Intercompany Effectiveness (ICE)

A structured approach to managing operational transfer pricing (OTP)
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ICE helps you bridge the gap between Finance, Tax and IT, enabling multinational companies to reflect their transfer pricing (TP) policies on financial accounts and in financial systems. This can be achieved through an effective operational transfer pricing (OTP) approach.

Operational strategy and performance measurement

Process and controls

Intercompany transactions

Technology and data

Finance and tax reporting and compliance

People and organizations

Pricing

Legal framework and structure

Policy and guidelines
Current state for organizations – why now?

- **Growing tax and compliance risk**
  - Time-consuming discussions with conflicting views
  - Unstructured data stored in multiple versions of old spreadsheets
  - Increasing number of requests for more detailed information

- **Increased cash leakage**
  - Excessive hours spent on TP-related processes and reporting
  - Additional customs duties costs
  - Rise of real-time e-audit and e-assessments

- **Significant inefficiency**
  - Highly competent resources performing low-value added tasks
  - Delayed budget process
  - Manual errors and no audit trail
  - Foreign exchange losses

- Inability to reconcile TP application of TP method to financial statements

Is your TP organization ready for the digital post-BEPS world?

Hover over the yellow circles to see more.
What makes OTP a challenge?

- **Technology enablement for monitoring and adjusting transfer prices**
  - Basic
  - Developing
  - Established
  - Advanced
  - Leading

- **Quality of data for compliance purposes**
  - Basic
  - Developing
  - Established
  - Advanced
  - Leading

- **Efficiency in TP setting process**
  - Basic
  - Developing
  - Established
  - Advanced
  - Leading
Who is responsible for OTP?

- **Human Resources (HR)**
- **Operations**
- **Order-to-Cash (O2C)**
- **Customer-to-Customer (C2C)**

**TP lifecycle**:
- Planning and policies
- Price setting and contracts
- Transactions and journal entries
- Monitoring and adjusting
- Testing and compliance
- Controversy and litigation

**Connected Tax in the TP function**
- Financial Planning & Analysis (FP&A)
- IT
- Master Data Management (MDM)
- Global Business Services or Shared Service Center (GBS/SSC)
- Finance
- Record-to-Report (R2R)
- Legal
# Considerations for an OTP approach

## Key data points to address

### Master-data enrichment

- Management and financial reporting should be aligned with TP segmentation
- TP relevant segmentation drivers should be available (e.g., as master-data) to support the generation of TP reports
- The system should be enabled to tag data for segmentation purposes, e.g., by understanding the supply chain scenario, and assigning appropriate TP method and margin

### Allocations and regroupings

- Management and financial reporting should be at the detail required for TP purposes – allocations and cascading of costs are required
- Allocations made for management reporting may differ from TP segmentation – reclassifications or regroupings are required

### Writing new data

- The TP policy, the application of the policy and parameters (e.g., benchmark data) may change frequently, and cannot be hardcoded in the backend
- Certain data might have to be manually adjusted for TP purposes (e.g., conversion to local generally accepted accounting principles (GAAP), intercompany (IC) services)
- An OTP solution should facilitate writing of data, and not be limited to read-only functionality

## TP analytics

- Segmented TP reporting
- Red flags and management by exception functionality
- New TP calculations
- Prospective intelligent TP adjustments
- “What if” simulations
Building an OTP approach

**Automated extraction of P&L data and master data**
- Actual system data
- Budget data
- Forecast data
- Hierarchies for company, product or account

**Flexible configurations to accommodate changes in TP policy and business model**
- Benchmarks and targets
- Supply chain and TP methods
- VAT, customs duties (C/D) and FX thresholds
- Classifications and segmentation rules

**Automated supply chain identification and TP assessment**
- Identification of TP method
- Assignment of TP specific segmentation parameters
- Identification of IC transaction counterparty

**Automated calculations, segmentation and allocations**
- Allocation of revenue and cost to correct TP segment
- Handling of exceptions (e.g., samples, negative revenue etc.)
- Transfer price adjustment and true-up calculations
- VAT, C/D, inventory impact assessment

**Possibility to manually adjust input data, data uploads and manual overrides**
- Local GAAP
- Reclassifications
- Accruals and provisions
- IC Services
- New IC prices

**Automated handling of local specific exceptions**
- Enablement of exceptions to standard model by country, market or function

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**TP Monitoring Tool (TP Segmented P&L)**

**Output**
- Updated transfer prices and true-up volumes by Stock Keeping Unit and account volumes by SKU and account.
- Reports for monitoring profitability in relation to TP policy on various levels.
- Dashboards and red flag functionality for quick identification of potential tax risks for proactive handling and mitigation.
- “Intelligent” TP adjustments, considering impacts of VAT, C/D, Inventory, FX, and proportionate price update against credit notes.
- Audit trail and transparency into historic data for defense in potential future tax audits.
- Reports and other outputs can be tailored for tax compliance, e.g., supporting TP documentation or Country-by-Country Reporting (CbCR).
Visualizing OTP
What are the benefits of a structured OTP approach?

- **Mitigating tax and compliance risk**
- **Reducing cash leakage**
- **Improving efficiency**

**Positive business case from year 1**

- Reduced number of **TP audits**
- Proactive instead of retroactive **TP adjustments**
- Increased transparency on **profitability metrics**
- Managing and reducing potential **customs duties impact**
- Reduced hours spent on **TP lifecycle processes and reporting**
- Increased accuracy of **TP provisions**

**Reduced FX impact and losses**

**Significant net benefit value**

**Limiting potential TP exposure in terms of unpaid tax (not including penalties or interest)**
The ICE team is based in countries across Europe, the Middle East, India and Africa (EMEIA). Contact the team today to find out how they can help you to address your organization’s OTP challenges.

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