SAP Global Partner | Deloitte.

Next Gen Intercompany and Operational Transfer Pricing

Reduce risk and boost compliance while enhancing transfer insight and process management

Overview

Deloitte's Next Gen Intercompany and Operational Transfer Pricing (OTP) is a comprehensive solution to accurately calculate, book, and report on intercompany transactions based on transfer pricing policies. This enables organizations to streamline intercompany processes, reduce tax audit risk, and optimize their global tax liability.

Marketplace opportunity/challenge

The rising volume and variety of intercompany transactions and transfer pricing regulations, along with increased enforcement measures worldwide, have made transfer pricing a leading risk management issue for global businesses.

There are five marketplace opportunities to address this:

1. Price setting on all intercompany transactions initiated in SAP S/4HANA®
   - SAP S/4HANA supports usage of cost plus, list less, or a hybrid model. Minimizes master data setup requirements.
   - SAP S/4HANA enables inventory valuation and costing to utilize the intercompany pricing. Inventory valuation, purchase, and sales can apply a consistent/same intercompany pricing data.
   - Pricing conditions and markup/uplift calculations can be automated using SAP S/4HANA and PaPM.
   - SAP S/4HANA can be customized to automate intercompany service charge-ups with allocations.
2. Price monitoring on all intercompany transactions initiated in SAP S/4HANA
   - SAP S/4HANA can be customized to provide a monitoring solution for transfer pricing, which would lead to the creation of segmented legal entity profitability reporting that can be analyzed on various transfer pricing dimensions. For example: product areas, cost pools.
3. Automation of intercompany services invoicing and segmented P&L
   - SAP S/4HANA can perform centralized service allocations to benefit affiliated entities, including intercompany services charged at cost and cost plus a markup. Intercompany resource-related billing (ICRRB) completely automates such scenarios.
   - Using the universal journal as a single source of data, capture all dimensions of data required to meet the unique needs of the transfer pricing process. Provide consistency across all external reporting areas. For example: master and local files, country-by-country reports, tax returns, and required transfer pricing documentation.
4. POV on hub-and-spoke model in TMT industry
   - SAP S/4HANA can support compliant flow of commodities, which, in turn, can support local tax regulations, transfer pricing rules, plus global trade policies and compliant accounting plans.
   - Material ledger and parallel valuation capabilities of SAP S/4HANA can provide the tools to automate intercompany bookings (markup, revenue, cost of goods sold). It also provides a transaction-level view of intercompany profits in revenues, cost of goods sold, and inventory with or without markup. No additional Intercompany markup elimination is necessary.
5. POV on AR/AP reconciliation and intercompany matching
   - SAP S/4HANA intercompany matching and reconciliation (ICMR) capabilities can automate the matching of intercompany payables and receivables.
   - SAP S/4HANA netting and in-house cash process automates cashless settlement of payables and receivables, eliminating the need to use banking partners.
   - Blackline's intercompany reconciliation hub complements SAP S/4HANA ICMR by:
     - i. Capturing all the downstream transfer pricing and tax reporting attributes that are necessary for Intercompany non-stock transactions and adjustments
     - ii. Allowing upfront collaboration and agreement on terms and conditions, transfer prices, and tax treatment. Storing contracts, documents, and a complete audit trail
     - iii. Providing coverage of all related substantiation and workflow
     - iv. Prompting dispute management when manual mismatches are identified

Key features

Adapt as new tax plans are implemented in response to global tax reforms.

Redirect tax department focus from gathering data and manipulating spreadsheets, to more strategic analysis and planning.

Centralized controls, plus visibility into the global transfer pricing process and outcomes.

Reduce/eliminate material out-of-period transfer pricing adjustments.

Near real-time monitoring and adjusting of transfer pricing across the global supply chain.

Increased integration with FP&A, accounting, treasury, and all other stakeholders.

Key benefits

Automates transfer pricing processes: Real-time calculation and booking of intercompany transactions, plus automated incoming/outgoing invoicing processes, allocations, and application of intercompany markup.

Shortens month-end close: Decreases time for month-end and quarter-end close processes, and the time required to reply to audit inquiries.

Increases compliance: Minimizes regulatory risk using a high degree of compliance with transfer pricing legal requirements with greater audit trail and transparency. Enables reconciliation between various compliance requirements.

Enhances reporting capabilities: Provides executive-level view of transfer pricing's current state.

Change impacts

1. Greater efficiency and automation provide more opportunity for upskilling, and ensure talent can be realigned to more strategic capabilities.
2. Harnessing more real-time data and generating better insights, finance becomes strategic, value-driven advisors.
3. Organization design, workforce planning, and change management efforts will be needed to transition employees into new roles and ways of working.

For more information or to discuss a specific challenge your organization is facing, contact **SAP@deloitte.com**