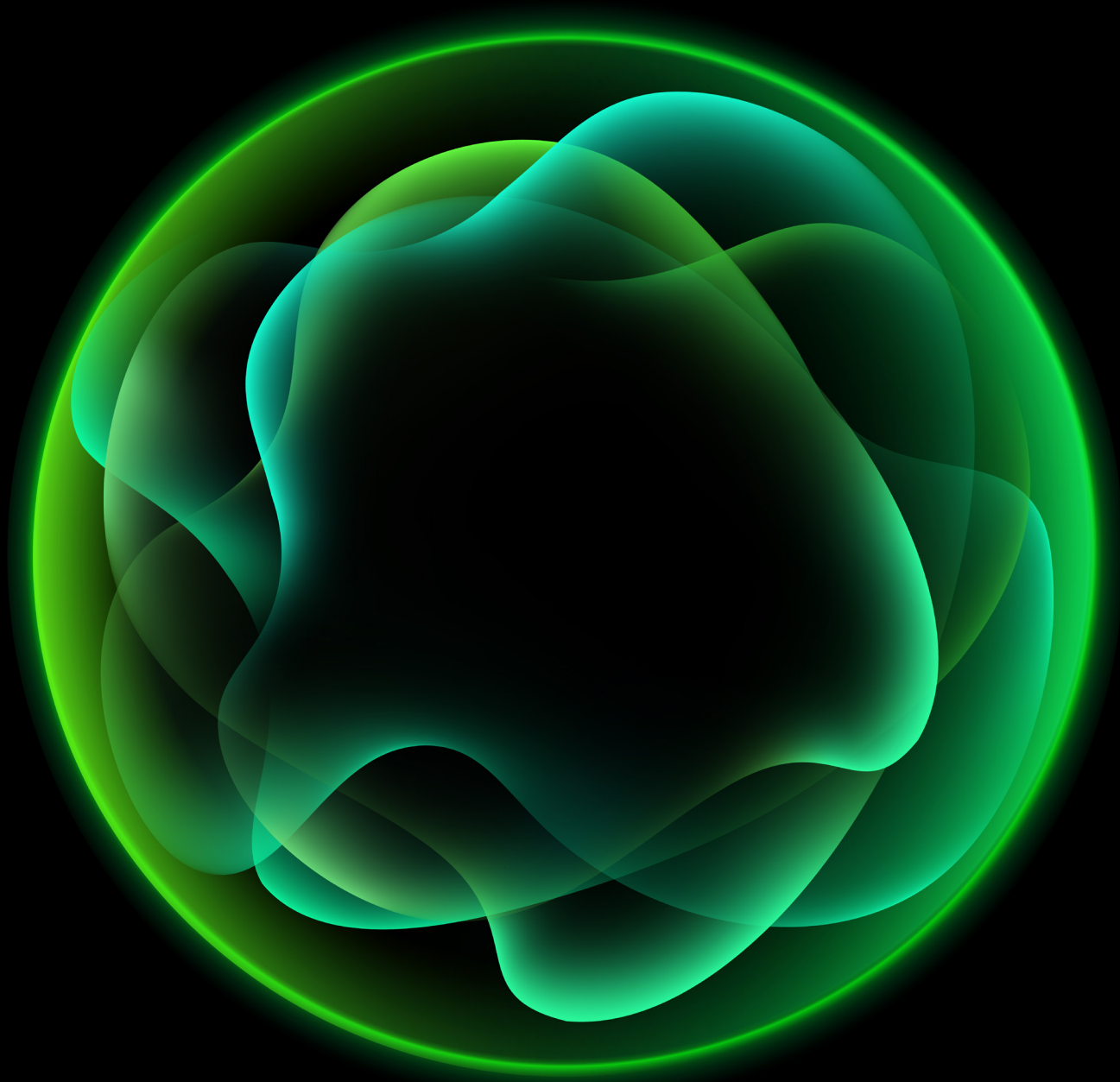


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Unlock Operational Transfer Pricing potential:
Transforming tax operations from compliance
burden to business advantage

1. Executive summary

Even the most technically accurate transfer pricing policy will still fail an audit challenge if it is implemented incorrectly. Operational Transfer Pricing (OTP) is a vital aspect of managing transfer pricing for multinational enterprises (MNEs), involving governance, policy planning, implementation, compliance, and defense against tax audits. This paper explores the key elements of OTP and highlights the importance of aligning transfer pricing governance with overall tax strategy to ensure consistent and compliant operations. With increasing tax authority scrutiny, the adoption of artificial intelligence (AI) and the rise of real-time data analysis, MNEs must transform their OTP capabilities by leveraging skilled people, accurate data, advanced technology, and well defined processes.

