



Transfer pricing authorities respond to a changing world

Predict near term challenges

Key trends to note:

- ▶ Tax authorities are increasing their dedicated transfer pricing resources and improving their specialist capabilities.
- ▶ More audits, more transfer pricing penalties and more disputes seem likely.
- ▶ More jurisdictions are committing to Advanced Pricing Agreements (APAs).
- ▶ A reduction in profits or a business restructuring may trigger a transfer pricing audit.
- ▶ Automotive; consumer products; financial services; oil and gas; and pharmaceuticals continue to be audit targets for some jurisdictions.
- ▶ Transactions with "tax haven" jurisdictions are likely to be scrutinized. Formal "watch lists" are becoming more common.
- ▶ The arm's length principle continues to be applied and enforced in substantially different ways by different jurisdictions.

Ernst & Young's 2009 *Global transfer pricing survey, Tax authority insights: perspectives, interpretations and regulatory changes*, is intended to help you assess the external landscape, prioritize areas of focus to achieve and maintain leading standards of transfer pricing practice and, as far as is possible in an uncertain world, predict the near term challenges you will face.

The credit crunch, a worldwide recession and turmoil in the financial markets have brought serious, and often unforeseen, challenges to multinational enterprises (MNEs) in managing their transfer pricing. These same economic factors are also challenging governments and influencing their fiscal approaches. Budget deficits, stimulus packages and bail-outs all have significant costs; raising revenues is front of mind. This intensely challenging economic climate is reflected in our biennial transfer pricing research, which highlights the growing number of countries that devote attention to transfer pricing activities.

The transfer pricing survey report examines the approaches and attitudes of tax authorities in 49 countries and territories.

Keep abreast of the key trends and most recent country specific developments covered in the tax authority report by visiting www.ey.com/tps survey. Through this interactive site you will learn more about:

- ▶ Transfer pricing resources
- ▶ Industry focus
- ▶ Geographic focus
- ▶ Types of transactions under scrutiny
- ▶ Transfer pricing penalties
- ▶ Audit triggers
- ▶ Comparable data
- ▶ Transfer pricing methods
- ▶ APAs
- ▶ Transfer pricing disputes



What is on the horizon?

The level of transfer pricing audit activity will surely increase. So too will international disputes and the need for dispute resolution. There is also a stated intent on the part of many authorities to seek penalties more frequently and at higher levels. This means that it is going to be more important for taxpayers to be prepared for more investigations, and to do all they can to avoid being selected for audit, through hands-on management of transfer pricing design, implementation and maintenance, as well as documentation.

What can transfer pricing function leaders be doing now?

- ▶ Map out the transfer pricing landscape for your organization based on your local operations and your global strategy
- ▶ Review your organization's current business to better understand its value drivers and the impact of the current economic climate on those value drivers
- ▶ Identify likely transfer pricing 'hot spots' based on your organization's geographic profile, operations and transactions
- ▶ Align your transfer pricing policies to keep pace with your business change
- ▶ Actively monitor transfer pricing developments so you are ready to face the inevitable challenges in a greater number of jurisdictions with disparate approaches and areas of focus

- ▶ Consider all available channels of controversy management, from robust documentation through channels of appeal, and APAs
- ▶ Take a risk management approach to transfer pricing processes, covering the highest value transactions and the most challenging jurisdictions first

In this environment, you cannot expect to avoid tax controversy. Rather, you should assume controversy will happen and plan for it.

The trends identified in our survey make it even more important for your transfer pricing function to engage with – and potentially help shape – your organizational and operational structure. The corporate transfer pricing function will often have to engage more frequently with the rest of the business to keep pace with change, identify and pre-empt tax authority challenges and, most of all, convert risk into opportunity. A proactive transfer pricing function will have a real opportunity right now to position itself as a strategic partner to the business.

For more information about the survey report visit www.ey.com/tps survey or contact your usual transfer pricing contact.

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