

Empirical research findings in international transfer pricing

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TP tax studies in management accounting and economics

- Tax considerations are not the main driver of transfer pricing for intangibles (Borkowski, 2001)
- Financial accounting regulation impacts APA enrollment (Borkowski, 2012)
- Negative stock market reaction to regulation aimed at reducing tax avoidance through TP (Eden et al., 2005; Eldenburg, 2003)
- Is income-shifting through TP a 'large-MNE' phenomena? (Conover and Nichols, 2000; Langli and Saudagaran, 2004)
- Cost-based TP method more likely when no local partners are part of management (Chan and Chow, 2001)
- Subsidiary managerial autonomy is negatively correlated with outbound income shifting (Chan et al., 2006)
- Are tax strategies driving business strategies? (Glaister and Hughes, 2008)
- Transfer pricing is used strategically to receive goodwill from local business institutions (Cools et al., 2008)

Professional surveys of MNE practices

Ernst & Young 2013 Global Transfer Pricing Survey

Transfer pricing priorities	2012	2010	2007
Tax risk management	66%	50%	50%
ETR optimization	11%	18%	22%
Cash tax optimization	6%	7%	
Allignment with management/operational objectives	14%	20%	18%
Performance measurement	1%	5%	7%
None of these	1%	0%	3%

Ernst & Young 2013 Global Transfer Pricing Survey (continued)

- 36% review their financial results only annually.
- Italy is reported #1 country in which penalties were imposed (24%). India, Canada, and France follows (9%, 7%, 7%)
- IG financial arrangements were considered a (slightly) more important area of transfer pricing controversy than TP of intangibles.
- Only 21% reported taken customs issues fully into account in transfer pricing planning.
- 41% report that their systems are not set up for tax and transfer pricing; 58% (!) rely on Microsoft Excel spreadsheets to perform TP analytics.
- 7 % of parent companies report they have 'highly automated' systems supporting TP data needs for analysis, monitoring and planning.

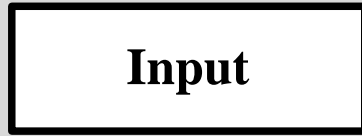
Professional surveys of MNE practices

Tax Executives Institute's 2011-2012 Corporate Tax Department Survey

- External consultants makes up 22% of tax department budget
- Top-5 KPI of tax departments: 1: Lack of surprises; 2: Results of audits; 3: Compliance deadlines met; 4: Cash Taxes; 5: Effective tax rate
- 33% of responding companies' Senior Tax Executive never meet with internal audit to discuss tax risk
- 77% of responding companies do not have a formal tax risk management policy
- 51% of transfer pricing consultants used by respondents represent a 'Big-4' (54% on APAs)
- 83% of respondents report no integration between ERP-system and tax compliance system (manual import of data)

Observations and current research

- Is transfer pricing becoming a marketing tool? (Starbucks U.K.)
- What structural features trigger APA enrollment? (IRS APA Reports)
- Are MNE effective tax rates lower than domestic firms? (ORBIS)
- Output vs. process-based key performance indicators for TP in MNEs



Measures

- Data quality (consistency, reliability, reversibility, timeliness, completeness, etc.)
- Quality of IT-systems (TP/tax software, ERP-systems, etc.)
- Staff skills (technical TP & valuation skills, IT skills e.g. SAP, Excel)
- ...

Measures

- Adherence to cost allocation models, inter-company price lists etc.
- Extension of manual data exporting and TP-manipulations
- Adherence to 'out-of range' TP adjustment procedures
- Quality in benchmarking (e.g. adherence to search strategies for R&D, manufacturing, and distribution entities)
- Quality in simulation models for ETRs, UTPs and other tax measures impacted by TP
- ...

Measures:

- Earnings margins relative to arm's-length range, given subsidiary's structural profile (F/A/R)
- Effective tax rates (on GAAP and cash basis)
- Cash taxes
- Tax contingencies / Uncertain tax positions
- ...

Transfer pricing in the future

- More emphasis on the role of integrating and automating ERP and IT applications in operational transfer pricing and tax compliance exercises
- Higher APA activity due to increase in documentation requirements and value chain transparency (e.g. BEPS & Country-by-Country reporting)
- Increase in demand for MNE in-house TP specialists
- Increase in tax authorities' assessment of ERP applications and their impact on TP outputs

Questions & comments