Effective OTP not only reduces tax audit risks, it also delivers measurable business benefits such as improved financial predictability, streamlined compliance, and lower operational costs. This paper is intended for all major stakeholders in an MNE that are involved in the end-to-end OTP process, notably transfer pricing, tax, finance, inter-company accounting and IT teams. This paper identifies common opportunities for improvement, including updating transfer pricing policies, integrating planned technology changes, and addressing existing pain points.

The Deloitte approach to OTP transformation focuses on practical, tailored solutions that balance theoretical soundness with operational feasibility, helping MNEs navigate the complex regulatory environment and achieve sustainable tax and business outcomes.

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2. Introduction

OTP represents a significant challenge for multinational enterprises (MNEs), which affects many internal stakeholders, notably those working in transfer pricing, tax, finance, inter-company accounting, group reporting, IT functions. This paper explores what OTP is, the key elements, why OTP is important to MNEs, the common entry points for an MNE to improve its OTP, and Deloitte's approach to working with clients on OTP projects.

What is OTP?

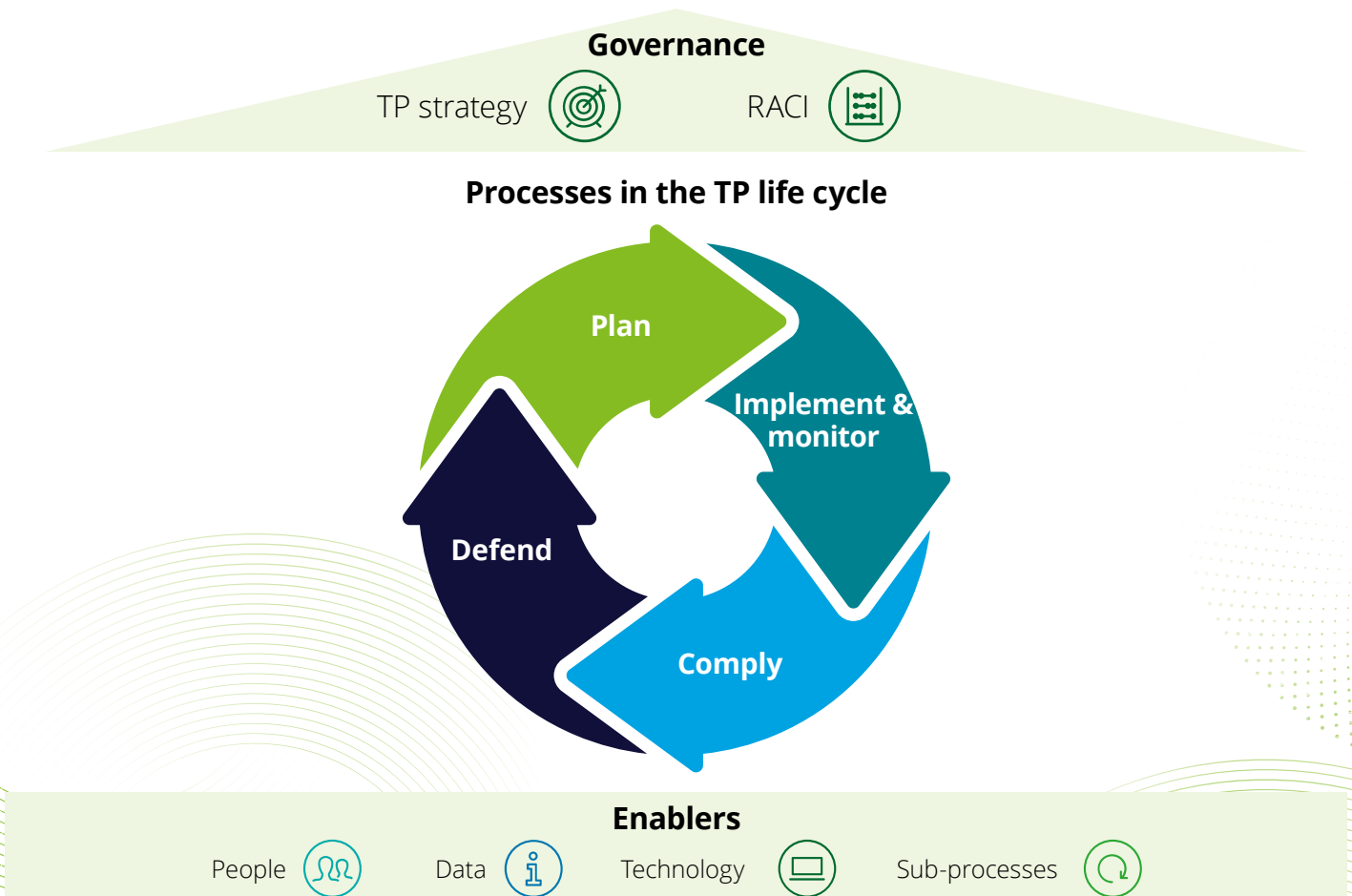
This paper applies a broad definition of OTP as being all the activities that an MNE undertakes to manage the implementation of transfer pricing

