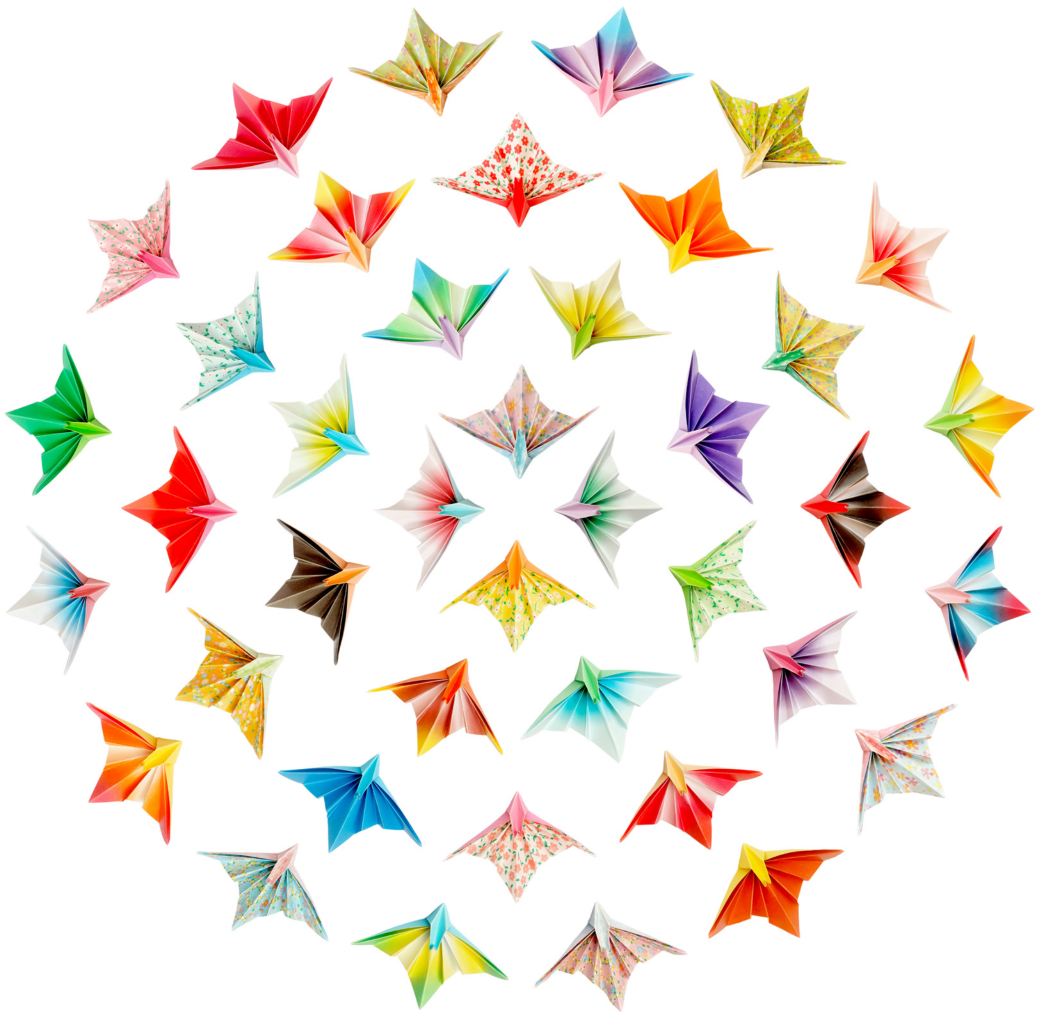


Transfer pricing
for the Family Office

What are the benefits of a transfer pricing analysis?

Family offices are established to provide services that are tailored to the family's needs and desires. While a family office is created to serve one or multiple generations, the goal is to create a business organization that is appropriately compensated for the customized services it delivers to the individuals, entities, or trusts (Clients) related to the family.

The family office is often owned by family members or trusts for the benefit of family members. Given the related party interactions between the family office and the Clients it serves, there is a risk that the Internal Revenue Service ("IRS") could challenge the compensation charged by the family office for the services it provides.

