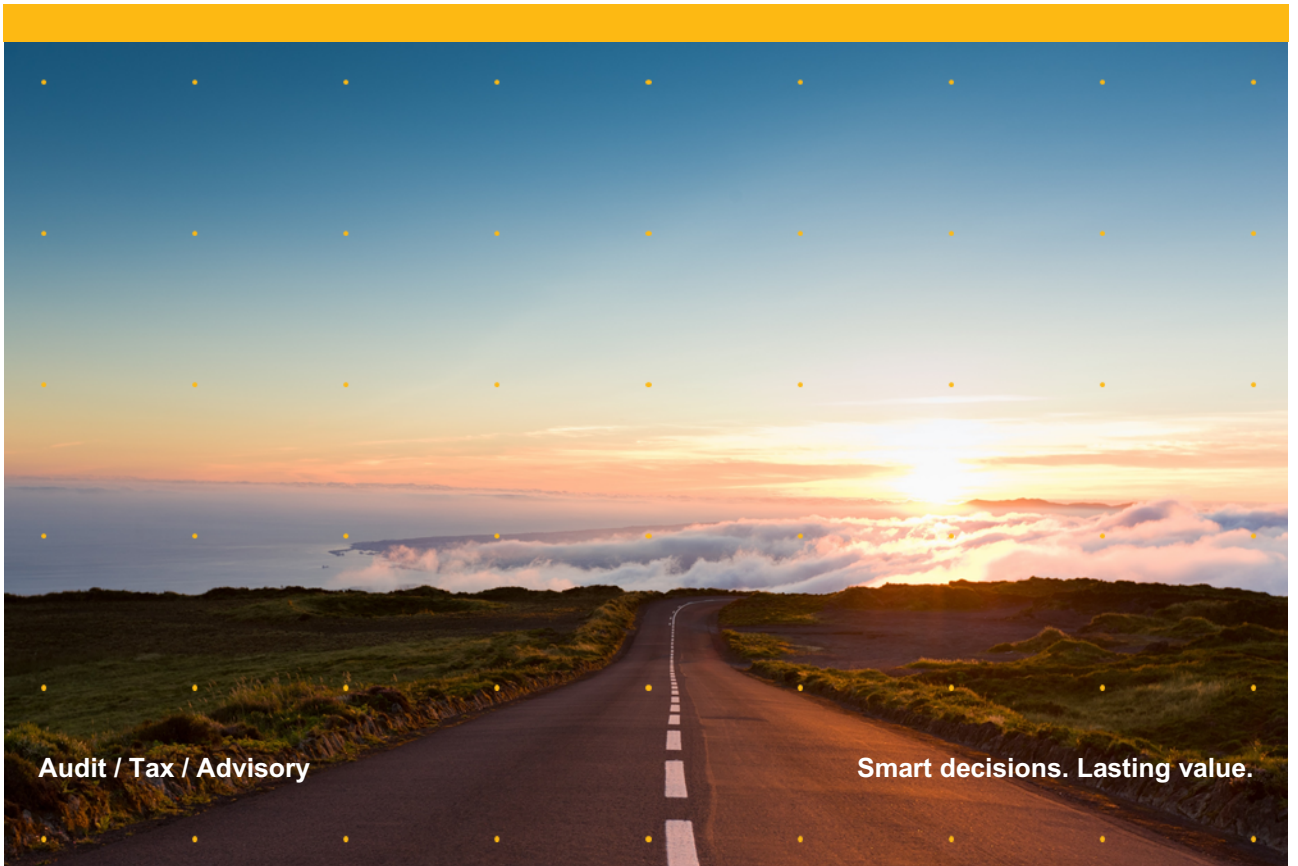




What to know about the impact of COVID19 regarding Transfer Pricing

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Audit / Tax / Advisory

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What to know about the impact of COVID19 regarding Transfer Pricing – Bulletin 4

All, absolutely all the activities on our daily life have been shaken by the presence and accelerated dissemination of the COVID-19. The business world is undoubtedly one of the hardest hits. Faced with the unexpected stop of the economy, markets and consumption, companies are facing a difficult moment, forcing them to design strategies that allow continuous operation while losing as little as possible. The Companies that have resources and provisions protect from moments like the one we are experiencing, will manage to recover faster than the ones that do not have provisions or any contingency plan. The truth is that, with or without plans, these are times when creativity, generation of new business models and adaptation will be essential for the economic reconstruction.

When we talk about transfer pricing, we are basically talking about entailment. Entailment has become more relevant, so much that today, there are different laws and rules that seek its economic certainty.

It is important to consider the appropriate policies when they share similarities in nature, resulting with certain circumstances in the price of the market.

Today, all these concepts are relevant since companies that are part of the same economic group, whether national or multinational, are not

exempt from facing losses emerging from the fight against COVID-19. This is because they are players in the economy field.

For this reason, we will share with you some considerations that must be observed during and after the transfer pricing contingency:

As an entity part of a business group, what are the main business activities that must be observed during the contingency?

All those that are celebrated with related parties, such as: purchase and sale of finished products or raw materials, provision of any type of services, commercial activities such as leases or use and exploitation of intellectual property, among others.

What could be the immediate economic effects to observe?

The immediate effects are related to the business operations such as: decrease in income due to lack of sales, increase in costs for unexpected or emergency costs, stagnant inventories, idle capacities due to work stoppages, personnel costs. Other effects that will be observed are the impact on exchange rates and on the cash flows necessary to pay suppliers and working capital.

• **Should intercompany policies be changed? When? During or after the contingency?**

Events are causing companies to implement strategies that allow them to continue operating with the least possible impact. During the contingency, the recommendation is to monitor the effects in each part of the production process and make adjustments that are considered "urgent" and after activities have resumed normally, the recommendation will be to assess at the group level the changes that are needed within the intercompany policies that are required for the purposes of: i) considering the risks associated with this type of uncontrollable events in the future and ii) adapting the business model based on the state of the current model.

What data is recommended to observe and safeguard for future transfer pricing reviews?

• It is recommended to follow up on time and document all those details considered extraordinary, including quantification, sales decline, number of clients lost, increases in additional expenses and losses in the market share, aspects related to personnel, such as losses or emerging hires

• **When will the effects of the contingency be reflected?**

The financial information for the 2020 financial year will reflect the effects of the contingency and, depending on the results of the entity's structure, the effects could be reflected in a few more years.

Is it valid to have operating losses when you are part of a business group?

Yes. However, the challenge of belonging to and carrying out operations with entities of the same group, is the correct documentation of the operations and compliance with the Arm's Length Principle. Being part of a business group does not mean that you should always win or lose, however, it must be shown that the entity obtained these results given its performance in the market while assuming the inherent risks of it. Given the above.

• The contingency that is experienced today is faced by all kinds of entities, so it will be important to collect and save all the documentation and quantification of the effects by each related party.