Key OTP elements

The OTP framework can generally be thought of as a “house” with governance at the top, which dictates how the tax relevant processes should be carried out. These processes typically involve:

1. Planning to set a specific tax policy
2. Implementing those policies
3. Carrying out relevant compliance activities
4. Defending the policies in tax audits.

These main processes are operationalized through having sub-processes carried out by people using data and technology.



3. Governance

Tax governance has become an increasingly important topic. For example, there are OECD publications on MNE Responsible Conduct and Tax Frameworks, the Pillar Two minimum tax rules, the Global Reporting Initiative (GRI) 207 Tax Standard, EU public country-by-country reporting (CbCR), country specific initiatives (for example, UK tax strategy reporting; Australia public CbCR) and tax is one of the EU Taxonomy's four minimum safeguards. It is outside the scope of this paper to go into this general topic further¹. The two key points for OTP purposes are:

- 1 an MNE's transfer pricing strategy and governance should be aligned with its overall tax strategy; and,
- 2 this transfer pricing strategy will affect transfer pricing policies and their implementation.

The strategic alignment between transfer pricing governance and overall tax strategy creates a cascading effect throughout the MNE's operations. When properly aligned, this governance framework ensures that transfer pricing decisions support broader business objectives while maintaining tax efficiency and compliance. For example, an MNE with a conservative tax risk appetite will typically implement more robust documentation requirements and frequent benchmarking updates, while an MNE focused on operational efficiency may prioritize streamlined processes with acceptable risk tolerances. This strategic alignment also influences resource allocation, with governance frameworks determining the appropriate balance between centralized expertise and local implementation capabilities.

Tax authorities are also increasingly focusing, in tax audits, on what governance structures are in place, with a growing expectation that groups should have measures in place, such as Responsible, Accountable, Consulted, Informed (RACI) matrices, governance forums, risk leads, and process documentation, to demonstrate appropriate governance and control. The UK's Guidelines for Compliance 7 (GfC7), published in September 2024, provides a concrete example of such tax authority expectations.

A brief example from each of the "Plan", "Implement and monitor", "Comply" and "Defend" processes in the transfer pricing life cycle will now be considered to illustrate the above points.



1 See Deloitte thought leadership on [governance and transparency](#)

Plan

An MNE has chosen to test sale of goods transactions to its limited risk distribution entities using Transactional Net Margin Method (TNMM). There are many practical questions that need to be answered, such as:

- How many studies are needed? For example, global, regional, or country level.
- How frequently should the studies be updated?
- What point in the interquartile range should be targeted?
- Will true-up adjustments be made to the targeted result, or only when an entity's results fall outside of the interquartile range?
- Are true-up adjustments based on management accounts or local statutory accounts?
- Should true-up adjustments be carried out by changing prices for the remainder of the financial year, through year-end adjustments or both?
- How to manage different country expectations, for example, on geographic scope, independence, use of statistical ranges, adoption of Pillar 1 Amount B?

