



Developing an operational transfer pricing framework - practical application

The Dbriefs Transfer Pricing series

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9 February 2023

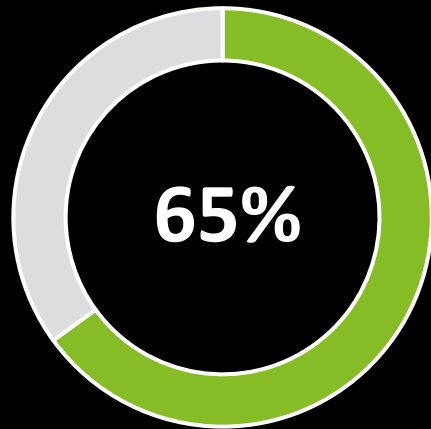
Agenda

- Current transfer pricing landscape
- Operational transfer pricing and understanding the key frameworks involved
- OTP case study: data management
- OTP case study: advanced implementation of transfer pricing policies
- Questions and answers

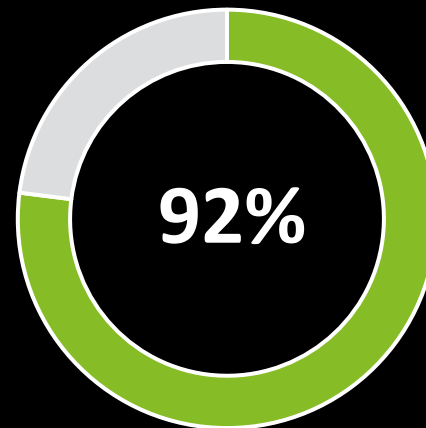
The current transfer pricing landscape

Operational transfer pricing and technology as strategic priority

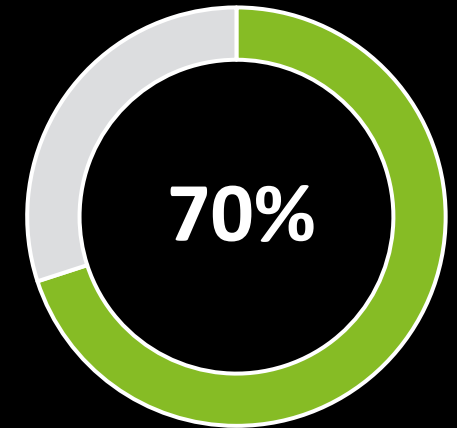
Tax leaders expect increased demand for tax advisory support from the tax function in relation to **Digital Business Models**



Tax leaders believe that **shifting revenue authority demands on digital tax administration will have a moderate or high impact** on tax operations and resources

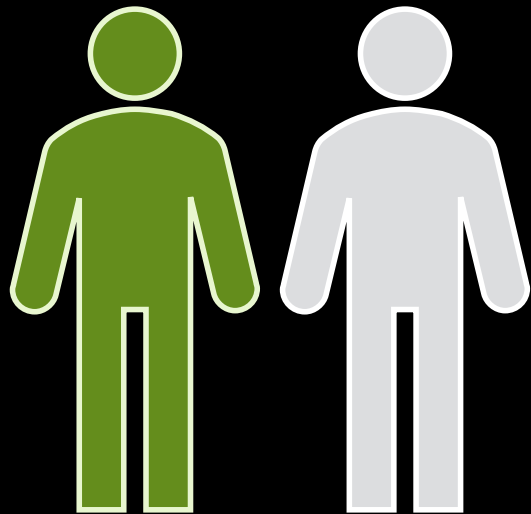


Tax leaders expect revenue authorities to **gain more direct access to their systems** over the next 3-5 years



The current transfer pricing landscape

Operational transfer pricing and technology as strategic priority(Cont'd)



About 1 in every 2 Tax leaders believe that operational transfer pricing is the priority in their tax practice. OTP will be their main driver of their investment for the next 3 – 5 years.

Polling question 1

How do you view your digital transformation journey?