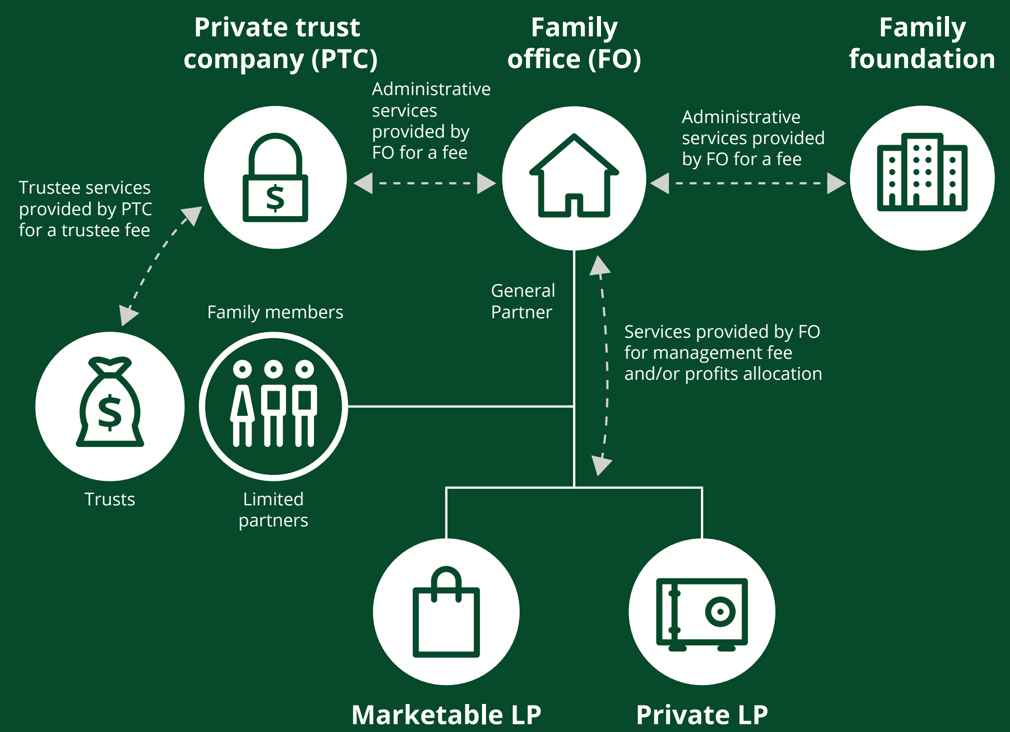
For example, pricing for services provided to family members that is lower than market rates may result in a deemed gift between family members. Alternatively, pricing for services provided to a private foundation or charitable trust that is higher than market rates could be interpreted to be an act of self-dealing, which may result in the imposition of an excise tax. As such, the family office and the Clients it serves are both motivated to determine market-based compensation that is comparable to that charged by an unrelated third party.

The Treasury Regulations under Internal Revenue Codes (IRC) §482 and §6662 govern how to establish and document pricing between taxpayers under common control (controlled service transactions). During an examination, the IRS may request the support and documentation for payments made between related parties. A transfer pricing analysis and supporting documentation can support the pricing charged and mitigate penalties if the IRS successfully challenges the amounts charged. Risk mitigation is the primary benefit of a transfer pricing study based on IRC §482 and §6662 guidance.

What triggers transfer pricing considerations?

Services Provided by a Family Office
Many of the services a family office provides can be analyzed and documented using methods provided in IRC §482, including:

Common Family Office Structures & Arrangements
The diagram below is representative of many family office structures whereby the family office provides accounting, administrative and investment management services to individuals, trusts, entities, and foundations related to the family.



Which method fits your family office?

IRC §482 provides six alternative methods that can be used to benchmark and document transfer pricing for various controlled services transactions. Deloitte can provide guidance to the family office in the selection and application of the best method for the services being provided. Once the right method for a service is determined by the family office, the method should be applied in a consistent and reliable manner.

Comparable Profits Method (CPM)

Evaluates whether the price charged in a controlled services transaction is at arm's length based on measures of profitability derived from uncontrolled taxpayers that have comparable functional and risk profiles. This method compares profitability of the controlled service provider (the family office) to profitability of comparable companies that perform similar services.

Comparable Uncontrolled Service Price Method (CUSP)

Evaluates whether the price charged in a controlled services transaction is at arm's length by comparing it to the price charged in a comparable uncontrolled services transaction for the same services.

Profit Split Methods (PSM)

Evaluates profit allocation between the family office and the Clients based on the notion that income should be shared by related parties by reference to the relative value of each party's contribution.