The answers to these questions should align with the MNE's overall tax strategy and approach to tax risk and can affect significantly the processes, data requirements, technology and people needed to implement and monitor the transfer pricing policy.

Implement and monitor

Continuing the previous example, once the MNE has determined the arm's length range of the distribution activities, it then needs to implement the prices of the goods being sold so that the distribution entities have a result within this range. Several processes and their underlying systems may need to be updated including: price setting, order management, profit & loss segmentation, legal entity forecasting, inter-company accounting, inter-company reconciliation and elimination, invoicing, and settlements.

For compliance purposes, the MNE will have to show that the distribution entities achieved a final result in their statutory accounts that was within the benchmarked range. The MNE should therefore monitor the results of the distribution entities to confirm that this is the case. It is a strategic decision whether to monitor periodically in the financial year so that prices can be adjusted for the remainder of the year, or carry out a year-end review and adjustment, or both.

Comply

A common MNE tax compliance strategy is to achieve “100% on-time compliance.” However, this can be challenging to interpret for transfer pricing purposes:

- Unlike tax returns, in many countries transfer pricing documentation only needs to be submitted to tax authorities upon request, not automatically.
- There is variation between countries regarding whether “OECD-compliant” documentation satisfies local compliance requirements.
- The OECD’s requirements for a local file refer to “material” transactions, but what is considered material varies between countries.
- Transfer pricing disclosures may be included in multiple separate deliverables, such as transfer pricing documentation, country-by-country reporting, tax returns, and statutory accounts.

The choice of strategy will have significant impact on the operational requirements to fulfil the strategy.

Defend

The defend phase is crucial for managing and responding to transfer pricing challenges from tax authorities, including both policy and operational aspects. A key strategic decision is whether to proactively engage with tax authorities through the OECD’s International Compliance Assurance Programme (ICAP), Advance Pricing Arrangements (APAs), or other advance rulings, or to respond reactively during tax audits. Proactive engagement can reduce uncertainty and the risk of disputes by securing prior agreement on transfer pricing methods. Equally important is ensuring that OTP practices consistently align with documented policies to withstand scrutiny. The chosen approach should reflect the MNE’s overall tax strategy, balancing risk management with compliance costs, but will, in practice, be affected by the availability of necessary data and defense files.

Tax authority trends and OTP implications

Latest trends show tax authorities increasingly focusing on real-time data analysis and automated risk assessment tools. The OECD’s Tax Administration 3.0 initiative emphasizes data-driven approaches, with many jurisdictions implementing mandatory electronic filing of transfer pricing related information and real-time transaction filing and monitoring for other tax purposes.

These developments mean that MNEs need to adopt equivalent tools, or they face increased tax authority attention on issues that the MNE itself is not aware of. Deloitte increasingly sees clients enhancing their OTP capabilities to provide timely, accurate data and maintain contemporaneous documentation that can withstand automated scrutiny.



4. Enablers

Effective transfer pricing relies on four key enablers: people; data; technology; and well-defined sub-processes. The sections below provide a closer look at each enabler and their importance in transfer pricing management.



People

The OTP processes and their underlying tasks need to be performed by internal people and external advisers in a collaborative and integrated environment. It is important to have a clear understanding of who is involved in each task and the nature of their role, and which capabilities they require. Often, this is achieved using a RACI matrix for sub-processes relevant to transfer pricing, which clearly outlines who is Responsible for completing tasks, Accountable for decisions, Consulted for input, and Informed about progress.

The team involved in the end-to-end OTP process need to have the relevant skills and knowledge. Deloitte's Tax Transformation Trends 2025 research notes the top two skill sets required by tax functions, and the top three emerging tax job roles focus on AI, data, transformation, and operations. Training and enablement are required for people new to a role within the OTP process and for those occasionally involved with this process.

