

# 2017 PLAYBOOK



# What are the 2017 trends and topics for transfer pricing?

- Preparing for CbC (Country-by-Country Reporting) under BEPS Action 13.
- Making your business operations BEPS proof and BEPS ready.
- Managing your effective corporate income tax rate, i.e. for both overall profit and loss consolidated results.
- Aggressive tax authorities due to budget deficits.
- Need for control framework, i.e. talk to your business and IT professionals.
- Interplay TP and customs / VAT / sales tax / withholding taxes.
- Special considerations for developing countries.
- Tax authority's high awareness on complex topics, e.g. business restructurings and intangibles.
- Special expertise requested by multinationals: year-end adjustment manuals.
- TP software on 10 different functionalities.
- Treasury and TP implications.

# Who we are & what we do

## Who we are

TPA Global is an independent professional service and solutions partner that serves its client globally through a network of Members and Alliance Partners in over 60 countries.

## How we work

Global Markets are resulting in companies operating cross border with multiple product lines, multiple governance and business models. It is in this complex environment that we thrive. We understand the multiple requirements of multinationals operating in this market. We like to coordinate our project efforts through centrally managing our mandates via our central services platform always operational led by one of our Senior Partners. This Platform manages cross-border and cross-disciplinary teams of professionals and delivers and implements pragmatic solutions for our clients.

## Our solutions

Our solutions range from international tax related services such as Tax Governance, Transfer Pricing and Indirect Taxes, to Merger & Acquisitions support to Operational Performance enhancement services like location selection, supply chain optimization, and more.

**TPA Global provides pragmatic solutions and helps you implement them!**

# Why TPA Global

## Global network, international experience, local expertise

Overseeing multi-country operations? In over 60 countries across the globe, you can have your complex issues resolved by our internationally experienced professionals with comprehensive local knowledge. You no longer need to worry about looking for scattered information. We help you find accurate local information and provide integrated solution that works for your cross boarder operations.

## Pragmatic solution

Experiencing discrepancies between the plan and execution? We provide solutions that actually work.

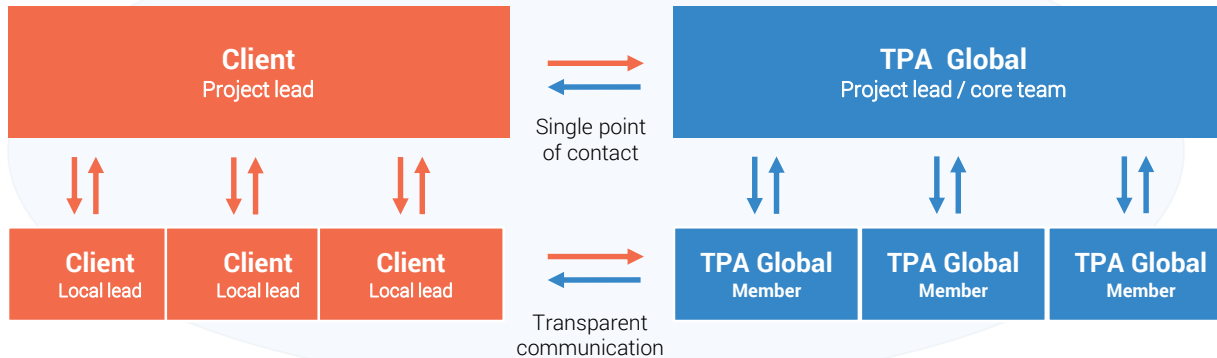
## Central project management, efficient process, high quality deliverables

We ensure everything run smoothly for you. You will have a single point of contact between your project lead and TPA Global's core team. We assemble a multidisciplinary project team tailored to your needs, then centrally coordinate recourses and communications among local experts. All deliverables are supervised and reviewed by our internationally experienced core team lead to make sure the work is integrated with a high quality, and the solution works on both local and global level.

## Open communications

Missing information or discovering crucial information at the last minute? Our agile project team encourages and is built upon open communications. Apart from the frequently scheduled client reporting and feedback sessions, our line is always open for questions and information sharing – not only between your project lead and ours, but also among your local project team and ours. In this way, we can quickly adjust the project in adaptation to real time information. Transparent communications help you avoid unnecessary cost and reduce the risk of failure.

# How we deliver



## Project scope need

- Large number of practice areas and covering countries
- Industry specialists
- Pragmatic solutions implemented

## Global network of experts

- Multi-disciplinary team of experts with both consultancy and industry experience
- Local professionals with in-depth local knowledge

## Project efficiency need

- Effective project execution
- Transparent communication
- Responsive project team
- Automated control framework

## Automated project management process

- Allocation of tasks and responsibilities based on professional competences
- Adaptable project time planning
- Centrally managed project execution

