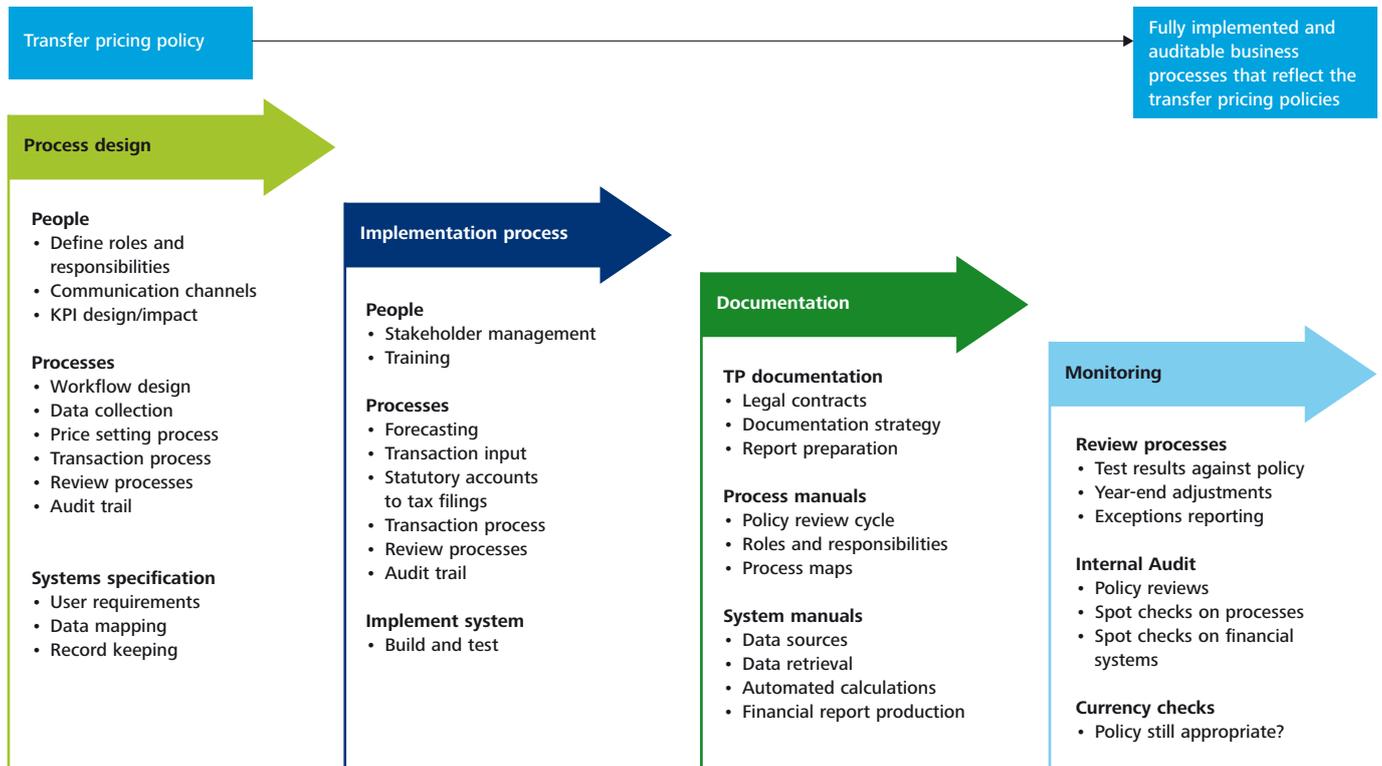
Tax authorities are increasingly focused on whether policies are accurately reflected in the financial accounts and tax returns. Tax professionals need to be equipped to answer questions such as:

- What processes do you have in place to ensure that the data to which your policies are applied is complete and accurate?
- Who is responsible for performing the monitoring activities necessary to ensure that your transfer pricing policies result in the target margins being reflected in your tax returns?
- What procedures are in place to ensure the business understands the importance of transfer pricing with respect to your group’s compliance requirements?

