



SOLUTIONS FOR TAX PROFESSIONALS AND BUSINESSES
TAX CREDITS • INCENTIVES • COST RECOVERY

TRANSFER PRICING FREQUENTLY ASKED QUESTIONS

IS TRANSFER PRICING ON YOUR AGENDA? OUR
FREQUENTLY ASKED QUESTIONS MAY HELP!

Transfer pricing is defined as the pricing of transactions between separate entities of a multinational company.

While transfer pricing is an important tax issue, many US and foreign clients are unaware of the tax and cash flow benefits of proactive planning. We have compiled a list of frequently asked questions below to provide insights on the fundamentals of US and international cross-border pricing rules. These questions also highlight some practical strategies that companies and their advisors can utilize to assess transfer pricing risks and opportunities.

KBKG SERVICES

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- Transfer Pricing

WHAT IS TRANSFER PRICING?

Transfer pricing regulations govern the intercompany prices of transactions within a multinational company. The cross-border transfer prices of goods, royalties, services, and loans drive how much income tax a multinational company pays by country. Transfer pricing is widely considered the most contentious tax issue for multinational companies, and all companies with cross-border operations have transfer pricing issues.

WHY SHOULD COMPANIES REVIEW TRANSFER PRICING?

Simply stated, tax authorities are concerned about multinationals underpaying taxes through incorrect transfer prices.

- Transfer pricing audits can result in substantial tax and penalties on a global basis.
- Over 100 countries now see transfer pricing enforcement as a top return on investment in auditing resources.
- Transfer pricing impacts a company's global effective tax rate.
- Transfer pricing also affects FDII, GILTI, and BEAT calculations under US tax reform.

We find that many companies can optimize cashflow with a strategic review of transfer prices. Furthermore, US tax reform provides new opportunities to reduce taxes payable through transfer pricing strategies.

WHY IS TRANSFER PRICING THE NUMBER ONE TAX ISSUE FACING MULTATIONALS GLOBALLY?

Companies that do not charge *arm's length* prices are at risk of substantial additional income tax, interest, and nondeductible penalties.

- Tax auditors can raise substantial tax revenues through transfer price adjustments.
- Two (or more) tax authorities can audit the same transactions.
- Companies can face a double taxation problem – if one tax authority makes a transfer pricing adjustment, a company may not necessarily receive a refund on the tax already paid overseas.
- Resolution of transfer pricing audits regularly require five-plus years of management time and resources.



WHAT ARE MY OPTIONS FOR SUPPORTING TRANSFER PRICES?

Under audit, tax authorities in the US and internationally can demand evidence that cross-border prices are charged on an *arm's length* basis.

- Annual transfer pricing documentation reports are prepared to justify intercompany prices to tax authorities under audit.
- A documentation report provides companies their first and best chance to avoid a transfer pricing audit in the first place.
- Depending on company size, many countries require annual transfer pricing documentation.
- For some situations, a transfer pricing benchmarking analysis may be a more cost-effective solution.

We have extensive experience in preparing US Organization for Economic Cooperation and Development Base Erosion and Profit Shifting (OECD/BEPS) transfer pricing documentation. We can also update your existing transfer pricing documentation for annual compliance purposes.

WHAT ARE TRANSFER PRICING RED FLAGS FOR TAX AUTHORITIES?

Subsidiaries that generate minimal profits or incur losses are regularly audited for transfer pricing.

- Tax authorities argue that subsidiaries operating at *arm's-length* would not agree to transact with companies without earning reasonable returns.
- Auditors often reject the argument that poor market conditions, rather than incorrect transfer prices, are the cause of losses.

Conversely, tax auditors of parent companies raise concerns over subsidiary companies generating large profit margins.

- Tax authorities question why companies would effectively shift profits to offshore

companies that have limited functions, assets, and risks.

- Coca-Cola and Facebook are prime examples of companies facing contentious audits, where subsidiaries are earning “too much” profit.

WHAT ARE SOME BEST PRACTICES IN TRANSFER PRICING?

We find that multinational companies employing the following strategies are best placed to optimize transfer pricing:

- Implement intercompany contracts to specify roles, responsibilities, and ownership of intangibles for each country entity.
- Review profit margins and taxes payable on a country-by-country basis for all open tax years.
- Monitor and adjust intercompany prices during the year to avoid surprises at year-end.
- Prepare transfer pricing documentation for high volume, higher-risk transactions.
- Ensure that transfer pricing reports meet the requirements of all tax authorities involved, with a consistent explanation of the business.



WHY CONSIDER KBKG FOR TRANSFER PRICING SERVICES?

KBKG delivers as much, or more, practical transfer pricing expertise as the largest firms but with a focus on tax savings. KBKG delivers time-tested solutions with Alex Martin's 20-plus years of full-time US and international transfer pricing experience. We understand how tax authorities assess transfer pricing issues and mitigate risks accordingly. We also develop transfer pricing strategies to improve company cash flow.

Professional service firms across the US and internationally rely on our transfer pricing expertise to complement their tax and accounting offerings. We offer complimentary group training webinars for your team.

As a tax specialty firm, we serve as your resource: your sounding board for questions all the way up to, and including, high-stakes transfer pricing audit defense.

WHERE CAN I GO FOR ADDITIONAL QUESTIONS?

If companies or CPAs have questions about Transfer Pricing, KBKG's Principal and Practice leader, Alex Martin, is here to assist.

[» Schedule a call now](#)

KBKG also has many resources on our website to help you answer any other questions not listed here.

[» Learn about Transfer Pricing](#)

For additional information, join us for a free webinar on transfer pricing presented by Alex Martin.

[» Register for the Transfer Pricing After Tax Reform Webinar](#)

