

Operational Transfer Pricing (OTP) – Delivering future solutions

Introduction

Multinationals often encounter inconsistent transfer pricing data from business units which dramatically increase the complexity and staff workload.

Inconsistent transfer pricing data often leads to concerns such as:

- Inaccurate tax payments in different jurisdictions
- Year-end adjustments resulting in volatile margins across different years
- Custom/ VAT / Exchange control issues arising from differential payments
- Furnishing supporting data during audits
- Allocation of cost between group entities

Challenges for large Multinational

Data Harmonisation

- Large Multinationals may have multiple data sources; resulting in challenges in harmonizing the data for TP purpose

TP Data Ownership and Insight

- While TP policies are set by tax teams, implementation responsibility lies with finance function, which may result in data definition gaps
- With different finance personnel working on different entities, the TP policies / cost allocation logics may not be consistently applied to all the entities within the Group
- Manual computations are prone to errors; increasing the TP risk significantly
- Legal entity P&L segments by product/transacting entity not generally available

Books closing

- Complex TP workings handled manually may increase the time required for closure of books of account
- Manual computations are more focused by statutory/tax auditors; consequently bringing automation can help enhancing efficiency/establishing audit trail

Why is it important?

- Increasing TP visibility
- Increased focus on TP audits from tax authorities globally
- Focus on intragroup transactions from a corporate governance perspective
- Changing business models to conform to new environment
- Impact on finance/accounting and customs liabilities
- Country-by-Country reporting requirement
- Vital component to derive full value from tax/finance transformation

OTP process can help organizations in integrating their TP policies with day-to-day operations, improve the integrity of their inter-company accounting, increase operating efficiencies and reducing the risks

Benefits



Robust controls and processes and reduced risk of manual errors



Automation of calculations and enhanced analytics capabilities



Fewer tax audit adjustments resulting in reduced tax leakage / penalty risks



Improved operational efficiency and shorter process times



Increases EPS and enhancing shareholder's value



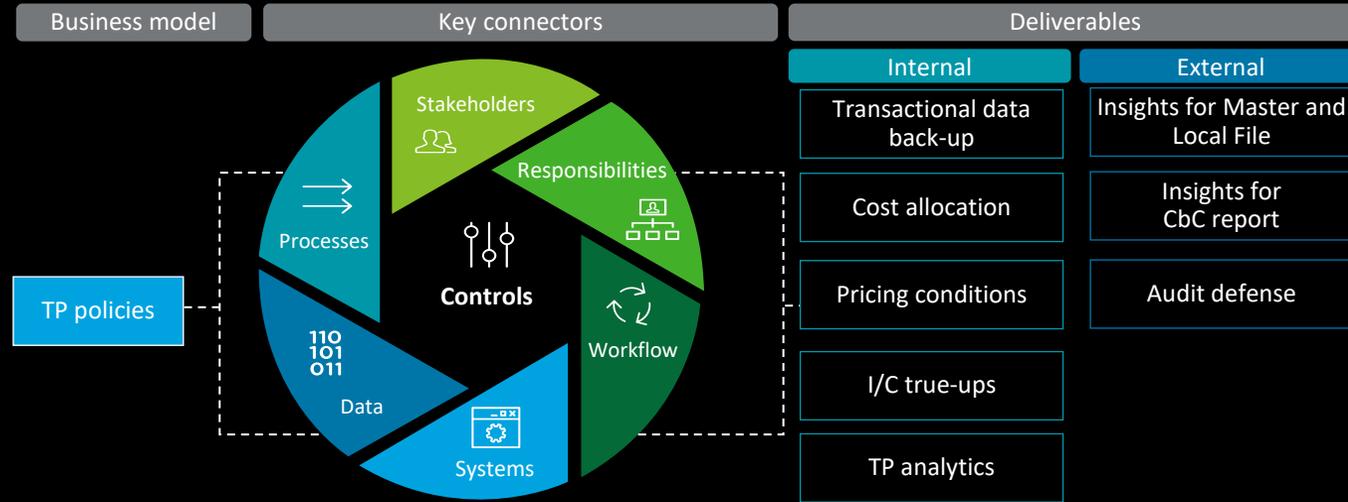
Decrease in FTE effort in low value activities



OTP solution

OTP is the transparent and efficient implementation of transfer pricing policies in the books and records of a company based on quality data and robust processes and controls.

Process flow cycle



Key Features of OTP Solution

- Facilitate proactive TP process monitoring, analytics and adjustment capabilities;
- Appropriate implementation of TP policies with data and calculation visibility;
- Maintenance of audit trail useful during statutory and Tax/TP audits;
- Address potential tax exposure from future TP audits;
- ETR management and plugging any tax inefficiencies across jurisdictions;
- Customized definition drivers for common costs allocation across segments or entities
- Ease of extraction of segmental data for an entity; facilitate internal comparisons
- Scenario analysis capabilities to modify specific input parameters and understanding the impact
- Extraction of backup workings for invoices
- Defining tolerance range to address materiality of adjustments

OTP Advantage



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