



International tax, transfer pricing, and  
customs risks in a changing environment

# Transfer pricing: Lessons in operational transfer pricing

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PRESENTED BY:  
Travis Ward  
Danny McVeigh



# Presenters



**Travis Ward**

Crowe LLP

International Tax Services Partner  
+1 616 233 5503  
[travis.ward@crowe.com](mailto:travis.ward@crowe.com)



**Danny McVeigh**

Crowe LLP

Transfer Pricing Services Senior Manager  
+1 646 965 5669  
[danny.mcveigh@crowe.com](mailto:danny.mcveigh@crowe.com)

# Disclaimer

The information provided herein is educational in nature and is based on authorities that are subject to change. You should contact your tax adviser regarding application of the information provided to your specific facts and circumstances.

# Introductions and agenda

**1**

Identify operational transfer pricing

**2**

Reference how an organization manages transfer pricing

**3**

Recognize and prepare for the disruption of triggering events

**4**

Examples and deep-dives into operational transfer pricing concepts





# Overview

## What are we referring to when we say operational transfer pricing?

- Beyond compliance, planning, and dispute resolution
- Effective tax rate, cash flow deployment, management reporting, supply chain
- Clients ask, “How do we implement the transfer pricing?”
- Clients comment on the “headache” of dealing with transfer pricing/tax. Why?

## Things to consider:

- Data, system, personnel, process
- What can you control?
- Can you prepare for things you cannot control?

# Transfer pricing in the organization





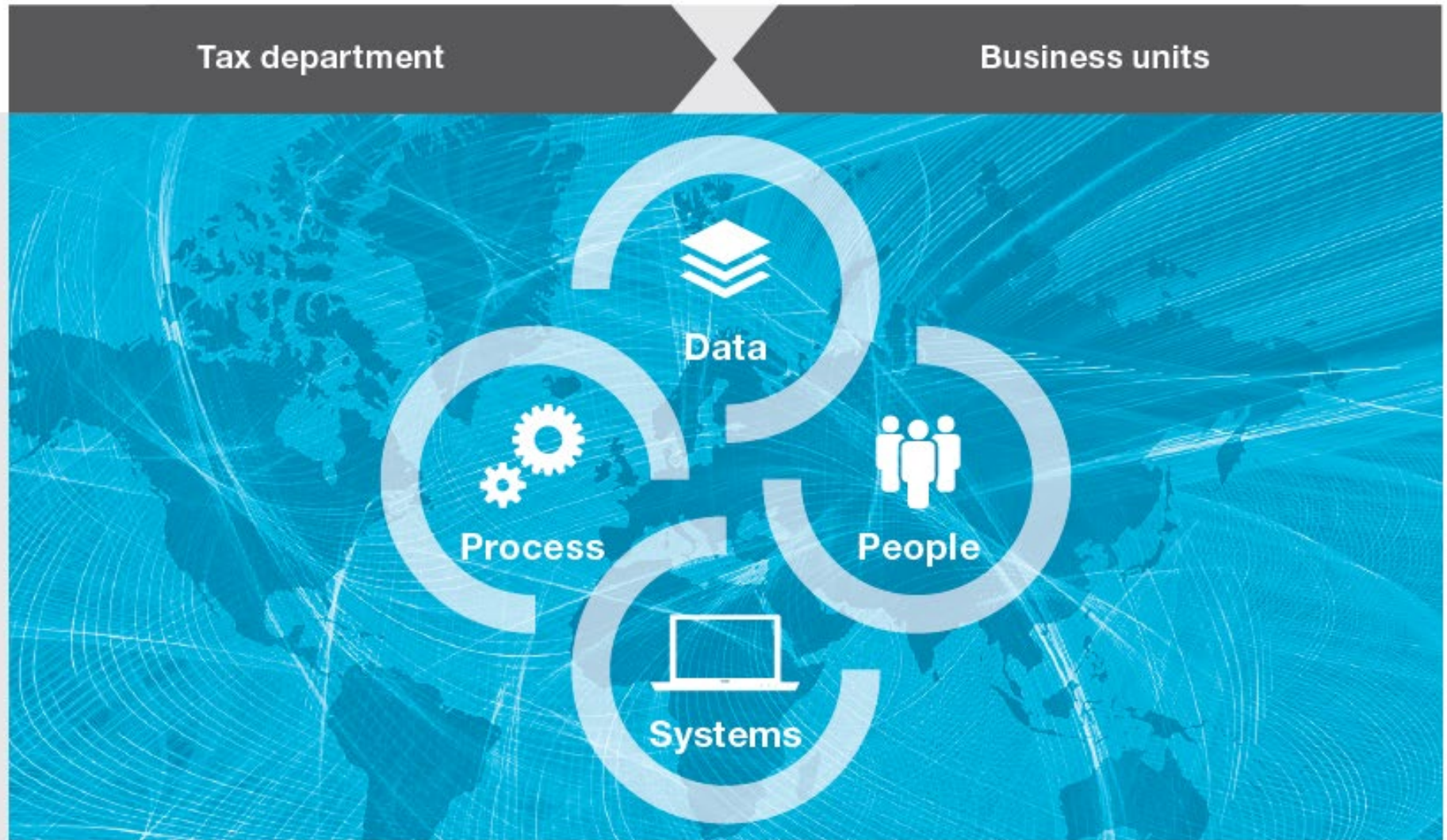
Inputs:	Outputs:	Users:
<ul style="list-style-type: none"> <li>• ERP system data</li> <li>• Pricing data</li> <li>• Local country financial data</li> <li>• Segmented financial data</li> <li>• Production flow data</li> <li>• Invoicing data</li> <li>• Contracting data</li> <li>• R&amp;D data</li> <li>• Customer data</li> <li>• Market data</li> <li>• Supplier data</li> <li>• Supply chain concepts</li> </ul>	<ul style="list-style-type: none"> <li>• Transfer price changes</li> <li>• Debit/credit memos</li> <li>• Customs duties</li> <li>• Inventory pricing</li> <li>• Forecasts</li> <li>• Cash flow management</li> <li>• IP mitigation strategies</li> <li>• Effective tax rate calculations</li> <li>• Debt financing statements</li> <li>• Audited financial statements</li> <li>• Legal agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Executive management</li> <li>• R&amp;D teams</li> <li>• Purchasing</li> <li>• Treasury</li> <li>• Tax and accounting</li> <li>• Transfer pricing team</li> <li>• Finance</li> <li>• Sales teams</li> <li>• Legal</li> <li>• Due diligence teams</li> </ul>

