
A practical view of transfer pricing

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INTRODUCTION

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INTRODUCTION

Our time today

- Understand what transfer pricing really means
- Discuss the evolving global regulatory framework
- Provide strategies to align business operations with regulations



What is transfer pricing?

- Any transaction between related parties
 - Ex: tangible goods, services, cost allocations, debt, *intangible assets*
- Almost all jurisdictions adhere to some form of arm's length standard
- The actual prices used by your business to transact with related parties are your “operational” transfer prices
- Global regulations provide the framework and methods to test the arm's length nature of the *results* of a company's transfer prices



Transfer pricing regulatory framework

- U.S. Treasury Regulations 26 CFR § 1.482
- OECD transfer pricing guidelines
- Anti Base Erosion and Profit Shifting initiatives (BEPS)
- Court cases

Transfer pricing regulatory framework

- Trends:
 - Open information sharing creating some parity between tax authorities and taxpayers
 - BEPS action items
 - MAP and Competent Authority
 - Digital economy initiatives – OECD “Pillars” and unilateral approaches
 - Global cooperation for the implementation of transfer pricing regulations

Aligning your business with the regulations

- Your business should dictate the company’s transfer pricing model
 - Top down management or more independent
 - What entity (or entities) should assume the entrepreneurial risk?
 - What function is each entity actually doing and do they have “substance” to do it?
 - Who performs the “high value” functions in the group? Who performs more limited functions?
 - What other needs should be considered? Ex: operational costs, cash, tax optimization



Continue to align your business with the regulations

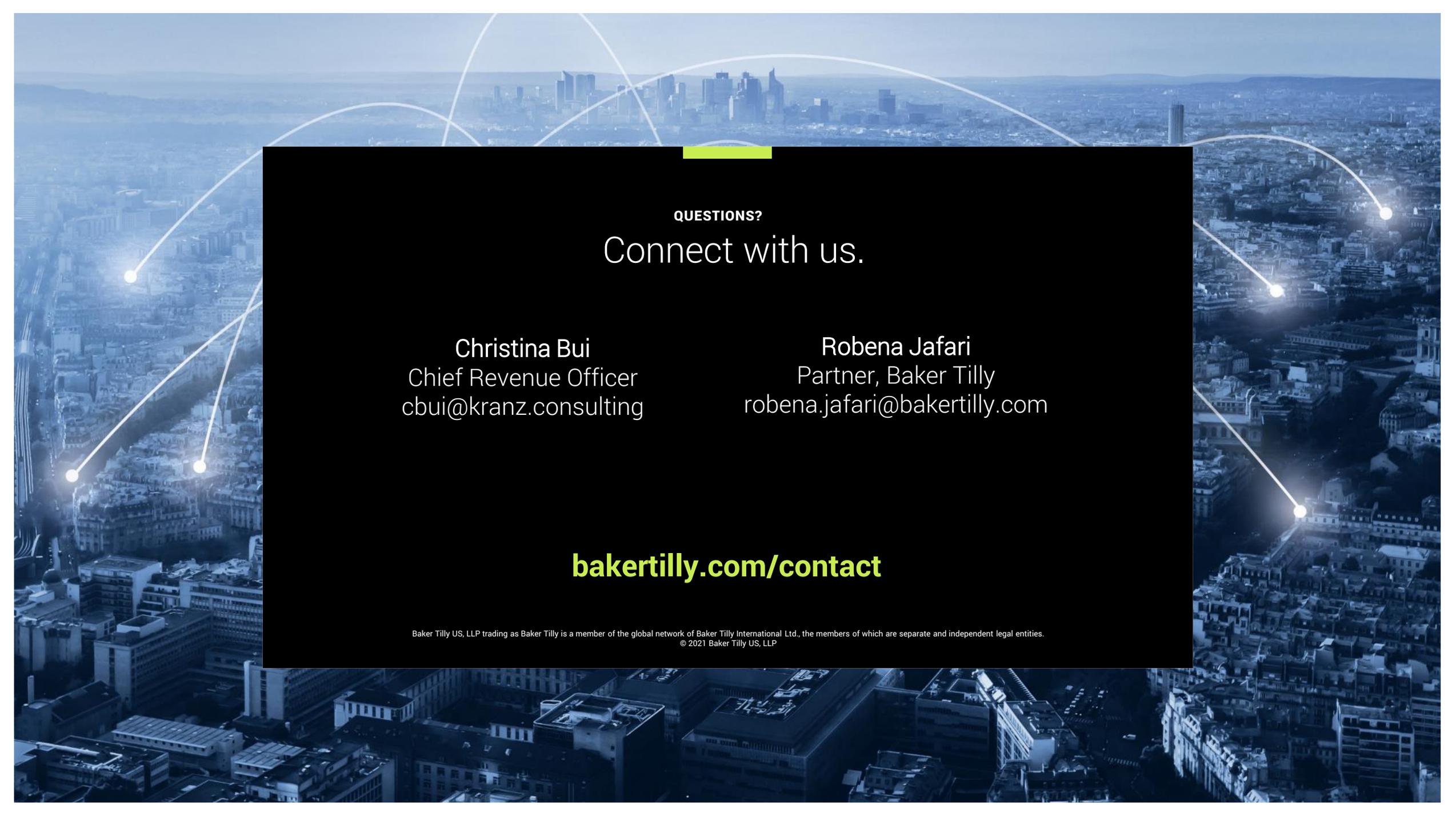
- Principal operating model
 - Global entrepreneur with limited risk affiliates
 - Centralized management of entity profitability through transfer pricing
- Transactional model
 - Each related party transaction tested individually
 - Entrepreneurial risk / reward is spread amongst affiliates