The most significant challenge in OTP projects is often the mindset shift needed by affected stakeholders to adapt to changing roles, transformed processes, new technology, and new ways of working. Consequently, the most impactful OTP transformations incorporate explicit change management principles throughout the transformation life cycle to facilitate and enable the necessary mindset shift.

Data

The OECD's Tax Administration 3.0 envisions a new tax environment that is data-driven, featuring detailed, real-time data supported by validation and automation, within interoperable ecosystems. Data is needed for many transfer pricing related purposes:

- delineation of transactions
- analysis of alternative commercial options
- calculation of prices
- issuance of intercompany invoices
- monitoring of results
- making of true-up adjustments or pricing changes
- inclusion in compliance deliverables
- monitor that transfer pricing policies are followed
- segmentation of results
- calculation of service charges
- calculation of royalty fees
- traceability of inter-company recharges back to the cost and revenue base

Additionally, the Pillar Two global minimum tax initiative, increasing country-by-country reporting requirements, and Pillar One Amount B are driving a focus on data quality and availability, both for compliance and planning purposes.

Implementing key data quality principles of having a "single source of truth", data right first time, clean statutory reporting and alignment with other taxes minimizes both the amount of transfer pricing work and the risk of tax audit adjustments.

Technology

This refers to the technology, used to carry out the end-to-end OTP process. Many tax teams of MNEs use a manual, spreadsheet-based approach and depend on technology owned by other non-tax teams. This tends to be very time consuming to use and has a higher risk of errors than more automated software. Deloitte's Tax Transformation Trends 2025 highlights that the use of technology and automation is high on the agenda of tax functions.

Technology platforms are typically a combination of Enterprise Resource Planning (ERP) systems, Enterprise Performance Management (EPM) systems, and separate tax engines.

Modern technology platforms can be configured with automated transfer pricing modules that calculate arm's-length prices in real-time based on pre-loaded benchmarking studies. Robotic Process Automation (RPA) tools can automate data collection for benchmarking studies, reducing manual effort significantly. Cloud-based transfer pricing platforms provide end-to-end workflow management, from policy implementation to compliance reporting. These solutions typically offer application programming interfaces (APIs) for integration with existing IT infrastructure, enabling seamless data flow between financial systems, tax engines, and reporting platforms.

Separate tax engine software that is linked to ERP solutions is also often required for calculations and reporting purposes.

Artificial intelligence (AI) is having an increasing impact on OTP, as it is all other business areas. Increasingly, organizations with more advanced technology agendas are looking at the application of agentic solutions to augment a tax function. In the case of OTP, use-cases could span the full TP life-cycle, including using AI agents to plan TP functional interviews as part of a benchmarking study; quick and effective comprehension of significant volumes of TP policy documentation and tax authority guidance/legislation to draft responses to TP authority queries, as well as rapid extraction and analysis of data from ERP and other financial systems to support responses to TP audits. This is not a static landscape, as new AI tools hit the market and existing AI tools add to their functionality. Additionally, while AI can do much and its capabilities are continuously developing, the human touch is still needed. For example, AI can prepare standard TP documentation, but this requires human review. OTP technology increasingly requires an overview of AI tools, decisions on which to focus on, and continued monitoring on their development and the level of human interaction, design and review that is necessary for their optimal use.



Sub-processes

There are many sub-processes that are relevant to the main four transfer pricing life cycle processes, such as:

- Commercial decision-making
- Price setting
- Posting, invoicing and settlement
- Monitoring of results
- True-up adjustments calculation and invoicing / posting
- Compliance:
 - Country-by-country reports
 - Transfer pricing documentation
 - Tax return disclosures
 - Statutory accounts disclosures
 - Pillar Two calculations
 - Corporate social responsibility (CSR) / environmental, social, and governance (ESG) reporting
 - Alignment with indirect taxes
- Reviewing conduct against contractual terms
- Monitoring the physical location of key personnel
- Procedure for responding to tax authority audits / requests

Some of these processes are transfer pricing specific and typically owned by the tax function. Others are cross-stream processes owned by other functions within the MNE, such as invoicing; transfer pricing requirements should be integrated at relevant points. For OTP purposes, all processes should prioritize both transparency and accuracy. Transparency entails that a sub-process is well documented end-to-end and has appropriate controls and monitoring in place. The accuracy of a process is driven by the quality of its data, use of appropriate technology, and having appropriate controls and roles and responsibilities in place.