Tax department

Business units

**Triggering events:**

- Key personnel changes
- System/IT changes
- Entity reorganization
- Supply chain reorganization
- Acquisitions
- Mergers
- Divestitures
- IPOs
- Regulatory reform
- Tax legislation



Global supply chain:

R&D

Manufacturing

Distribution

Sales



# Examples



# Examples

## **Example 1: Key personnel change**

- Key takeaways: Where is the institutional knowledge in the organization; how is it transferred to applicable users?

## **Example 2: Acquisitions (TP flows and models; personnel change)**

- Key takeaways: Do you understand the process for implementing transfer prices; are TP models efficient and understood? Have you considered the impact to personnel that M&A activity may have on Tax/TP practices?

## **Example 3: Divestiture (TP modeling; limited resources)**

- Key takeaways: How can TP policies be implemented more efficiently; can you use technology to simplify practices and ensure quality?

## **Example 4: Over-complication**

- Key takeaways: How to find the balance between managing a comprehensive transfer pricing policy, having limited resources, and reducing risk.

# Examples

## Further discussion

- Fiduciary responsibility?
- Measuring the impact of triggering events on the organization – think beyond ETR and cash flow.
- Start with simple questions:
  - Who is responsible for dealing with the transfer pricing?
  - What would happen if we didn't monitor the transfer pricing?

# Responding to change: A deeper dive on practical issues

## **Intercompany agreements**

- What do they say about pricing?
- Termination/exit taxes
- Impact of external events (e.g., COVID)

## **Formal documentation**

- Are documentation reports, master files, and intercompany agreements supporting the same facts and circumstances?
- Do documentation reports show non-arm's length results for a corresponding country?
- Materiality

# Responding to change: A deeper dive on practical issues

## **Tax return adjustments**

- Do they imply that your operational transfer pricing is not effective?
- Double taxation – ETR and cash flow impact?
- Are you prepared for an inquiry from a tax authority?

## **Internal controls**

- Are your internal controls capable of keeping transfer pricing tasks operationally efficient when a triggering event occurs?
- Are internal controls:
  - Specific enough?
  - Followed?
  - Updated?

# Private equity/due diligence

**Buyer:** Ask the right questions, know the exposures

**Seller:** Limit liability and ease the sales process burden

**Post sale:** Changing transfer pricing approaches



# Conclusions

## **What we have learned about transfer pricing in the organization**

- Tax and operations rely on vast institutional knowledge to implement TP models.
- Despite triggering events, tax and business leadership practices must continue.
- Minimize the impact that triggering events pose on the ability to collect and process data in TP models and achieve management's financial goals.
- The processes and systems required to retrieve data and apply concepts in TP models are typically scattered throughout the supply chain.
- Organization of OTP practices minimizes disruptions to business and tax activities, which helps to achieve management's financial goals.
- Technology might be impactful in achieving OTP success.



# Thank you

**Travis Ward**

International Tax Services

Partner

+1 616 233 5503

[travis.ward@crowe.com](mailto:travis.ward@crowe.com)

**Danny McVeigh**

Transfer Pricing Services

Senior Manager

+1 646 965 5669

[danny.mcveigh@crowe.com](mailto:danny.mcveigh@crowe.com)