



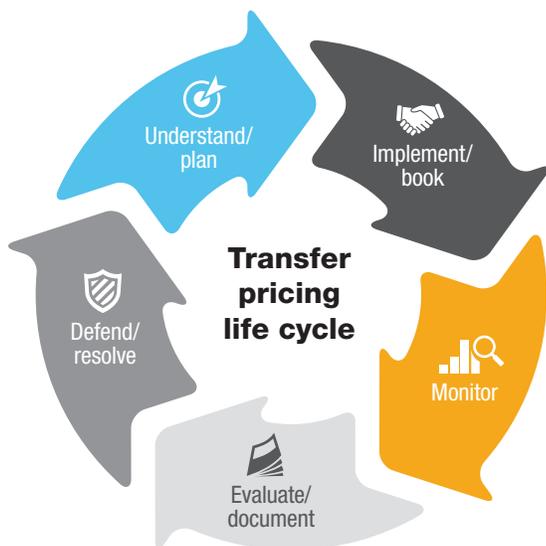
Global Transfer Pricing Services

Supply Chain Structuring,
Strategies, and Compliance

Transfer pricing

Crowe provides a comprehensive range of economic consulting services to assist companies with tax issues arising from transactions between and among controlled parties or unrelated parties located in low-taxation countries. This includes arm's length standard assessments for common intercompany transactions such as:

- Sale and purchase of tangible goods
- License of intangible property rights
- Provision and receipt of services
- Financial transactions (e.g., loans, guarantees, etc.)
- Cost-sharing arrangements



Transfer pricing life cycle and penalties

Transfer pricing-related penalties vary based on jurisdiction, take different forms (e.g., fixed fees or a percentage of underpaid tax), and can be substantial. The transfer pricing life cycle (graphic at left) shows the steps that are generally required to efficiently address regulatory compliance.

Companies should assess intercompany transactions throughout the year. This helps support compliance with transfer pricing guidance and regulations. It also can help organizations respond promptly to changing tax legislation such as the recent U.S. tax reform.

Crowe tailors the scope of our analyses to suit the complexities of each client. Our professionals can help clients establish, implement, monitor, evaluate, document, and defend their transfer pricing policies. Our team works with each client to develop proactive and pragmatic strategies to address the transfer pricing risks resulting from complex tax rules worldwide.

U.S. tax reform

The *Tax Cuts and Jobs Act (TCJA)*, significantly reduced the United States' corporate tax rate. It also included a number of complex international tax and transfer pricing provisions. These new provisions provide incentives to align the economics of a business to be more U.S.-centric. These provisions, however, could also result in additional tax costs when certain operations occur outside of the U.S. This is especially true in lower-tax jurisdictions. Similar to the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) initiative, recent U.S. tax reform focuses on aligning a multinational enterprise's (MNE's) taxes with its business economics.

In particular, three international provisions, foreign derived intangible income (FDII), global intangible low-taxed income (GILTI), and the base erosion anti-abuse tax (BEAT), are expected to have a significant tax impact on companies with both U.S. and non-U.S. operations. Foreign derived intangible income is intended to serve as an incentive to develop intangible property (IP) in the U.S. that is then incorporated and exported by various means. Conversely, global intangible low-taxed income serves as an incremental tax on a foreign subsidiary's profits deemed to arise from IP. The intent is to discourage companies from keeping valuable IP offshore in low-tax jurisdictions.

Finally, base erosion anti-abuse tax, similar to an alternative minimum tax for large corporations, is meant to reduce the erosion of the U.S. tax base through certain tax-deductible payments, such as royalties, made to foreign related parties.

Therefore, given these provisions and a reduction in the U.S. corporate tax rate, MNE's with U.S. operations should evaluate their transfer pricing policies to capitalize on new opportunities as well as mitigate any potential additional taxes or double taxation.