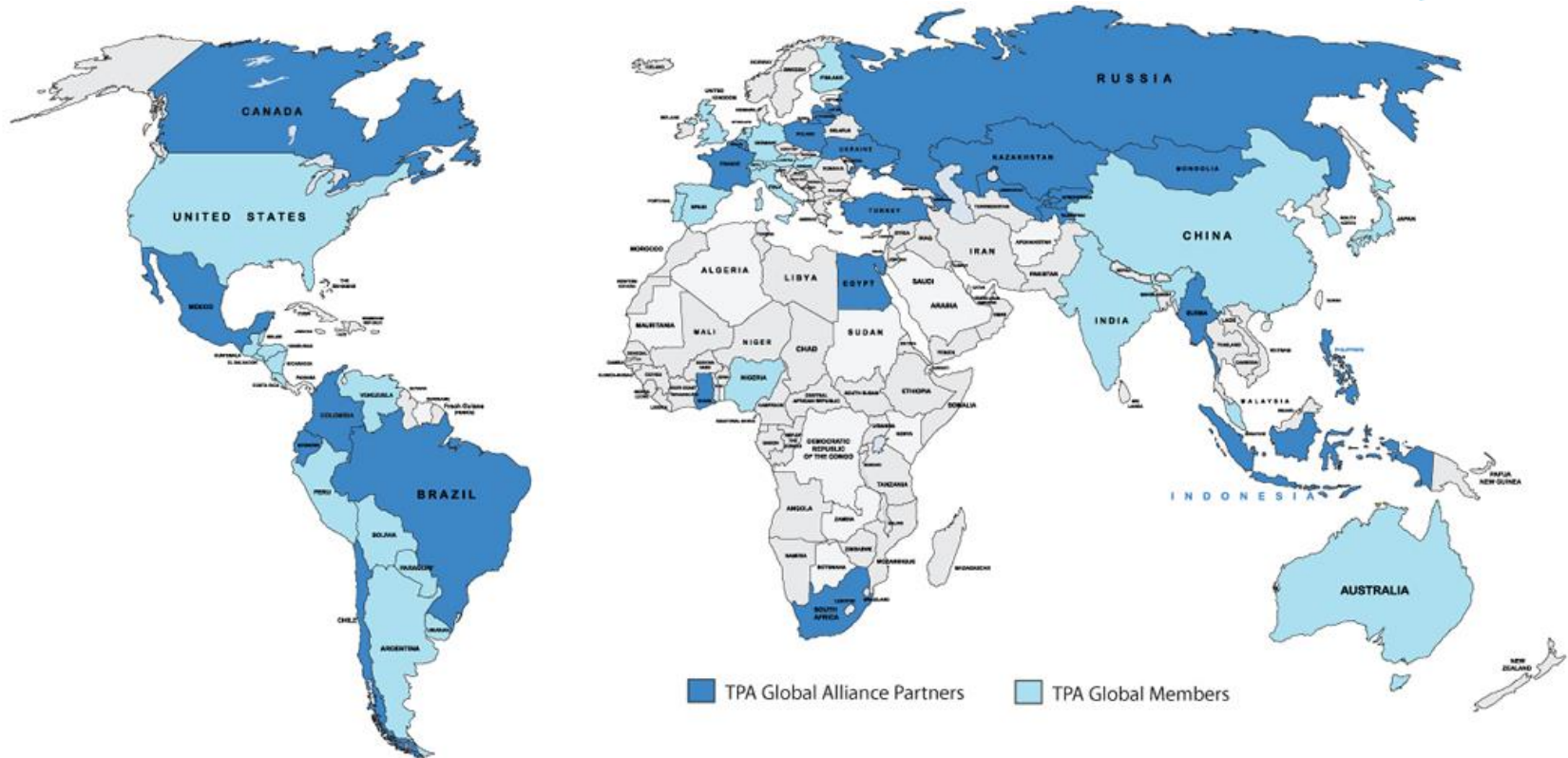
## Quality assurance need

- Accurate and relevant information
- High quality deliverables

## Central quality control

- Selective project members
- Frequent client reporting and feedback
- Senior partner direct input on deliverables

# Where we are – the global network



# Transfer Pricing Associates' solutions

## Organizational "best practices":

Design of Tax / TP system to support your business model – from business in the lead, tax always follows.

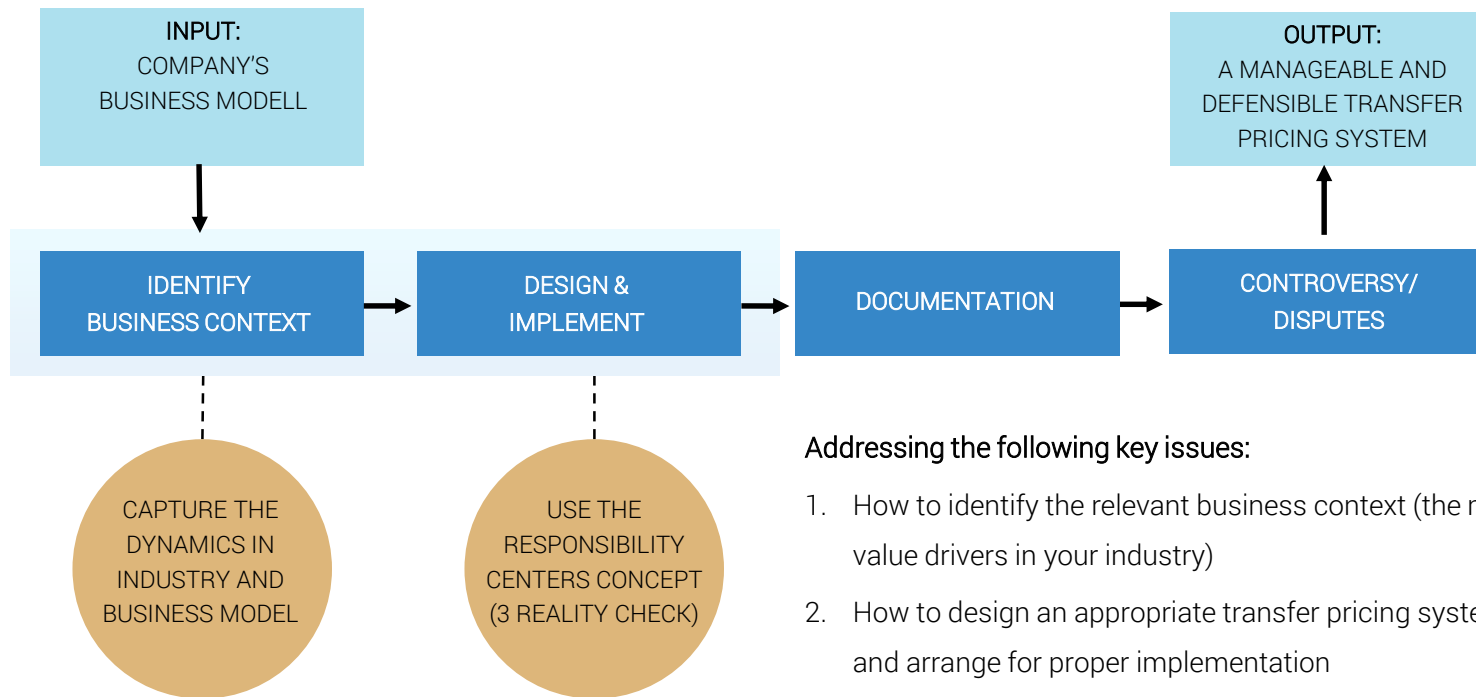
- Implement a Global Tax / TP governance and control framework – from isolation of Tax / TP teams to integration with your business / finance control framework.
- Assess your BEPS readiness on Tax / TP matters in 1 week – from uncertainty to "no surprise" communication.
- Global TP Center (outsourcing model).

## Operational "best practices":

- Set up and run automated:
  1. CbC Reporting.
  2. Global TP master file production.
  3. Global TP Risk management tool.
  4. Global TP control framework.
  5. Global intercompany agreements / reporting.
  6. Global documentation.
  7. Project e-rooms for all intercompany services – from manual to automated and streamlined processes.
- Deliver supply chain solutions by introducing the Single Business Entity (SBE) concept – from enhancing EBIT to mitigation of tax risks.
- Global toolkit for resolving disputes with tax authorities – from thought to finish.
- Valuation solutions.