Defending a particular transfer pricing methodology or the economic analysis behind it is to a large extent a debate over differing views. In contrast, finding that your stated mark-up has not been applied to all costs, or that your policy's margin, whilst accurate in the management accounts, has not resulted in the target margin in the statutory accounts, is likely to result in an immediate adjustment and potential penalties. Tax authorities are rapidly learning that enquiries into the implementation of transfer pricing policies often result in adjustments.

Deloitte's transfer pricing implementation team offers a range of solutions to address these issues, from high level risk reviews through to full scale transfer pricing transformation and off-shoring projects. Our framework for approaching this area is set out below.

From policy to practice – a holistic framework



A holistic approach to designing and implementing an auditable transfer pricing policy

It can be a daunting task to transform an arm's length transfer pricing policy into a set of systems and processes that reliably produce tax filings reflective of the policy, leaving behind an audit trail detailing the judgement calls that have been made along the way. But like all problems, breaking it into smaller pieces can help, and one approach is to consider four elements – processes, people, systems and monitoring:

- **Processes.** Implementing the policy requires processes to be designed, specifying what will be done, by whom, and when, taking into account data constraints and the demands placed on staff. Particular care may be needed in setting appropriate processes for true-ups, and ensuring that an appropriate audit trail is kept for "exceptions" and one-off adjustments.

- **People.** Staff will need support and training to ensure that they know how to execute the processes as intended, and performance metrics should be reviewed to ensure that management work in favour of, rather than against, the policies.

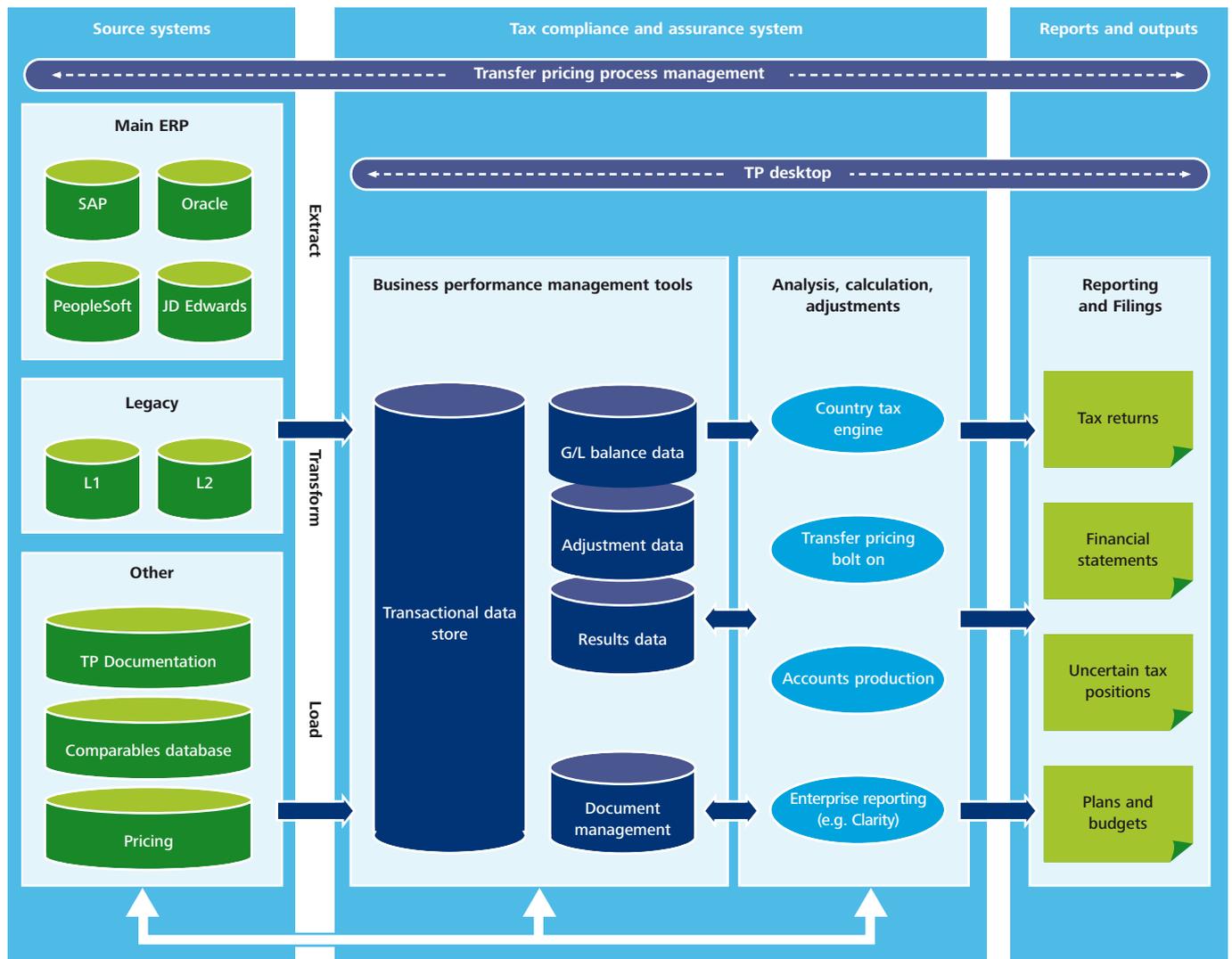
- **Systems.** Some kind of IT system will generally be required, from a simple spreadsheet to bespoke software or an ERP system "add-on". Whatever the case, systems need to be designed with transparency in mind, to make it easy to extract the information required to demonstrate that the pricing policy has in fact been followed.