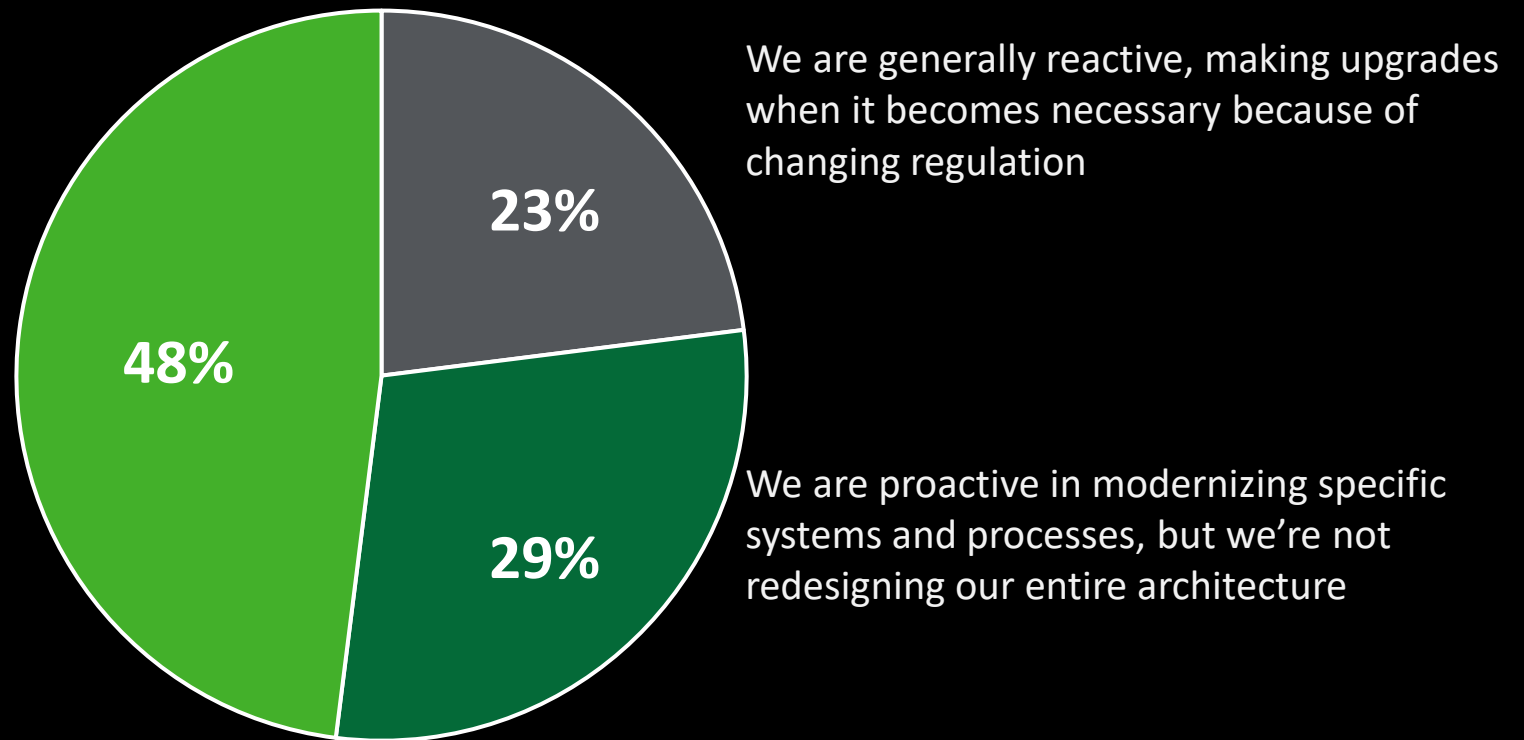
- Immediate priority
- A priority in 2-3 years
- A priority in 3-5 years
- Not a priority

The current transfer pricing landscape

Operational transfer pricing and technology as strategic priority(Cont'd)

In the tax transformation survey, about 48% of tax leaders take proactive steps in digitalization of tax processes. 29% take proactive steps in modernizing specific systems and process