# How to design your transfer pricing system

The Transfer Pricing Process developed by Transfer Pricing Associates is all about treating transfer pricing and the business risks around it as a business process. The steps in this process are illustrated in the following diagram:



## Addressing the following key issues:

1. How to identify the relevant business context (the main value drivers in your industry)
2. How to design an appropriate transfer pricing system and arrange for proper implementation
3. How to document the transfer pricing system
4. How to manage (pre-) controversy of the transfer pricing system



# How to meet your benchmarking needs

Through a Global Benchmarking Platform (GBP) – high quality benchmarking solutions across every continent

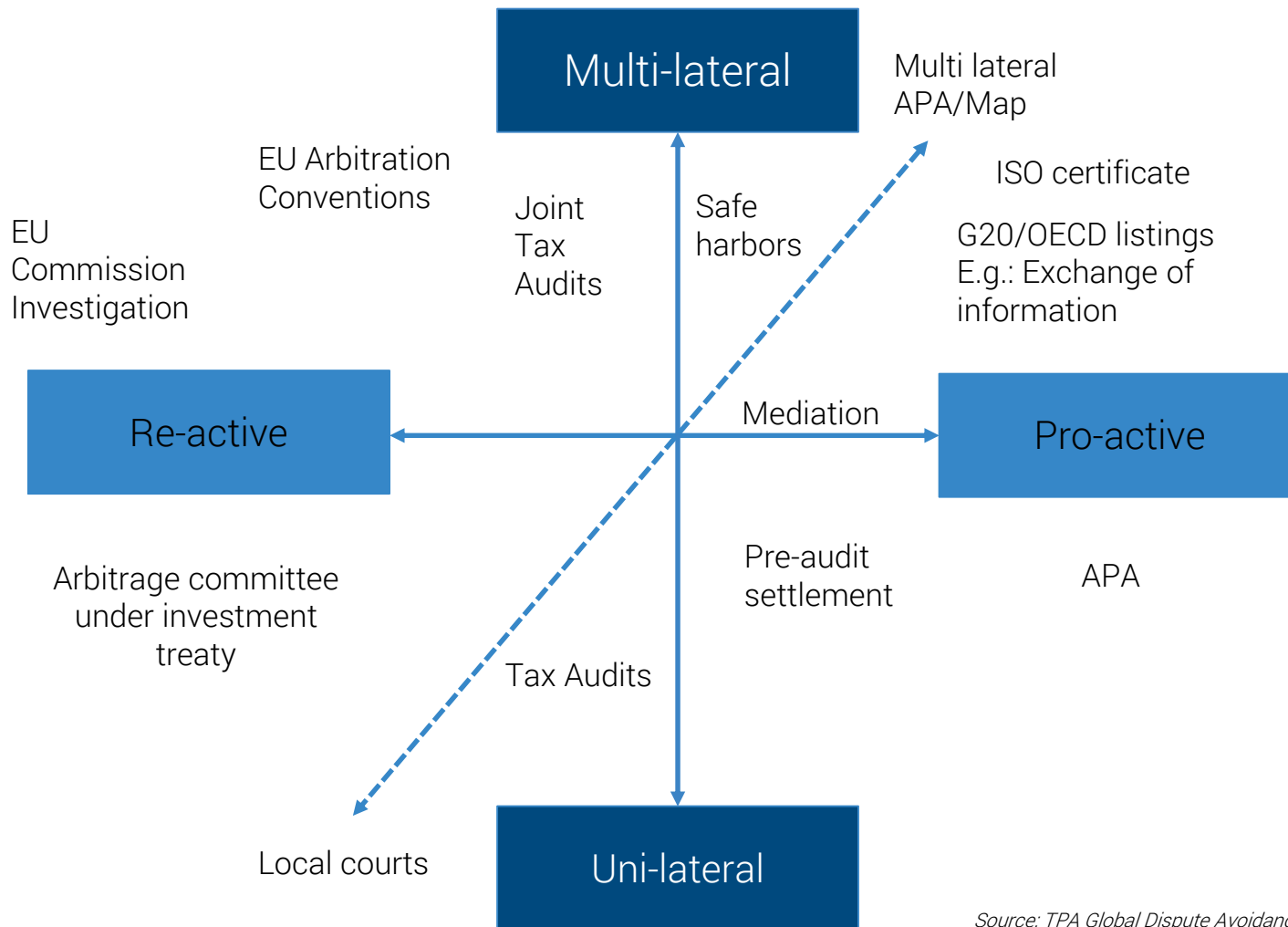
The benefits of a GBP include:

- a. A broad range of databases providing multinationals with access to the most comprehensive benchmark solutions for a particular country, region, or the world.
- b. Follows best practice approach to benchmarking established by Transfer Pricing Associates professionals through many years of experience and constant dialogue with the major stakeholders - the business community, the tax authorities and the OECD.
- c. Highly flexible solution that can be used to support your in-house tax resources or as a fully outsourced benchmarking system.
- d. TPA also provides benchmarking studies to support a range of treasury and financing activities of MNCs and financial institutions, including interest spreads/margins and guarantee fees, utilizing applicable databases such as LoanConnector / DealScan®.
- e. A global group of more than 50 senior benchmarking professionals at your service.

**Addressing the following key issues:**

1. Do you outsource or insource benchmarks?
2. Are benchmarks parts of your TP control framework?
3. What is the frequency of performing benchmarking studies?
4. How do you reconcile regional versus local benchmarks?