5. Why OTP is important to MNEs

OTP is important to MNEs for four key reasons, all of which have a financial impact. First, it helps mitigate tax audit risk by ensuring transfer pricing policies are properly implemented and documented. Second, OTP reduces opportunity costs by streamlining processes and avoiding inefficiencies that can arise from manual or inconsistent pricing practices. Third, it delivers wider business benefits, such as improved transparency and alignment between tax and commercial functions. Finally, OTP contributes to cash flow stability by enabling more accurate and timely intercompany pricing and invoicing, which supports better financial planning and reduces unexpected adjustments.

Tax audit risk

OTP issues can prevent an MNE from effectively defending its transfer pricing policies, potentially leading to tax adjustments, double taxation, as well as penalties and interest. A tax authority has three main avenues of attack in a transfer pricing audit. First, it can disagree with an entity's delineated related party transactions. This is typically done by either arguing that the MNE has not correctly followed the OECD's guidance on delineation, notably with respect to risk and/or the Development, Enhancement, Maintenance, Protection and Exploitation (DEMPE) analysis of intangibles, or that the delineated transaction is not commercially realistic for one or both parties, considering the alternative options genuinely available to them.

Second, a tax authority may accept the delineated transaction but dispute the transfer pricing method chosen to support it. For example, they might argue that the Comparable Uncontrolled Price (CUP) method should have been applied instead of the TNMM for a particular transaction.

Finally, a tax authority can accept the delineated transaction and chosen testing method but challenge the implementation of the method. For example, by arguing that a country-specific benchmarking study should have been carried out, rather than a regional or global one. Naturally, some transfer pricing audits globally are focused on transfer pricing theoretical disputes around the interpretation of the OECD Guidelines or country regulations.



However, tax authorities are often successful in audits because an entity's transfer pricing documentation and broader business records fail to support key aspects. Specifically, they may not demonstrate that the transactions are correctly delineated and commercially sound, that the appropriate transfer pricing method was selected, or that this method was properly applied. At first glance, avoiding such an audit appears to be a compliance issue, since it relates to the contents of an entity's transfer pricing documentation and other compliance deliverables (for example, tax return disclosures). In practice though, this is an OTP issue, since information cannot be included in documentation if it has not been created in the first place. Therefore, processes must be established to collect relevant information on intragroup transactions in real time, ensuring it is available for transfer pricing documentation and audits.

Furthermore, even if an entity successfully meets all three tests and demonstrates that its transfer pricing policies are arm's length, a tax authority can still prevail in an audit by showing that these policies were not properly implemented or that there has been a divergence between the policy and actual practice. This could occur, for example, if intercompany contractual terms are not adhered to or if long-term imbalances persist in a cash pool.

The financial implications of OTP deficiencies can be substantial. Based on a Deloitte analysis of transfer pricing audit outcomes, MNEs with poor OTP frameworks can face significant adjustments of tested intercompany profits, on top of penalties. Conversely, MNEs with robust OTP frameworks report fewer successful tax authority challenges and shorter average audit resolution times, resulting in significant cost savings in professional fees and management time.

Opportunity costs

OTP challenges incur opportunity costs related to all four enablers.

The people opportunity cost is that an MNE's employees frequently spend significant time on OTP matters, owing to issues with the sub-processes, data and/or technology. Instead of having time available to use their skills on value-adding activities, such as analyzing business insights, managing tax audits, and responding to mergers and acquisitions (M&A) activities and organic business change, they often spend time on manual data wrangling and related activities.

The technology opportunity cost is that an MNE's tax technology landscape may be overly fragmented, with overlapping functionality between different tax or general software packages, and hence additional IT licensing and maintenance costs.

The process and data opportunity costs primarily result from establishing processes and data structures and reporting that are not sufficient for transfer pricing purposes and subsequently needing additional processes and data to fulfill transfer pricing requirements.