- **Monitoring.** An implemented policy is only good as long as it remains appropriate and is applied consistently. A periodic review process should be "baked into" the system, to examine both internal factors (Are the policies still being followed? Are they still appropriate in light of the evolving business?) and external factors (Has the tax authority attitude changed? Are there new sources of comparables data?).

Automation reduces human error and provides more time to focus on effective monitoring.

The technology to allow for the full or partial automation of transfer pricing is now available and is part of a best practice solution for reducing the incidence of implementation and monitoring problems. Our team of tax systems specialists are familiar with all the offerings and solutions in this complex area and work together with our transfer pricing experts to ensure that the approach to data retrieval, transfer pricing calculations and integration with accounting and tax compliance software are designed and tailored to your company's needs. There are a number of software alternatives on the market and we have no formal ties to any of the vendors, which means we can help you identify the best one for your needs.

Record to report process overview



One of the biggest implementation issues facing transfer pricing teams is the lack of certainty around the quality of the data they are using. Deloitte can work with you to ensure that your transfer pricing team has a complete understanding of the implementation of your transfer pricing policies, from source data all the way through to entries in your tax returns, financial statements, tax provisions, plans and budgets.



Bridging the Implementation Gap

How Deloitte's Transfer Pricing Implementation team can help you

Deloitte has a multi-disciplinary team to support all aspects of this complex area including:

1. Transfer pricing expertise
2. Tax system specialists
3. Selection and implementation of transfer pricing software solutions
4. Internal audit capabilities

Our team can support you with any of the following:

1. The design, implementation and review of transfer pricing processes and controls
2. Roles & responsibilities
3. Impact of transfer pricing policies on rewards and behaviour
4. Transfer pricing procedure manuals
5. Transfer pricing systems integration
6. Certification of policy implementation
7. Procedures for ensuring ongoing compliance
8. Clear and robust audit trails

Contact us

If you have any questions regarding our implementation capabilities or if you would like to discuss any of the issues highlighted, then please do not hesitate to get in touch with your usual Deloitte contact or any of the following implementation experts:



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