# How should business be addressing increased level of disputes? (1/2)



Source: TPA Global Dispute Avoidance and Resolution Matrix

# How should business be addressing increased level of disputes? (2/2)

## A. A value chain analysis after BEPS

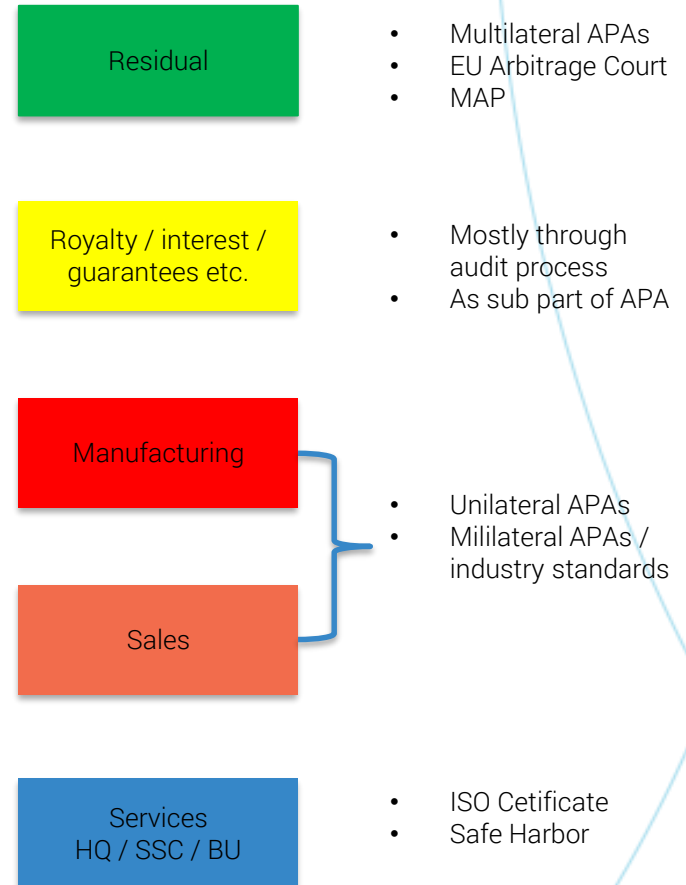


## C. Main questions:

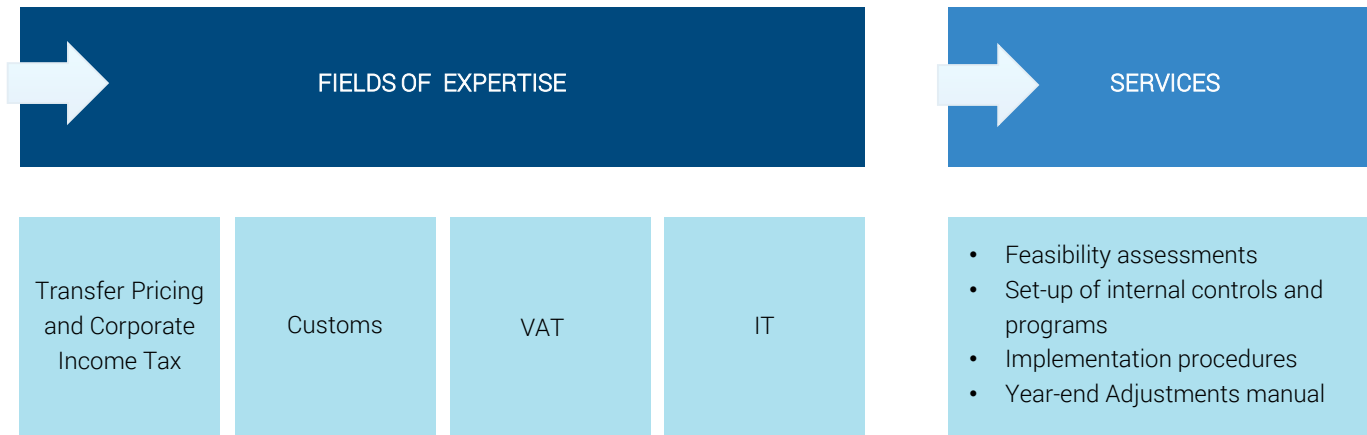
- which disputes to handle?
- which toolbox to use?
- what timing of risk management?
- what professional process to use?

➔ What will be your Global TP risk mitigation strategy?

## B. Dispute avoidance / resolution toolbox



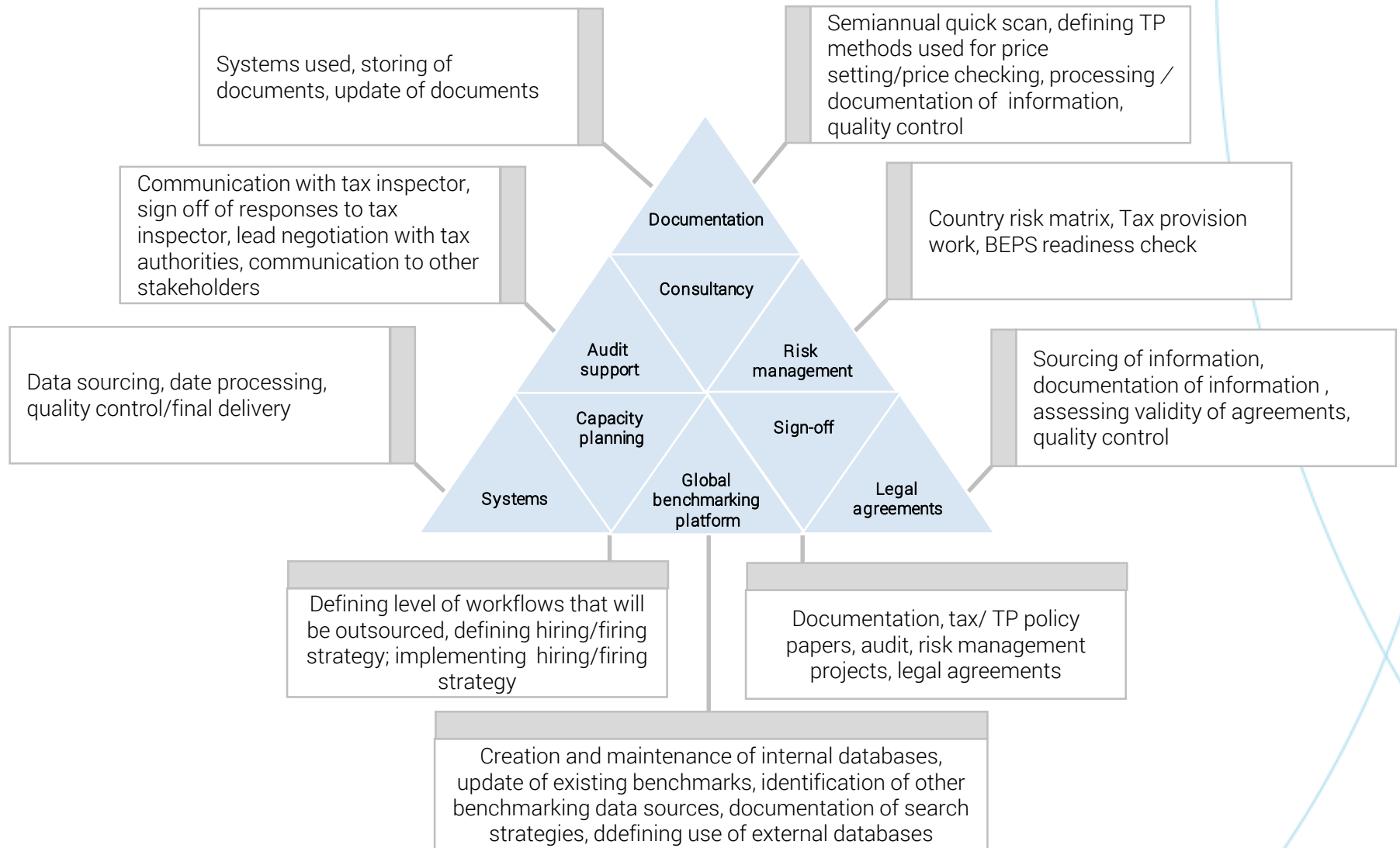
# How to deal with Year-end Price Adjustments



## Addressing the following key issues:

1. How to deal with price / profit adjustments when your financial results depart from targeted arm's length outcomes?
2. How to structure and implement internal procedures and controls to comply with arm's length standard world-wide?
3. How to build an integrated legal and financial framework to address global year-end adjustment challenges from a multiple perspective: corporate tax, transfer pricing, customs duties and VAT?
4. How to align Year-end Adjustment looking at the following 3 perspectives: transfer pricing, customs and VAT?