Breakdown of respondents



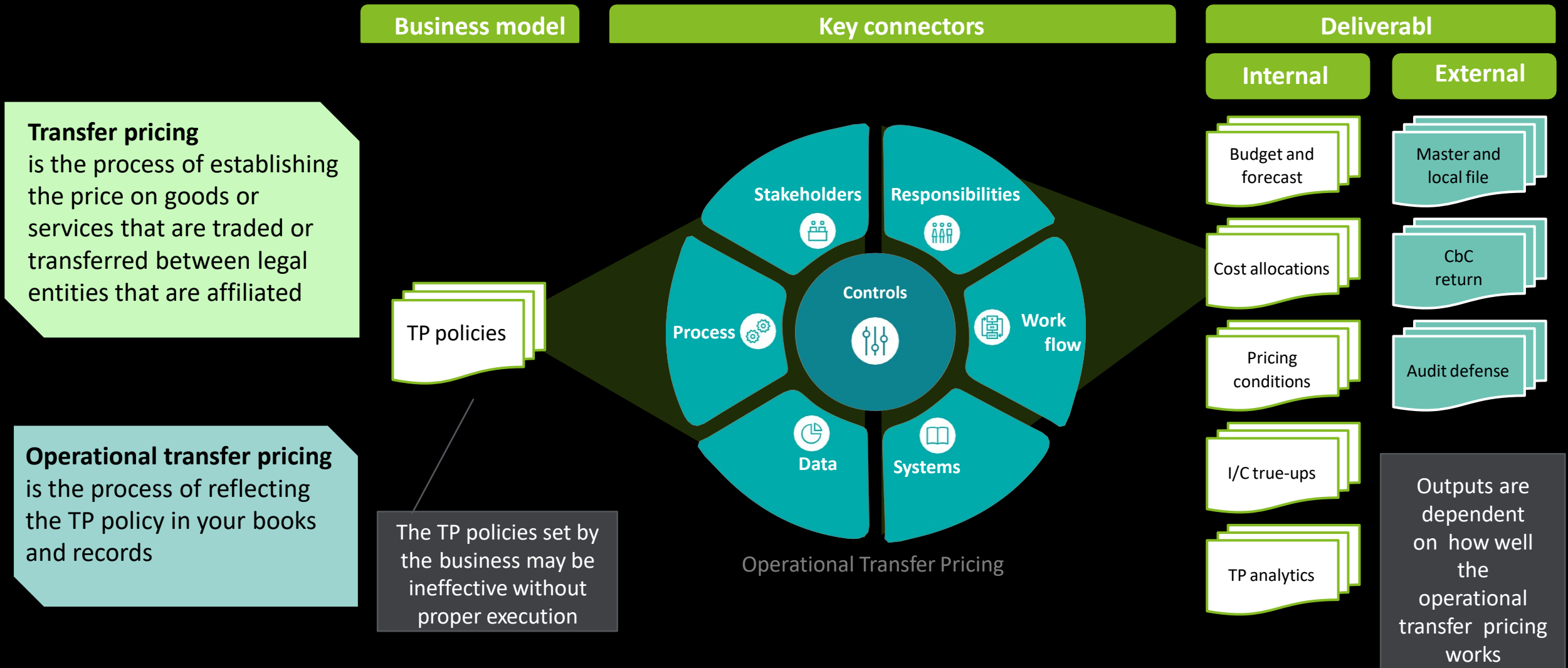
We take a proactive approach, focused on redesigning and digitalizing our entire architecture

We are generally reactive, making upgrades when it becomes necessary because of changing regulation

We are proactive in modernizing specific systems and processes, but we're not redesigning our entire architecture