Continue to align your business with the regulations

- Why does transfer pricing matter?
 - Tax compliance (if a material transaction)
 - Managing business operations to ensure income aligns with functions
- Due diligence concerns – having the right transfer pricing model can alleviate issues that might arise during due diligence.
 - Is the Group's IP effectively managed and remunerated
 - Does the current structure give rise to any questions about IP ownership (economic or legal)

Continue to align your business with the regulations

- Best practices
 - Analyze transfer pricing from a global approach
 - Determine the outcome that meets your business needs and implement a transfer pricing model to achieve those results
 - Document your transfer pricing model and results, don't just “benchmark” a result
 - Periodical review your transfer pricing model to make sure its under control and achieving the desired result



QUESTIONS?

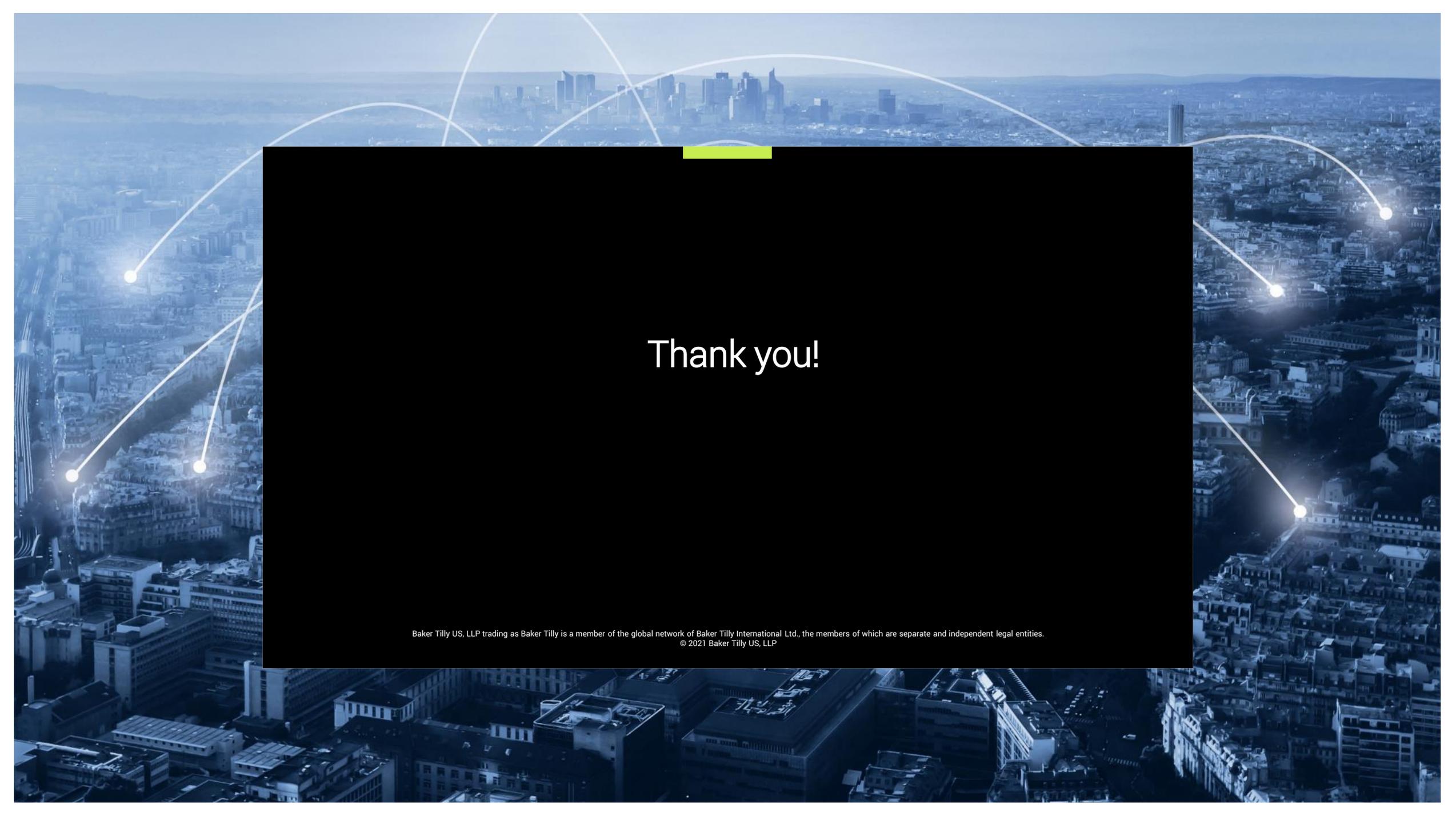
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An aerial view of a city skyline, likely New York City, with a blue color cast. Overlaid on the image are several white, glowing arcs representing a network or data flow. A central black rectangular box contains the text "Thank you!".

Thank you!

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