Quantifiable business benefits

Improved OTP implementations generally deliver measurable returns on investment and enhanced risk mitigation, such as reduced transfer pricing compliance preparation time, lower external advisory fees, faster audit response times, and fewer year-end transfer pricing adjustments. The technology investment involved typically pays for itself within a reasonable period through increased efficiency and decreased external costs.

Issues that are pain points for OTP purposes unsurprisingly often cause wider tax challenges, such as with indirect taxes. Even more importantly, pain points for OTP often cause general business challenges beyond transfer pricing; for example, having challenges with identifying the profitability of specific services or products or difficulties in ordering centralized services. Therefore, improving OTP related sub-processes can have a wider benefit for the MNE.



Cash flow stability and predictability

MNEs that operate with central entrepreneur models with limited risk entities typically support the relevant transfer pricing policies with TNMM benchmarking studies. Pricing adjustments are needed when a limited risk entity has a result outside of the benchmarked range. If this process is so manual and time consuming that it is only run after the end of the financial year, then it can result in significant year-end adjustments. Aside from the financial statements impact, there are the cash flow management issues, potential currency exchange challenges for some countries, potential withholding tax costs, as well as potential issues if duty has been under or over-paid. Additionally, significant adjustments can cause increased tax audit and tax deductibility challenges. Having a more optimal OTP set up enables more regular monitoring and price adjusting and hence minimizes large and unexpected changes and the ensuing results.

The cash flow benefits of optimized OTP can be significant. MNEs implementing real-time monitoring and adjustment capabilities report a reduction in year-end transfer pricing adjustments. Additionally, more predictable transfer pricing outcomes enable better cash flow forecasting and working capital management, with improvements in cash conversion cycles.

6. Common entry points to improve OTP

There are three main opportunities for MNEs to improve their OTP processes: amend their new transfer pricing policies; address specific pain points with tactical initiatives; and transform and automate their process with technology and AI.

Amend transfer pricing policy

The first opportunity is when an MNE is updating a transfer pricing policy or creating a new transfer pricing policy. The latter would typically happen as a result of changes in the business or external legal changes. The MNE's transfer pricing governance should set the constraints for what transfer pricing policy is chosen and the ensuing approach to compliance. Additionally, the OTP considerations of potential policy choices should be built into the evaluation of which policy to follow, that is, if and how can the alternative policy choices be implemented, maintained and monitored, and be subsequently documented and defended. This approach has the advantage of choosing a transfer pricing policy that is both theoretically robust and operationally manageable.



Tactical initiatives for specific pain points

This opportunity is to focus on tactical initiative to address existing known OTP pain points. Since this is a standalone action, there needs to be a business case such that the problems caused by the pain point justify the cost and time in fixing it. An MNE can look for the minimum viable product for solving the issue—there is no point in performing costly ERP upgrades if an issue can be addressed with much simpler options, such as optimizing a spreadsheet, clarifying processes or roles, using AI solutions, or using a no-code or low-code software solution.