Cost of Services Plus Method (CSP)

Evaluates the arm's length nature of the price charged in a controlled services transaction by reference to the gross profit mark-up realized in comparable uncontrolled services transactions. This method is often applied if the service provider (the family office) provides the same or similar service to both controlled and uncontrolled parties.

Service Cost Method (SCM)

Evaluates the arm's length nature of the services transactions by reference to the total cost of providing the services, with no mark-up. The service provider needs to meet specific tests to support a zero mark-up pricing arrangement.

Gross Services Margin Method (GSM)

Evaluates whether the price charged in the controlled services transaction is at arm's length by reference to the gross profit margin in comparable uncontrolled transactions involving similar services.

Transfer Pricing: The Steps to Get You There

Deloitte's transfer pricing methodology is based on fact gathering, extensive knowledge of the family office environment, and experience in analyzing related party services arrangements. Our analysis is supported by large databases of market pricing data to benchmark related party compensation practices. This results in a set of actionable recommendations for the family office. We present our fact gathering, analysis, and recommendations in a report which can be used during the IRS audits to provide extensive support for positions taken on the tax return. If the report is prepared contemporaneous to filing the US tax return, it can also provide transfer pricing penalty protection.

Steps

1

Business and Functional Analysis

The first step includes interviews with family office executives who provide beneficial services to family members or to entities controlled by family members. The purpose of the fact gathering step is to understand the services offered by the family office and to whom those services are provided, as well as how the family office is currently compensated for its services. From these discussions, Deloitte will determine the controlled services transactions that will be evaluated through the transfer pricing analysis.

2

Industry Analysis

The second step is to use various public sources to identify and analyze industries, which provide similar services to the ones provided by the family office. This helps to identify the relevant benchmarks.

3

Market Benchmarking

Depending on the services provided by the family office's operations, there may be one or multiple benchmarks. This is determined after the fact gathering stage is concluded.

4

Method Selection

IRC §482 provides six "specified methods" for controlled service transactions. Deloitte will works with the family office to select the best method depending on the service being provided.

5

Documentation

A transfer pricing report will be prepared to summarize the controlled services transactions analyzed, the industry analysis, the benchmarks selected and applied, and the methods ultimately used to determine the pricing for services. The transfer pricing report should be updated every thre to four years, unless the operations of the family office change substantially and/or new services are added.

How can Deloitte help?

Deloitte has been discreetly serving high net worth individuals, families, and their enterprises for more than 100 years. As a trusted advisor to many of the world's most affluent families, family offices and private trust companies, we bring significant experience and integrated service capabilities to our clients. We deliver a global network of resources and a world-class level of knowledge and experience tailored to each family's unique and personal circumstances.

Our experience in this specialized field informs us that clients like you expect service providers to bring to the table a team of professionals with relevant experiences and perspective. One of the valuable benefits we can bring to you is our experience working with clients of similar stature, complexity, and issues. Our goal is to leverage the deep experiences of our professionals to advise you and your family for generations to come.

Whether you are growing or selling your business, considering what assets you want to pass to future generations and charities, or evaluating the creation of a family office, we will share our knowledge and experiences so that you can feel educated and confident in the decisions you make to secure the legacy of your family.

To find a member of the Private Wealth group who specializes in your area of interest, please contact us at **PrivateWealth@deloitte.com**.

Additional tax and wealth planning resources:

- **Private Wealth** — Materials focused on tax and wealth planning issues for individuals, trusts, family offices, and related entities.
- **Deloitte Growth Enterprise Services** — Cross-functional resources specific to privately held and mid-market companies.
- **tax@hand** — Knowledge when you need it. Instantly link to the latest insights from Deloitte Tax on your iPhone, iPad, or Android device.

Available on the App Store

Get it on Google play

- **@DeloitteTax** — Sharing news and insights to keep you in front of tax developments. Follow us on Twitter today.
- **Tax News & Views** — Published by the Deloitte Tax LLP Tax Policy Services group in Washington, D.C., this newsletter provides a compact, reader-friendly perspective on the latest corporate tax developments coming out of Congress, the Internal Revenue Service (IRS), the Department of the Treasury, and the federal courts.
- **Private Companies Dbriefs webcast series** — Webcasts focused on topics of interest to privately held and mid-market companies and their owners.

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