# Example: Being in control - Nine building blocks of a successful TP function (1/2)

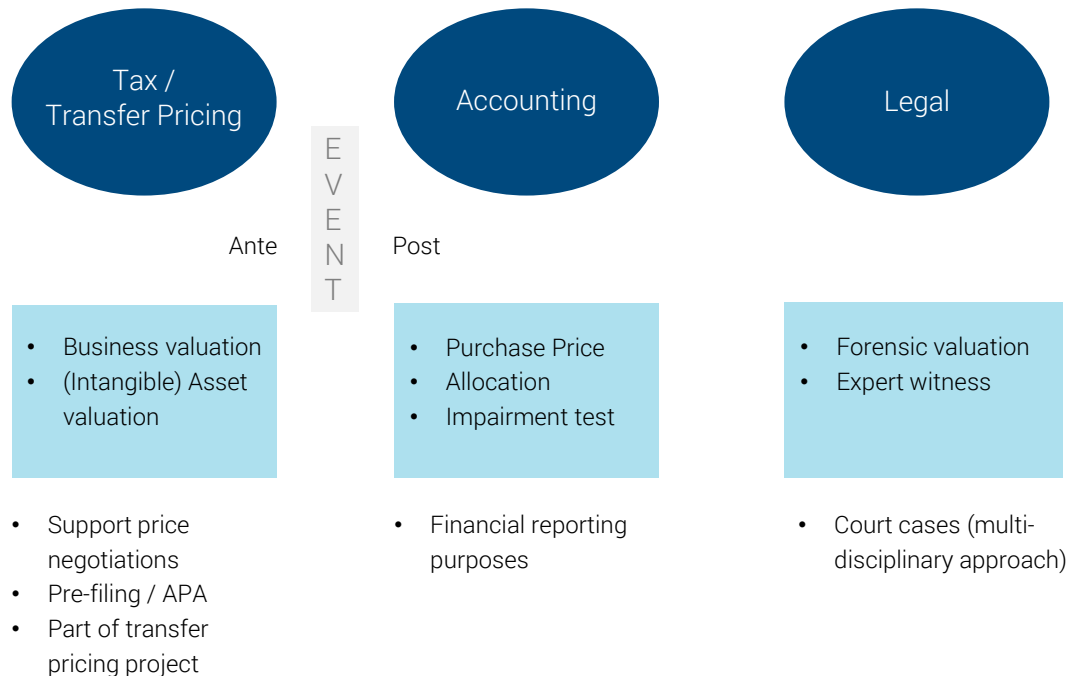


# Example: Being in control – RACI matrix (2/2)

	Head of Tax	Head of TP	Central tax/ finance team	Local tax/ finance team	Legal team	Business team	...
1. Development/maintenance of TP documentation							
2. Consultancy – Advisory and implementation							
3. Audit support							
4. Risk Management							
5. Systems (central data management & retrieval)							
6. Capacity planning – Insource/ outsource							
7. Global benchmarking platform (outsourced to third parties)							
8. Sign-off TP documents							
9. Legal agreements- set up and implementation							

*R (Responsible):* Person who is assigned to perform part or all of the work, *A (Accountable):* Person who has the authority to sign off on the work before it is effective (ONLY ONE PERSON!), *C (Consulted):* Person who provides information or expertise necessary to complete the project, *I (Informed):* person who needs to be notified of results but need not necessary be consulted.

# What Events trigger Valuation?

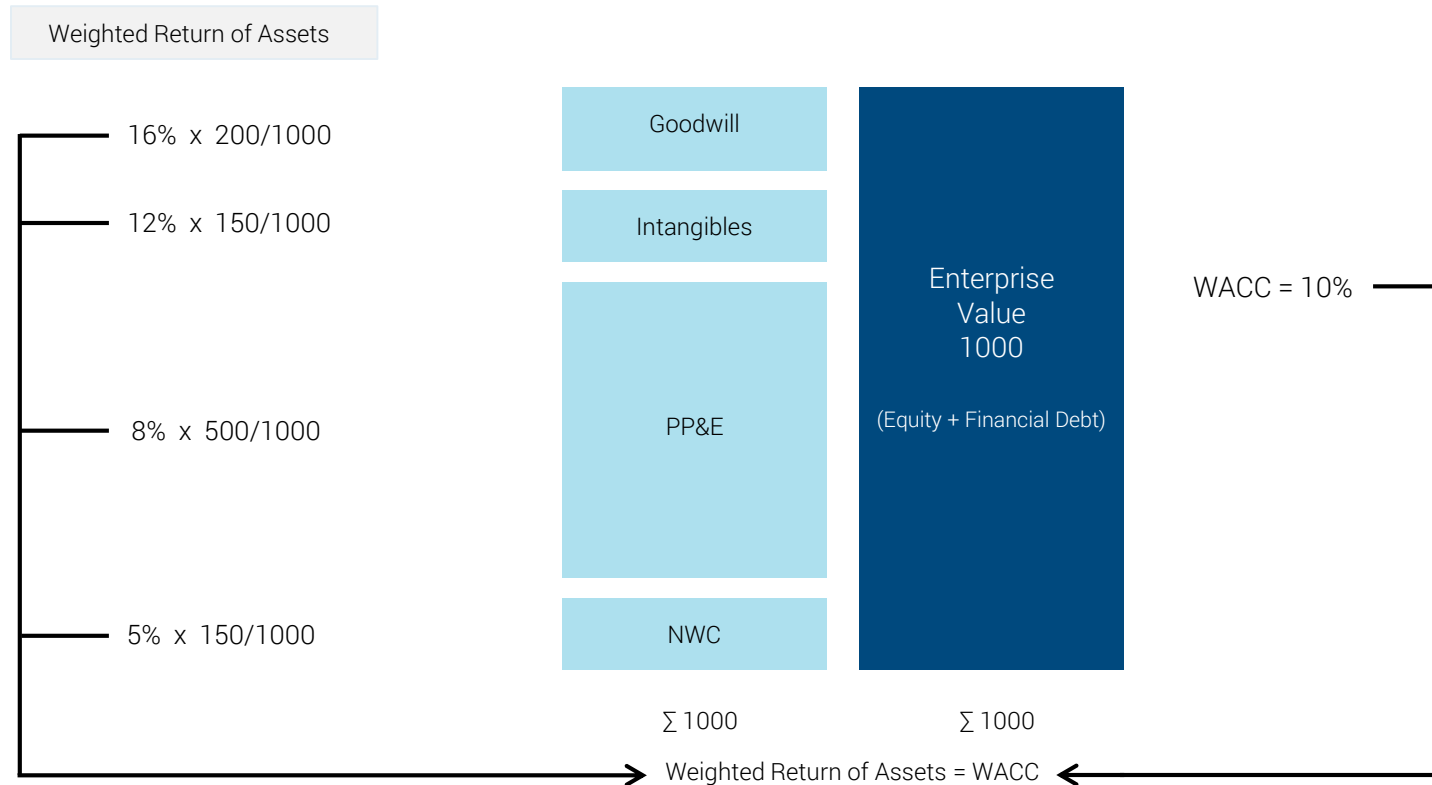


## Addressing the following key issues:

1. What valuation methods to use?
2. How to align valuations from different perspectives (accounting, tax, transfer pricing)?
3. How to use valuations to actively manage intangibles and create value?
4. When does transfer pricing legislation overlap with valuation of intangibles?