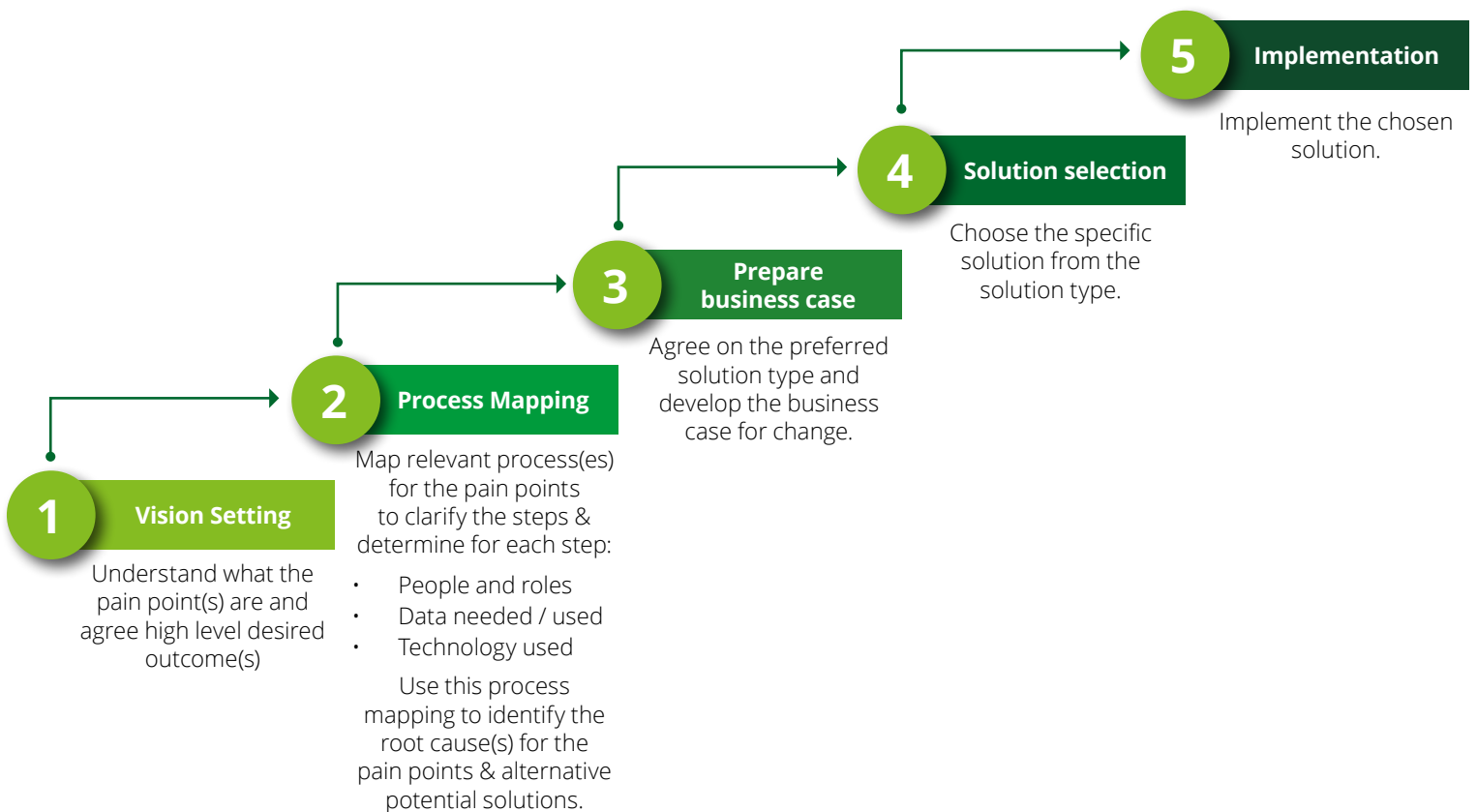
Transformation and automation

OTP transformation and automation initiatives generally deliver most impact. These initiatives can be driven by broader enterprise-wide programs including finance transformation, ERP upgrades and group reporting projects. New technology is not a silver bullet that will automatically address existing OTP challenges. However, any planned technology change creates the opportunity to leverage systems to automate and streamline the end-to-end OTP process to deliver efficiency, agility, and transparency.



7. A Deloitte approach to OTP transformation

The following five-step framework can be used:



Not all steps are relevant for every OTP project, since steps 3 to 5 are only applicable where the solution to a pain point is technology related. In respect to large technology focused OTP projects, or wider intercompany projects, typically, the project would start with a stakeholder alignment process involving personnel from relevant functions, notably tax, finance/accounting and IT, which is vital in ensuring the vision and requirements are aligned from the start.

For additional insights and detailed implementation guidance, explore Deloitte's comprehensive [transfer pricing technology solutions and thought leadership content](#). Deloitte regularly publishes updates on emerging OTP trends, regulatory developments, and technology innovations that can further enhance MNE transfer pricing operations.

Contacts



Nick Pearson-Woodd

Director, Tax Transformation Consulting
Deloitte Norway
npearsonwoodd@DELOITTE.no



Ross Pflaeger

Director, Transfer Pricing
Deloitte UK
rosspflaeger@deloitte.co.uk



Chris Deung

Associate Director, Tax Transformation Consulting
Deloitte UK
cdeung@deloitte.co.uk

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