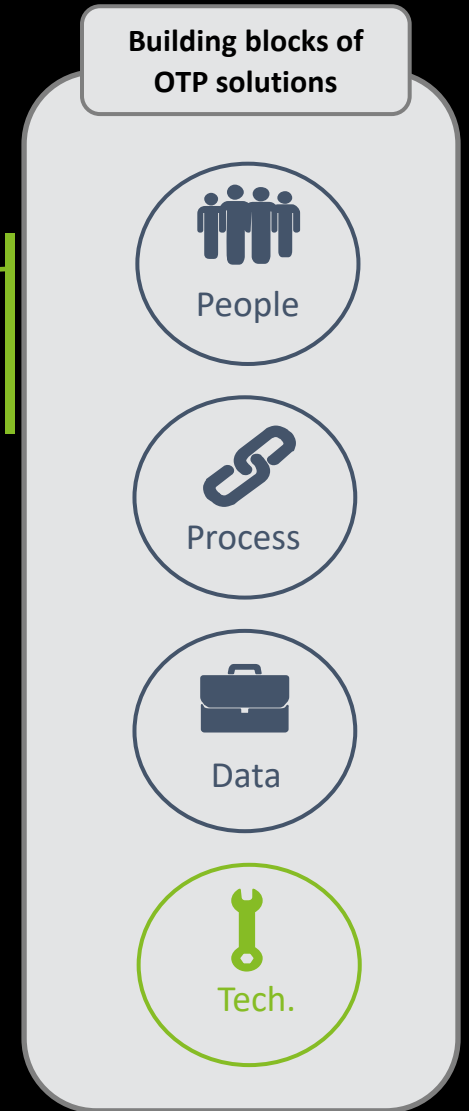
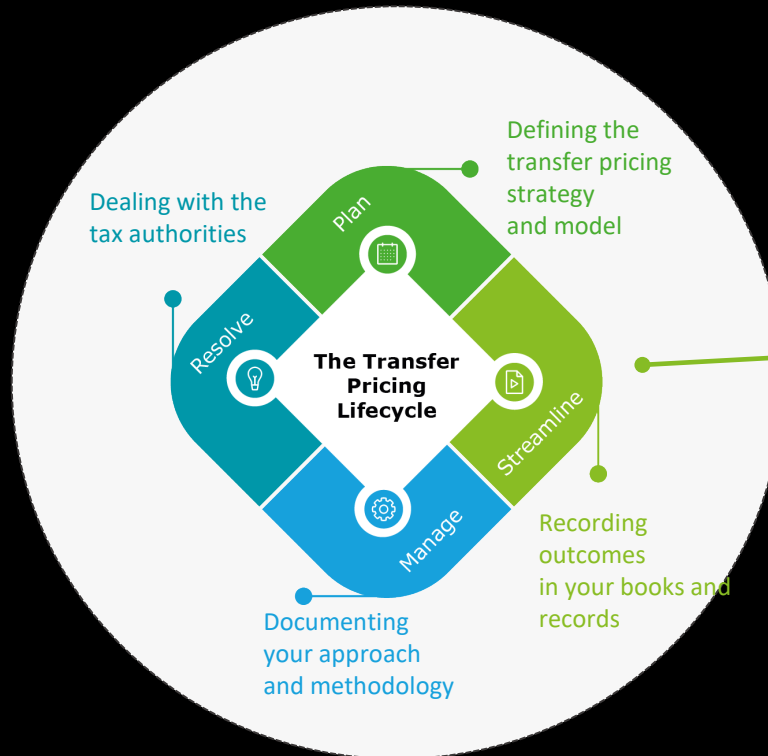
Operational transfer pricing – understanding key frameworks involved

What is operational transfer pricing



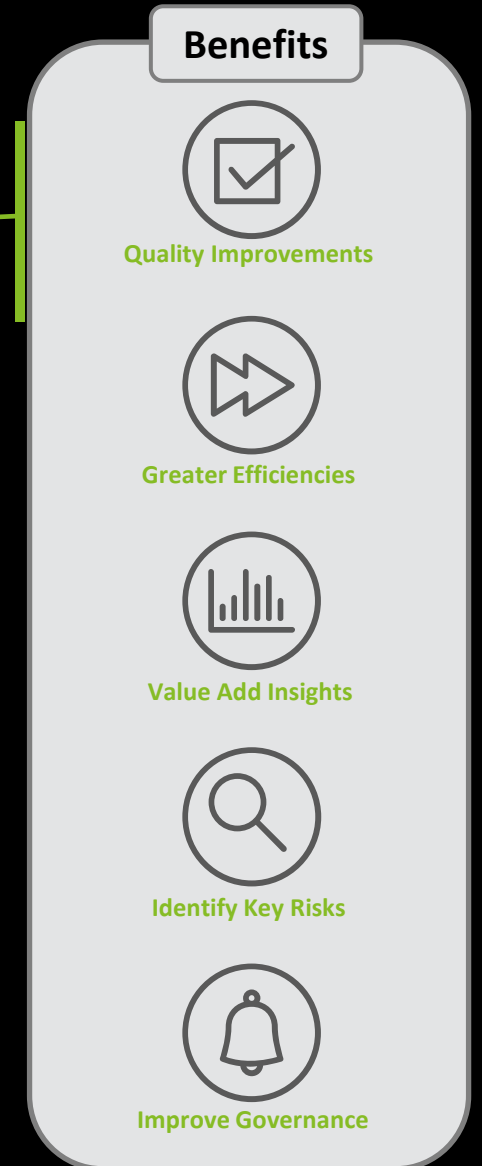
Let's take a step back: a framework for considering OTP