# How does your PPA influence your “future state” transfer pricing

In case the definition of intangibles for accounting purposes does not match your definition for tax/transfer pricing purposes.



## Addressing the following key issues:

1. How to treat goodwill from an accounting versus tax/transfer pricing perspective?
2. How to treat “embedded workforce” from both perspectives?
3. How to deal with different ownership concepts?
4. What to do in case goodwill allocation to local group company does not match local earning capacity?



# How to deal with customs planning and risk management

Rules/Risk Factors		Business Model/Risk Factors
Customs Value	Related party tests; Royalties & license fees; R&D; Debit/credits	TP; Royalties; Waivers; Invoices; Declaration process
Classification Duty Rate	Tariff Rules; Form vs. Function; Changes in composition inconsistencies	New product coding; Materials; Formulation Changes
Origin / Preference	Qualification rules; Added value; Direct transport; Direct sale	Origin commitments in pricing negotiations
Reliefs / Drawbacks	Qualification rules; Added value; Direct transport; Direct sale	Process Definition and Awareness
Supply Chain Security	Some specific (e.g. US: C-TPAT and EU: AEO), EU Proposals	Policies and standards practice; IT lead times; Reactivity

## Analyze and Deliver

- Supply chain optimization through customs planning
- Customs compliance and software solutions
- Litigation (classification, custom value, origin and formalities)
- Non-tax measures

### Addressing the following key issues:

1. How to identify strengths/weaknesses against customs rule base and external threats?
2. How to mitigate trade impasses, fines/penalties, seizure of goods, legal proceedings and criminal charges?
3. Do you integrate 3rd party and country considerations e.g. some countries known to act inconsistently with WCO/WTO custom rules?
4. What are your considerations on systems development which can significantly enhance compliance and security

# How to implement and maintain inter-company transactions

## ❑ Through Implementation and Compliance Services

Implement:

(1) an intellectual property policy; (2) calendars for TP documentation and forms; (3) a year-end adjustment manual; (4) a series of intercompany agreement; and (5) managerial aspects of TP systems (e.g. KPIs for bonus) .

Prepare:

(1) Country risk matrix; (2) CUP manual; (3) TP compliance forms on a country-by-country basis; (4) Annual review and update of intercompany agreements; (5) Alignment of “legal reality” with “economic reality” and “financial reality”; (6) RACI matrix; and (7) Customs scan and audit program (e.g. CTPAT & AEO).

## ❑ Through a Software Solution: 10 Functionalities of TP Software

- ✓ Report Writing
- ✓ Consultancy
- ✓ Audit process
- ✓ Tax provisioning
- ✓ Data collection, retrieval & conversion
- ✓ Capacity planner
- ✓ Benchmarking
- ✓ Workflow management
- ✓ Repository for documents
- ✓ Design of TP system

# What VAT implications are transfer pricing related



## Addressing the following key issues:

1. How to optimize the transfer pricing transaction and billing route without any VAT leakage?
2. How to streamline your intra-group logistics and reduce the working capital locked up into VAT positions?
3. What are your major risk areas where you cannot reclaim input VAT or only with significant delays?
4. Are you able to reclaim VAT already paid in case of a year-end adjustment for transfer pricing purposes?

# Where do TP and WHT interact

Through Implementation and Compliance Services

Label	Interest	Royalty	Dividend	Services/Other
Parties	Beneficial Owner Substance			
Ranking	Local Regulations <-> Treaty			
Tax Accounting	Tax Credit <-> Tax cost			

## Addressing the following key issues:

1. Does your TP label also apply for treaty application?
2. How does the WHT crediting option interact with TP analysis?
3. What WHT rates apply, local or treaty?
4. What formalities need to be taken into account?

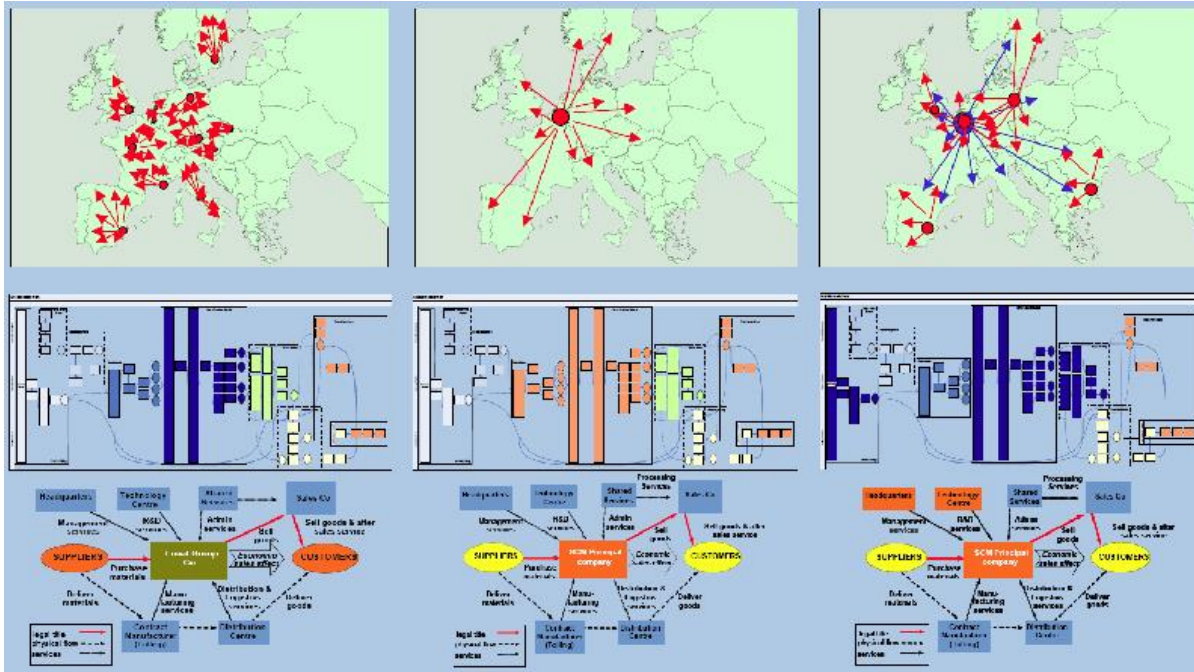
# What are the practical hurdles when dealing with transfer pricing in developing countries

