



TRANSFER PRICING
PRACTICAL SOLUTIONS.
DELIVERED.

WHY TRANSFER PRICING IS IMPORTANT

When independent parties transact with each other, the conditions of their commercial and financial relations are ordinarily determined by market forces. When associated parties transact with each other, their commercial and financial relations may not be directly affected by external market forces in the same way. Transfer pricing is an agreed framework of principles that seek to recreate the 'arm's length' position between associated parties that would have existed had they been independent. The tax authorities in many countries accept transfer prices only if they are in line with the arm's length principle.

The globalisation of business models and increasing tax authority focus has elevated transfer pricing to a mainstream priority for all companies operating internationally.

Tax authority focus

Many governments have experienced a reduction in tax revenue as economic growth has weakened. Additionally, transfer pricing is often seen by governments as an area of compliance weakness and of potential abuse. As a result, it has been increasingly under the spotlight as tax authorities focus on cross border transactions between associated parties as a means of securing and increasing tax revenue.

The globalisation of business value chain models

In the competitive global economy, companies are always looking at commercial ways to improve the efficiency of their business. This may involve a restructure of the entire international value chain or it may be as simple as establishing a presence in a new country to be closer to suppliers or customers. In either case, differences in the business model adopted could drive very different tax outcomes and transfer pricing will be a critical consideration in both framing and measuring this.

Managing transfer pricing risk

These factors have made it of key importance for businesses to develop supportable transfer pricing policies, suitable documentation and to establish internal review processes to monitor the proper application of these policies. If a tax authority enquires into the cross border transactions of a company, they will expect to see documentation that supports the arm's length nature of the transactions.

A robust transfer pricing policy that is implemented correctly as well as accurate and complete transfer pricing documentation will help minimise tax exposure and improve the chances of a successful defence on audit.

The financial risks of getting transfer pricing wrong can be significant. The number of local compliance obligations is increasing year on year and many tax authorities will take a multiple year approach to an audit. This means that any adjustment will be across a number of financial years, magnifying the potential effect with a corresponding increase in interest on unpaid tax and/or penalty provisions and the potential for double taxation.

It is not just financial risk either. Defending against a transfer pricing audit can be a long and resource intensive process. Getting it right up-front can be a significant cost saving.

WHY BDO

Experienced global team

BDO is among the largest global professional firms and has more than 250 transfer pricing professionals worldwide. This places BDO in a position to provide transfer pricing support to our clients wherever their business takes them.

Exceptional client service

At BDO our experienced professionals adopt a hands on approach with clients in delivering transfer pricing and value chain solutions. This enables BDO to:

- Understand our clients' priorities
- Provide senior level contact to address client concerns
- Address key issues proactively and efficiently

BDO take a phased approach to managing transfer pricing projects to maximise efficiency and the transparency of our engagement.

Practical solutions

We pride ourselves on our ability to work with our clients to develop creative, practical and robust transfer pricing solutions that are 'fit for purpose.' However simple or complex the solutions, we provide pragmatic, practical and clear advice that identifies any tax risks and opportunities to better enable our clients to make informed transfer pricing decisions.

At BDO, the people working with you will be directly overseeing the analysis supporting your transfer pricing. This is essential given local legislation in many jurisdictions is based on the OECD Transfer Pricing Guidelines which have heightened the emphasis placed on the importance of identifying quality third party comparables.

Scalable support

We are able to deliver transfer pricing and value chain projects on a scale tailored to our clients' needs. This ranges from delivering the entire global project, to situations where we work with in-house tax and transfer pricing teams to deliver more discrete support.

OUR SERVICES

Some of the core transfer pricing services we provide are outlined below.

Transfer pricing documentation

Businesses with cross border related party transactions must be able to provide transfer pricing documentation to tax authorities that demonstrates and supports the arm's length nature of relevant cross border transactions. BDO has the global transfer pricing expertise to assist you to develop documentation that complies with local requirements.

Tax efficient value chain management

Businesses frequently look to change their business model to drive customer and shareholder value. Whether setting up in new markets, introducing central procurement, moving production to lower cost countries, relocating senior management or integrating acquisitions, we can help manage resulting transfer pricing risks and the group's tax position in a sustainable way.