- A traditional view of OTP is to start with the **TP Lifecycle**
- OTP has always had a place in the **Streamline** part of the lifecycle, with the objective of 'getting the TP policy right in the books'
- However, there are **core building blocks** of an OTP solution which are arguably fundamental across any task within the TP function

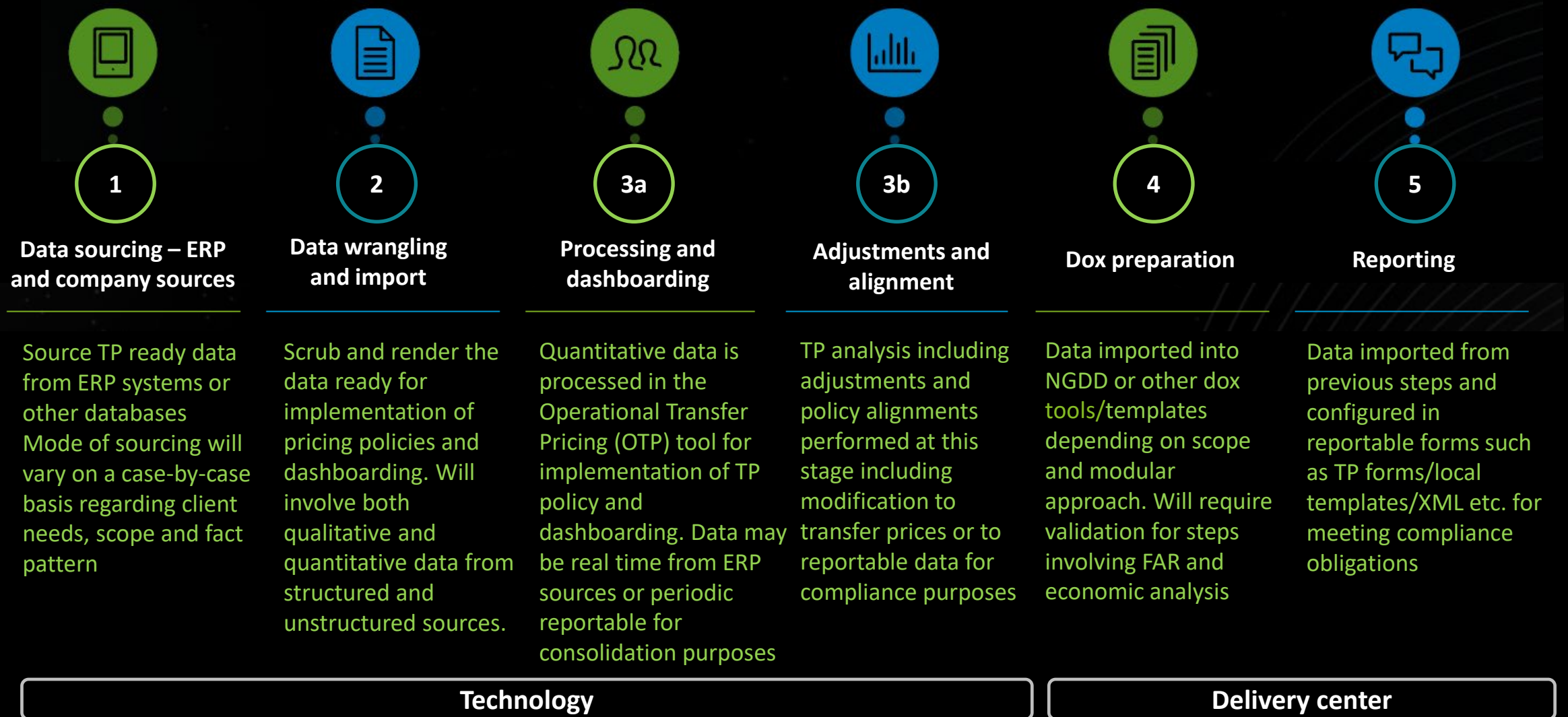


A framework for considering when to make a change

- Any change in **people**, **process**, and **data** should result in an improvement to a given task, and these can look like some, or all of the **benefits** shown here for example
- The more benefits that are identified, the stronger the **business case** for change
- This may be where the **technology** (or a change in technology), can be thought of as an **enabler** for change, and how you will be able to realise the benefits



TP operate value chain



Polling question 2

What are the biggest pain points in your organisation's current process? (Please select all that apply)

- Data management
- Audit trail/controls
- Visibility on computation and allocation keys
- Processes are too manual/time-consuming
- Processes are not standardized globally
- Tools not fit purpose

OTP Case Study 1

Data management

TP case study 1: data management implementation

Overview of the use case



Engagement summary

- When it came to data management of the client, the usual steps involving data (**e.g., capturing, classifying, and calculating**) were present, however the process executed to manage its data was decentralised and inconsistently applied, relying heavily on non-standardised Excel processes

Key challenges

- Multiple local teams managing TP policy for multiple affiliate companies in multiple territories
- Lack of centralized monitoring of actual TP policy implementation
- Multiple data sources with non-standardised data requirements and formats
- Lack of standardization in classifying costs i.e., "Local", "ROHQ", and "excluded"
- Lack of automation to monitor, adjust, and report on a timely basis
- Data not readily available for analysis, decision-making, and reporting throughout the year. Quarterly analysis conducted presently

Client priorities

1. **Centralised data management** – currently central team spending excessive time reviewing data and addressing issues in piece-meal