Transfer pricing and related matters: some typical risks and considerations

X = based on TPA Global alliances partner's experience in the last 12 months

Transfer Pricing	Brazil	Russia	India	China
Statutory profit mark-up margins	X	-	-	-
OECD guidelines are not followed	X	X	X	-
Functions/risks not relevant for tp rules	X	-	-	
Secondary tax when actual charge is not made	-	X	-	X
Year end adjustments not allowed	-	-		X
<b>Corporate taxation</b>				
Withholding tax on overseas payments	X	X	X	X
Business tax on services		-	-	X
Thin capitalization	X	-	-	X
<b>Custom Duties</b>				
Potential duties on re-import of finished goods	X	X	X	X
Central excise on goods manufactured		-	X	-
Valuation issues	X	X	X	X
Relatively high import duties / tax audit activity	X	X	X	X
Inconsistency with transfer pricing	X	X	X	X
<b>VAT</b>				
Registration issues	X	X	X	X
VAT refund and leakage	X	-	X	X
<b>Permanent establishment issues</b>				
PE concept not well-defined	X	X	-	-
Various deficiencies from regular approach		-	X	X
<b>Legal, regulatory, foreign exchange</b>				
Authorization industry or business license	X	-	-	X
Exchange control or remittance restrictions	X	-	X	X
Cap on royalty payments	X	-	-	-

# How to determine your supply chain strategy



Through Logistic Planning

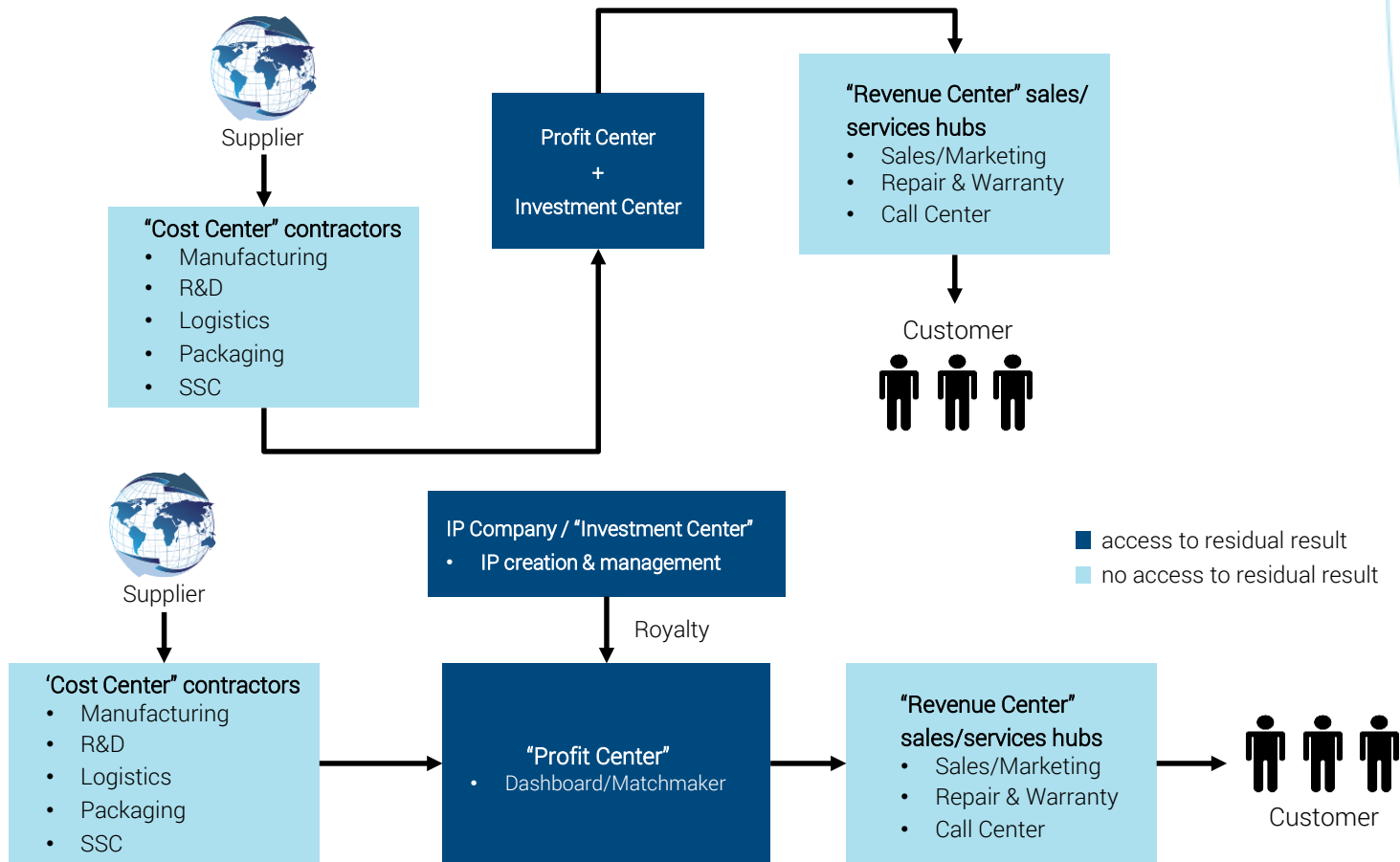
Through Organizational Design

Through Tax/Legal/Transfer Pricing Optimization

## Addressing the following key issues:

1. Which location strategy fits your business?
2. How to align your organizational design with your flow of goods?
3. How to optimize tax implications?
4. How to ensure your tax/legal/transfer pricing optimization are IT embedded solutions?

# How to locate intangibles in your value chain



# How R&D activities lead to ownership of intangibles

Through determining a policy for single versus shared ownership Example: product intangibles

		R&D Costs	
		Centralized	Decentralized
R&D Activities	Centralized	Sole owner	Cost contribution/ Cost sharing
	Decentralized	Sole owner + contract R&D	Cost contribution/ Cost sharing

## Addressing the following key issues:

1. How do you protect your product and process intangibles?
2. What single versus multiple ownership definition do you use?
3. What type of intercompany agreements are in place for R&D activities?
4. How do you deal with geographies transfers of R&D activities?