Some of the key areas we assist clients address include:

- Potential exit charges, permanent establishment risks and the preservation of tax attributes (eg losses) on the movement of functions, assets and risks
- Identifying and addressing other tax risks including CFC issues, sales taxes and custom duties
- Managing the right level of substance taking into account commercial needs and tax risk
- Setting and defending an arm's length transfer pricing policy with supporting documentation
- Helping our clients embed new policies and effect change
- Advanced Pricing Agreements (APAs).

Dispute resolution

Tax authorities are increasingly challenging the pricing of related party transactions. BDO's transfer pricing professionals can help navigate your company through any such disputes. In the event of an audit or tax authority enquiry, we can help you develop a defensive strategy based on relevant local and international legislation, guidance and practice. Our experienced team is able to communicate and negotiate with tax authorities on your behalf and, where there has been a transfer pricing adjustment, successfully guide you through the Mutual Agreement Procedure under relevant tax treaties and the EU Arbitration Convention to avoid double taxation or to negotiate APAs. Furthermore, we can support you during litigation.

Benchmarking

Transfer pricing documentation must provide economic support that inter-company transactions are being priced on an arm's length basis. BDO has 250 professionals worldwide that can assist you determine the arm's length price or profit margin for your relevant transaction.

We have performed economic analysis for FTSE 100, FTSE 250 and Fortune 1000 companies, and have experience across a broad range of industries.

Other transfer pricing services

Other core transfer pricing services offered by BDO include advice on thin capitalisation and debt pricing, safe harbour exemptions, internationally mobile employees and intellectual property pricing and planning.

BDO FOR THOUGHT LEADERSHIP

Influential

Our global team engages in OECD and tax authority consultation processes and sits on numerous industry and practitioner bodies that feed into the development of key areas of transfer pricing. This puts us at the forefront of transfer pricing policy and technical developments and means we are well placed to advise clients on current and emerging transfer pricing issues. Our global team frequently works together to address key issues associated with updates to OECD Transfer Pricing Guidelines that could have a critical impact on our clients' transfer pricing positions.

Diverse expertise

Our experienced global team comes from a diverse range of technical and professional backgrounds. The team has technical transfer pricing expertise in tax, law, economics, finance and has developed this expertise in a range of professional settings that include professional services, industry and revenue authorities around the world. This strength and diversity of knowledge creates an environment where our team is able to bring fresh thinking and a varied perspective to every transfer pricing project enabling us to deliver creative, robust transfer pricing solutions.

Centre of Excellence

BDO has established a transfer pricing Centre of Excellence, a forum where our global transfer pricing leaders meet to share information, knowledge and ideas. This global exchange of knowledge and ideas means BDO is well placed to deliver effective transfer pricing services to clients around the world.

WHAT OUR CLIENTS SAY ABOUT US

"The project team that BDO provided had a detailed knowledge of transfer pricing and were able to apply that knowledge to the specific needs of the company in a practical and straightforward manner. The team provided us with a proactive approach to the transfer pricing project as well as looking to integrate the transfer pricing project results with other tax work so that the end result provided the company with a consistent model for intercompany transactions for both direct and indirect taxes, as well as providing an administratively simple solution to the issue." LISTED GROUP

"We engaged BDO to provide us with transfer pricing documentation for a complicated set of transactions to support our new organisational structure. They were able to grasp the nature of the business, its structure and provided a detailed tailored report which confirmed the arm's length nature of the financing arrangements." PRIVATELY OWNED CAPITAL EQUIPMENT SUPPLIER

"The transfer pricing documentation prepared by BDO is very comprehensive and I am most impressed with the grasp and summary of our business. BDO provided well tailored advice to fit with our requirements including both the depth needed and the timescale we were working to. Rather than suggesting a purely theoretical route BDO was able to provide a commercially practical solution and to identify wider tax issues of our business in the process." PRIVATELY OWNED MARKETING SERVICES COMPANY

ABOUT BDO

BDO and the BDO international network

1,200

1,204 offices in total

55,000

Nearly 55,000 employees worldwide

US\$6.0BN

Total annual revenue of US\$6.015bn in 2012



CONTACT

Contact your usual BDO adviser or go to our website to find your local transfer pricing leader.

www.bdointernational.com

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