2. **Consistency and standardisation** – lack of standard led to difficulties in implementing TP policy, especially when faced with unforeseen challenges (e.g., COVID)
3. **No significant budget** – there was a **potential change of reporting systems on the horizon**. As such, only a **quick interim solution** was needed

Solutions

1. Design and create simple centralized Excel interface using in-built macros to automate manual tasks
2. POWER BI data visualization to ensure more accessible data

Quick win

- Data could be centrally sourced in a consistent manner
- Increased data quality/reliability due to consistent application
- Data cycle was reduced by several weeks allowing better cashflow controls and managing incremental TP adjustments. Close to real time data
- Centralisation allows more robust internal controls to be implemented

TP case study 1: TP data management

Where to from here?

- **Examples of areas we had to manage**

- There is a need to build processes around the current solution, which is still a manual process, such as sourcing/importing the data
- Limits to analysis and visualisation
- Scalability
- The interim solution cannot track any changes to classification rules that might occur, or manual edits in the output (i.e., traceability to source data)
- Local team implementation

- **What are future steps?**

- Although the current solution solves areas of inconsistencies from a decentralised and non-standardised data management system, there are still inefficiencies due to the manual process done. Therefore, **an end-to-end OTP solution** is being considered to establish scalable and repeatable processes and reduce duplication that arise from manual processes

OTP Case Study 2

Advanced implementation of transfer pricing policies

OTP Case Study 2

Advanced implementation of transfer pricing policies

TP case study 2: advanced implementation

Overview of the use case

Engagement summary

There was a strong need to consolidate, streamline, and automate the computation of the Client's intercompany transactions including sale of goods, provision of services, allocation of shared costs across its group entities operating in a multiple jurisdictions. The requirements included cost identification, setting up of allocation keys, sourcing data from existing platform / different functions, setting price monitoring mechanism.

