

Transfer Pricing Planning: The Most Underrated Compliance Strategy

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In recent times, transfer pricing has been one of the hottest topics amongst tax authorities as it is an easy route for companies to price their intercompany transactions incorrectly—and to get caught in the process.

That's why transfer pricing planning is so beneficial to organizations. Transfer pricing involves analyzing risks, determining appropriate transfer pricing methods, documenting transactions, and optimizing the allocation of profits and costs among related parties.

Effective planning of transfer pricing enables companies to navigate the complexities of international taxations and strategically allocate profits to jurisdictions with lower tax rates. This minimizes the risk of double taxation. It also facilitates effective cost allocation for research and development, production costs, general and administrative costs, and resource utilization within an organization. Tax authorities worldwide have increased scrutiny on transfer pricing practices to prevent profit shifting and tax evasion. By proactively developing and implementing transfer pricing policies that adhere to local regulations and the arm's length principle, companies can mitigate the risk of penalties, audits, and disputes. There are several other benefits of planning from the outset as opposed to retroactively such as avoiding material true-up adjustments which can be very disruptive and costly, allowing businesses to establish clear guidelines and policies for intercompany transactions and ensuring profitability for each entity involved and avoids imbalances that could impact the overall financial performance for the group. Transfer pricing planning allows companies to provide reliable financial information to stakeholders, regulators as well as to potential stakeholders.

Transfer pricing planning is also crucial for companies with international operations seeking to expand globally. By developing transfer pricing strategies that reflect the value contributed by different entities, intellectual property, and brand contributions, companies can enhance the reliability of benchmarks and reduce the risk of disputes with tax authorities. Transparent and compliant transfer pricing practices can facilitate smooth entry into new markets, attract investors, support partnerships, and promote business growth opportunities.



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Being proactive in transfer pricing planning can help companies from making several common mistakes, such as overly relying on internal data without considering market benchmarks and comparable transactions, which could lead to transfer prices not meeting the arm's length standard. Often companies apply inconsistent transfer pricing methods across different jurisdictions without proper transfer pricing planning, which leads to increased risk in non-compliance.

Transfer pricing has gained significant attention due to the global nature of business, the focus on fair taxation, efforts to combat base erosion and profit shifting, increased transparency requirements, enhanced tax enforcement, and the prevalence of transfer pricing disputes. As governments strive to protect their tax bases and promote fairness in taxation, transfer pricing will continue to be a critical area of focus for both taxpayers and tax authorities.

Turn Tax Data into Business Intelligence

At Exactera, we believe that tax compliance is more than just obligatory documentation. Approached strategically, compliance can be an ongoing tool that reveals valuable insights about a business' performance. Our AI-driven transfer pricing software, revolutionary income tax provision solution, and R&D tax credit services empower tax professionals to go beyond mere data gathering and number crunching. Our analytics home in on how a company's tax position impacts the bottom line. Tax departments that embrace our technology become a value-add part of the business. At Exactera, we turn tax data into business intelligence. Unleash the power of compliance. See how at exactera.com.