Base erosion and profit shifting final reports and country legislation

In late 2015, the OECD issued its final reports on BEPS. The goal was to harmonize international tax and transfer pricing rules and tax profits where economic value is created. More than 110 countries are implementing these BEPS action items into their local legislation and bilateral tax treaties. In addition, the OECD issued updated transfer pricing guidelines in July 2017 in response to BEPS.

BEPS focuses on risk allocation and recognizing returns for tax purposes consistent with the economic activity of each legal entity generating the returns. MNEs may need to revisit their supply chain structure, transfer pricing policies, and intercompany agreements in light of these developments. BEPS implementation increases transparency to tax authorities but also creates an administrative burden for taxpayers. The BEPS Action 13 recommendations provide a standardized three-tiered approach to the preparation of annual transfer pricing reports:

- **Master file:** The master file provides a high-level blueprint of the MNE group and is now required by many countries, depending on the MNE's revenue or total assets. These thresholds vary and may be based on the corporate group rather than the local entity; therefore, it is important to monitor the requirements to avoid noncompliance.
- **Local file:** The local file supplements the master file and provides a detailed financial and economic analysis of specific intercompany transactions between the local entity and foreign related parties or unrelated parties located in low-taxation countries.
- **Country-by-country report (CbCR):** A CbCR provides a summary of financial statement items, segmented by country, including financial data as well as factual information such as number of employees. The CbCR is typically only required if the consolidated MNE group revenue exceeds a certain threshold, and filing generally is required only in the ultimate parent company's domicile. The BEPS Action Item revenue threshold was EUR 750 million. Thus far, adopting countries have been consistent with this amount in Euros or the functional currency equivalent at enactment of legislation. In some countries, all local resident entities that are part of an MNE group are forced to report information of the ultimate parent company, independently of the consolidated revenue.

Penalties may be assessed if the MNE group fails to prepare any of the required reports.

Transfer pricing services

Our transfer pricing specialists provide the following consulting services:

Strategic planning

- Prepare transfer pricing diagnostic analyses to assess risks and opportunities resulting from existing transfer pricing policies
- Understand the economics of existing or planned supply chains
- Plan efficient and supportable transfer pricing policies
- Evaluate the impact of new and/or proposed transfer pricing guidance or regulations
- Establish global pricing structures for new intercompany transactions
- Prepare and evaluate cost-sharing arrangements
- Prepare applications for advanced pricing agreements
- Evaluate intercompany transactions in connection with TCJA and BEPS action items
- Provide due diligence for mergers and acquisitions transactions

Implementation

- Evaluate or provide suggested language for intercompany agreements
- Recommend transfer pricing policies and compute financial statement adjustments
- Provide accounting systems guidance to effectively manage and report intercompany transactions to adhere to transfer pricing policies

Operational (internal) transfer pricing support

- Prepare documentation of operational transfer pricing policies and processes
- Assist with understanding and documenting internal transfer pricing functions
- Provide guidance and assistance with monitoring legal entity profitability
- Compute adjustments and uncertain tax position reserves for financial reporting
- Assist with aligning transfer pricing policies and tax planning objectives with the economics of supply chains

Compliance

- Evaluate current transfer pricing policies and documentation
- Prepare regulatory-compliant transfer pricing documentation
- Assist with transfer pricing aspects of tax provisions
- Prepare country-by-country reporting
- Prepare regulatory-compliant master files and local files

Audit defense, litigation support, and dispute resolution

- Prepare responses to inquiries from tax authorities, including information requests
- Prepare economic analyses for litigation or audit defense
- Participate in negotiations with local-country tax authorities
- Participate and assist with requests for competent authority assistance to relieve instances of double taxation

Key considerations for choosing

Our client relationship and project management philosophy is to have senior-level team members engaged throughout projects to support quality and deliver a seamless engagement. Crowe provides clients with access to local resources around the world managed by a single point of contact. Our transfer pricing specialists look beyond the immediate project to help create value, assess other potential risks, and identify opportunities for your business.



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