Challenges

- RHQ structure involving multiple cross charges [HQ-RHQ-entity]
- Large numbers of drivers, sub drivers
- Multiple functions/segments
- Cost components attributable to limited set of companies
- Difference in billing and beneficiary entities
- Pricing dependencies
- Computations primarily on excels with multiple inputs
- Allocation based on budgets vs actuals
- Attritions and ownership of data

Drivers and priorities

Drivers : Lack of visibility of data at local entity level; lack of timely true-ups; high manual processes and lack of controls

Priorities:

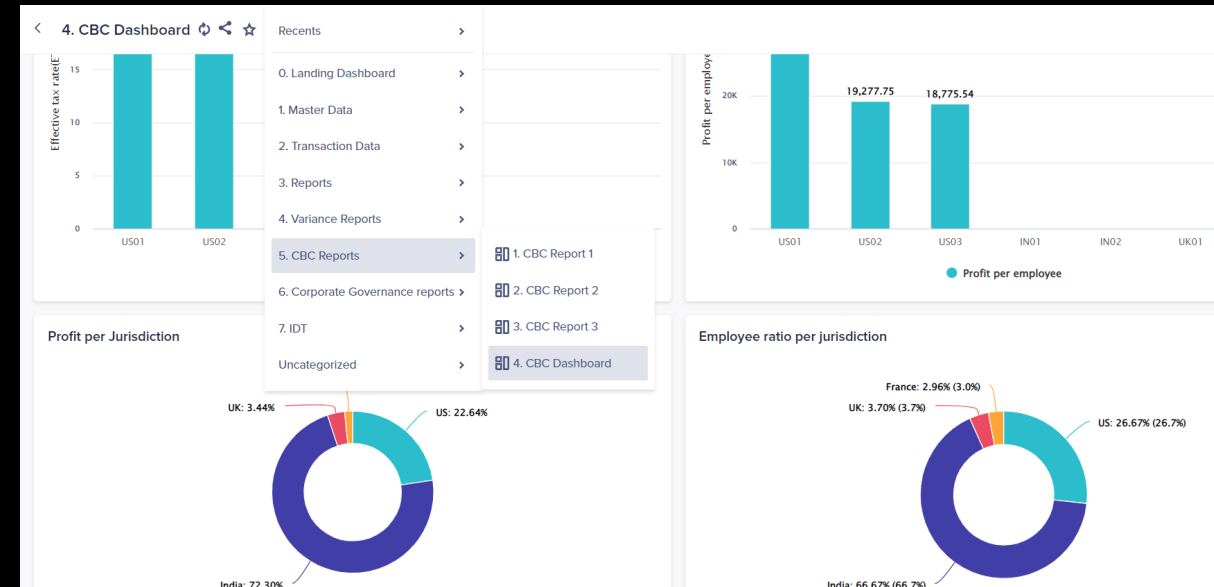
- Automate and centralised inter-company computations with consistent application of TP Policies
- To have visibility to source of cost (legal entity), allocation keys and beneficiary entities
- Audit trail and data retention

Solution

- Analytical solution developed on an existing platform used by the client; leveraging upon data already existing in system;
- Flexibility to change drivers/map sub-set of entities (by region, nature of entity etc.) and undertake impact assessment
 - Visibility of cost pool and allocation
- Reduced time for true-up adjustments
- Increased data quality/reliability due to consistent application / robust internal controls
- Dashboarding capability including summary of adjustments and impact