# How to deal with substance issues for IP companies (1)

Through defining DOs and DON'Ts	
<ul style="list-style-type: none"> <li>Identify key decision makers</li> </ul>	<ul style="list-style-type: none"> <li>Minimize key decision makers</li> </ul>
<ul style="list-style-type: none"> <li>Sufficient physical presence, 'Home base'</li> </ul>	<ul style="list-style-type: none"> <li>Make binding decisions abroad unless proper authorization procedure</li> </ul>
<ul style="list-style-type: none"> <li>Payroll</li> </ul>	<ul style="list-style-type: none"> <li>Split payroll if not consistent with physical presence</li> </ul>
<ul style="list-style-type: none"> <li>On site decision making</li> </ul>	<ul style="list-style-type: none"> <li>Minimize physical presence of key personnel</li> </ul>
	<ul style="list-style-type: none"> <li>Be inconsistent with own policies</li> </ul>

Through appropriate audit trails (paper and digital)	
<ul style="list-style-type: none"> <li>Decision making policy</li> </ul>	<ul style="list-style-type: none"> <li>Minutes of meetings/agenda's</li> </ul>
<ul style="list-style-type: none"> <li>Individual decision making</li> </ul>	<ul style="list-style-type: none"> <li>Negotiations</li> </ul>
<ul style="list-style-type: none"> <li>Agreements</li> </ul>	<ul style="list-style-type: none"> <li>Phone bills</li> </ul>
<ul style="list-style-type: none"> <li>Authority/responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Travel document</li> </ul>
<ul style="list-style-type: none"> <li>Pricing policy</li> </ul>	<ul style="list-style-type: none"> <li>Digital agenda</li> </ul>
<ul style="list-style-type: none"> <li>Activity</li> </ul>	

## Addressing the following key issues:

- How to ensure a critical mass of key decision makers to geographically anchor IP ownership?
- How can IT support or undermine your case?
- How to deal with modern ways of communications and commuting?
- How to manage behavioral aspects?

# How to deal with substance issues for IP companies (2)

## New Chapter 6 of the OECD TP Guidelines 2014

- Arm's length remuneration based on 11 factors reflecting 'economic substance'
  - ✓ 5 functions (development, enhancement, maintenance, protection & exploitation)
  - ✓ 4 risks (development, product obsolescence, infringement & product liability)
  - ✓ Bearing the cost
  - ✓ Cloud of contractual rights

## BEPS Action Item 5

- Substance requirement heightened
  - ✓ Nexus approach

$$\frac{\text{Qualifying Expenditure}}{\text{Overall expenditure incurred to develop IP asset}} \times \text{Overall income from IP} = \text{Income receiving tax benefits}$$

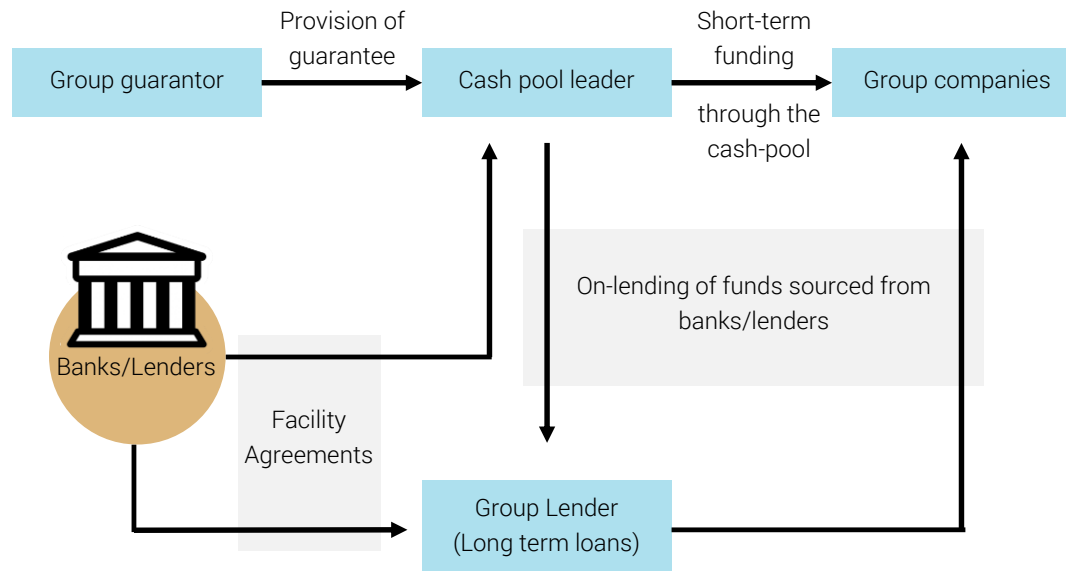
- ✓ TP approach
- ✓ Value creation approach

## Addressing the following key issues:

- How to ensure a critical mass of key decision makers to geographical anchor IP ownership
- How can IT support undermine your case?
- How to deal with modern ways of communications and commuting?
- How to manage behavioral aspects?

# How to deal with your in-house treasury function

Through proper pricing of the following intercompany financial transactions



**Addressing the following key issues:**

1. How to deal with intermediate finance companies?
2. How to determine intercompany guarantee fees?
3. How to allocate the benefit in a group wide cash pool structure?
4. How to price long term loans?

# How to measure and remunerate procurement management functions

Through a function/risk/equity analysis

Company name	Managing Stock Level	Initiating Purchase Orders	Determine Sales Prices	Managing Quality Issues	FTEs Engaged in	Weighting	Relative Weights
A	x	x	x	x	10.5	12	126
B	x	x	-	x	3	7	21
C	x	x	-	x	0.5	6	3
						Value of "B+C" Procurement Team	16%

## Addressing the following key issues:

1. How to remunerate a centralized procurement function?
2. How to distinguish and remunerate headquarters' role versus subsidiaries?
3. Does your centralized purchasing hub employ unique professionals?
4. Does your centralized purchasing hub generate its own intangibles (content/platform)?

# What business model applies to my group captive insurance

Through a function/risk/equity analysis

		First Model	Second Model	Third Model
Criteria	Diversion of risk	No	Yes	Yes
	Captive is making key decisions	No	No	Yes
	Captive possesses adequate capital to absorb insurance and insured risks	No	No	Yes
Outcome of the test	Responsibility of the Captive	N/A	Cost Center	Profit Center
	Typical transfer pricing model	N/A	Cost plus (on Captive's operating expenses)	"CUP" on Premium calculation based on: 1. Risk adjusted return on capital 2. Loss predictions 3. Compensation for the Captive's operating expenses

## Addressing the following key issues:

1. How can I prove that my captive has a key decision role with respect to key policies relating to the self-insurance process?
2. Would a monthly conference call chaired from the captive premises and addressing key policies be enough to state that the captive has a key decision role on those?
3. How can I verify the 'arm's length' nature of our internal methodology used to calculate the premium to be paid by each insured affiliate to the captive?
4. How can I efficiently document the transfer pricing system of my captive having transactions with its 40 plus affiliated companies?



TPA Global provides international businesses with integrated and value-added solutions in improving financial performance, operational efficiency, strategic development and talent coaching through a cross-border and cross-discipline team of professionals which identifies the right solutions for customers and targets; efficient and streamlined advisory and implementation processes which cut through operational complexities across functions and borders; and superior customer service and support which proactively anticipate the evolving needs of the clients.

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