What's next

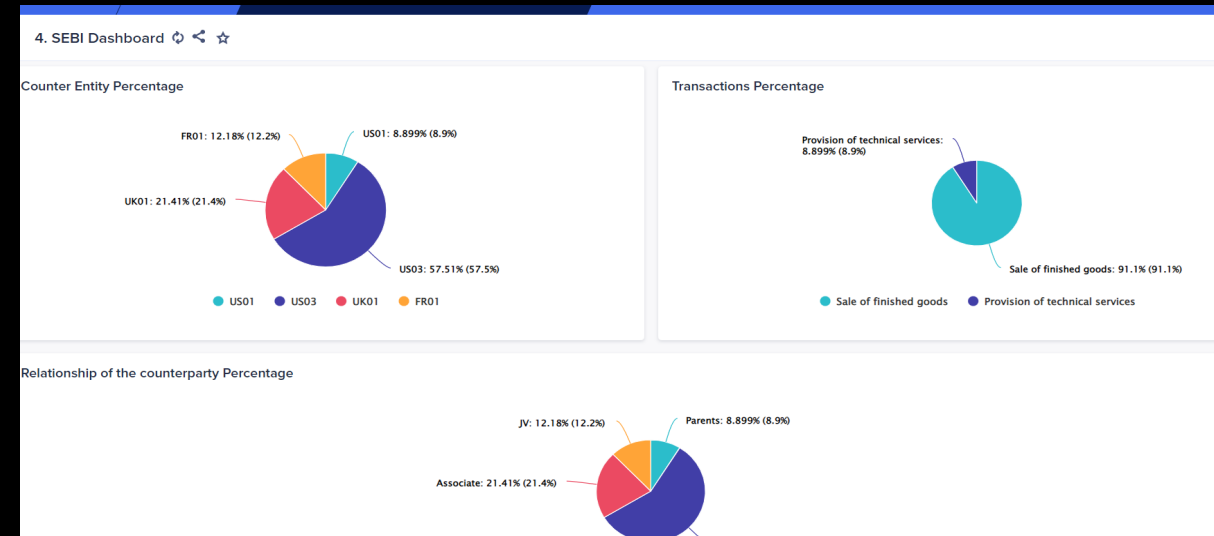
- **Digital transformation is a journey**
 - Vital to derive greater return on investment
 - Explore possibility to add more modules ensuring consistency
- **Additional modules could include**
 - Country by Country report
 - Tax and regulatory reporting
 - BEPS 2.0



2. Sebi Report

YTD Select Month: May 20

	Details of the party (listed entity/subsidiary) entering into the transaction		Details of the counterparty			Type of related party transaction	Value of the related party transaction as approved by the...	Value of transaction during the reporting...	In c...
	Entity Name	Entity PAN	Counter Entity Name	Counter Entity PAN	Relationship of the counterparty				
1	Ace US ...	13579246	Ace Manufacturers & Distributors Private ...	ABCDE1234M	Fellow Subsidiary	Sale of components	2,900,000	740,000	
2	Ace Manufacturer...	ABCDE1234M	Ace US Manufacturers & Distributors Inc.	13579246	Fellow Subsidiary	Sale of finished goods	18,000,000	5,395,200	
3	Ace Manufacturer...	ABCDE1234M	Ace US Inc.	12345678	Parents	Provision of technical services	300,000	834,880	
4	Ace India Suppor...	PQRST4567N	Ace US Inc.	12345678	Parents	Provision of back office services	1,500,000	694,000	
5	Ace US R&D ...	98765432	Ace US Inc.	12345678	Parents	Provision of R&D services	1,750,000	322,000	
6	Ace UK Marketin...	23456789	Ace US Inc.	12345678	Parents	Provision of marketing support ...	1,000,000	326,400	
7	Ace US ...	13579246	Ace Manufacturers & Distributors Private ...	ABCDE1234M	Fellow Subsidiary	Purchase of finished goods	18,000,000	3,865,200	
8	Ace UK Marketin...	23456789	Ace Manufacturers & Distributors Private ...	ABCDE1234M	Associate	Purchase of finished goods	8,000,000	2,778,800	
9	Ace Marketing & ...	34567890	Ace Manufacturers & Distributors Private ...	ABCDE1234M	JV group entity	Purchase of finished goods	3,500,000	1,408,000	
10	Ace US Inc.	12345678	Ace Manufacturers & Distributors Private ...	ABCDE1234M	Subsidiary	Provision of management and ...	3,500,000	1,436,600	
11	Ace Manufacturer...	ABCDE1234M	Ace UK Marketing & Distribution Plc	23456789	Associate	Sale of finished goods	8,000,000	2,008,800	
12	Ace Manufacturer...	ABCDE1234M	Ace Marketing & Distributors France	34567890	JV	Sale of finished goods	3,500,000	1,143,000	
13	Ace US Inc.	12345678	Ace UK Marketing & Distribution Plc	23456789	Associate	Provision of management and ...	2,000,000	660,080	
14	Ace US Inc.	12345678	Ace Marketing & Distributors France	34567890	JV	Provision of management and ...	2,500,000	660,080	



Question and answers

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