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Trends in Transfer Pricing

Global Research Bulletin

August 2018

Introduction

In 2015, Deloitte commissioned an extensive, global, independent research study to better understand emerging Transfer Pricing trends. Participants were top tax decision makers from multinational companies which operate in five or more countries and have revenues in excess of \$1 billion USD.

To establish a current point of comparison and obtain a clearer understanding of global tax compliance and reporting customer needs, this study was recently repeated. While the same criteria for participant eligibility was employed, the 2018 survey also included new questions around market dynamics, buying behavior, resourcing, and technology.

Summary of key findings

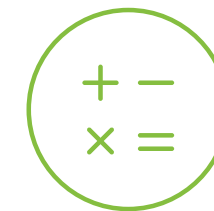
This global research bulletin provides an updated snapshot of the current state of Transfer Pricing as well as anticipated future trends.



There is a clear direction of travel in Transfer Pricing – moving towards greater centralization, consolidation, and specialization



Stress levels are heightened in the marketplace as resources remain tight and technology adoption is sluggish



Standard processes have yet to become business as usual - main focuses remain on managing and coordinating compliance driven tasks



There is lingering confusion around the area of Operational Transfer Pricing



Transfer Pricing Controversy is emerging as a significant concern



Businesses want more than “off the shelf” solutions including tailored advice and innovative ideas across supply chain, intellectual property, legal, and indirect tax

Centralization. Consolidation. Specialization.

In 2015, the research predicted that global coordination and centralization was set to increase – although it was acknowledged that the pace and degree of centralization was likely to vary considerably between businesses. Consolidation of advisors through bundling and increased global contracting also looked likely.

While a direction of travel is evident in the 2018 survey, the pace of change has not been as fast as expected.

The trend towards greater centralization is set to continue in Controversy, however, most businesses believe that a hybrid approach (local knowledge and expertise combined with central oversight) is ideal.

There is also evidence of greater rigor in reporting and analysis of tax functions – a vast majority of businesses now have KPIs in place to evaluate their ongoing performance.

An increase in the use of regional or global contracts for outsourced Transfer Pricing work was observed – the majority of which have been tendered in the past 2-3 years. While this trend is predicted to continue, some of the increase may come via a shift from regional to global contracting.

Consolidation of advisors has led to increased market share by Big Four firms, however the market remains highly complex and individualized to each businesses' intended approach.

93% have established KPIs in Tax



43% outsource Controversy via a global/regional contract [up from 39% in 2015]



48% manage Documentation globally [up from 39% in 2015]



34% manage Controversy globally [up from 26% in 2015]

59% consider a hybrid approach to be ideal in managing Controversy globally



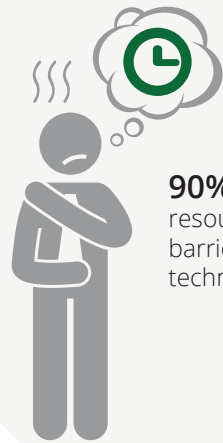
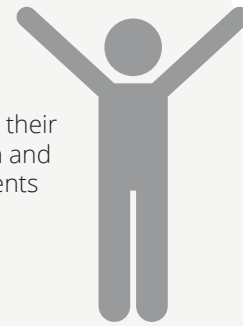


2.3 is the mean number of in-house Transfer Pricing specialists [32% have no specialist resources]

24% claim a net increase in specialized Transfer Pricing resources [55% thought it would increase in 2015]

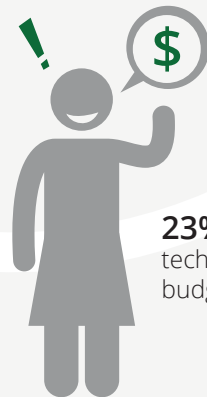


40% are satisfied with their current Documentation and Controversy arrangements [up from 34% in 2015]



90% feel that time or resources are the major barriers to implementing new technology

49% do not have sufficient budget allocated for Transfer Pricing technology



23% plan to invest in new technology and have sufficient budget available

Limited resources compounds uncertainty

As in 2015, resources remain stretched. Despite slight increases in the average size of overall tax functions, internal specialist Transfer Pricing resources have increased at a slower rate (and less than previously predicted). Experienced Transfer Pricing specialist resources remain generally hard to find. In addition, there remains a succinct focus on budgetary constraints around resourcing.

Given the continuing demands, shifting regulatory requirements, and limited headcount it is perhaps not surprising that overall satisfaction with the delivery model used for different aspects of Transfer Pricing remains low. Satisfaction with the management of Documentation has increased slightly since 2015 (up from 34% in 2015) but this is the exception.

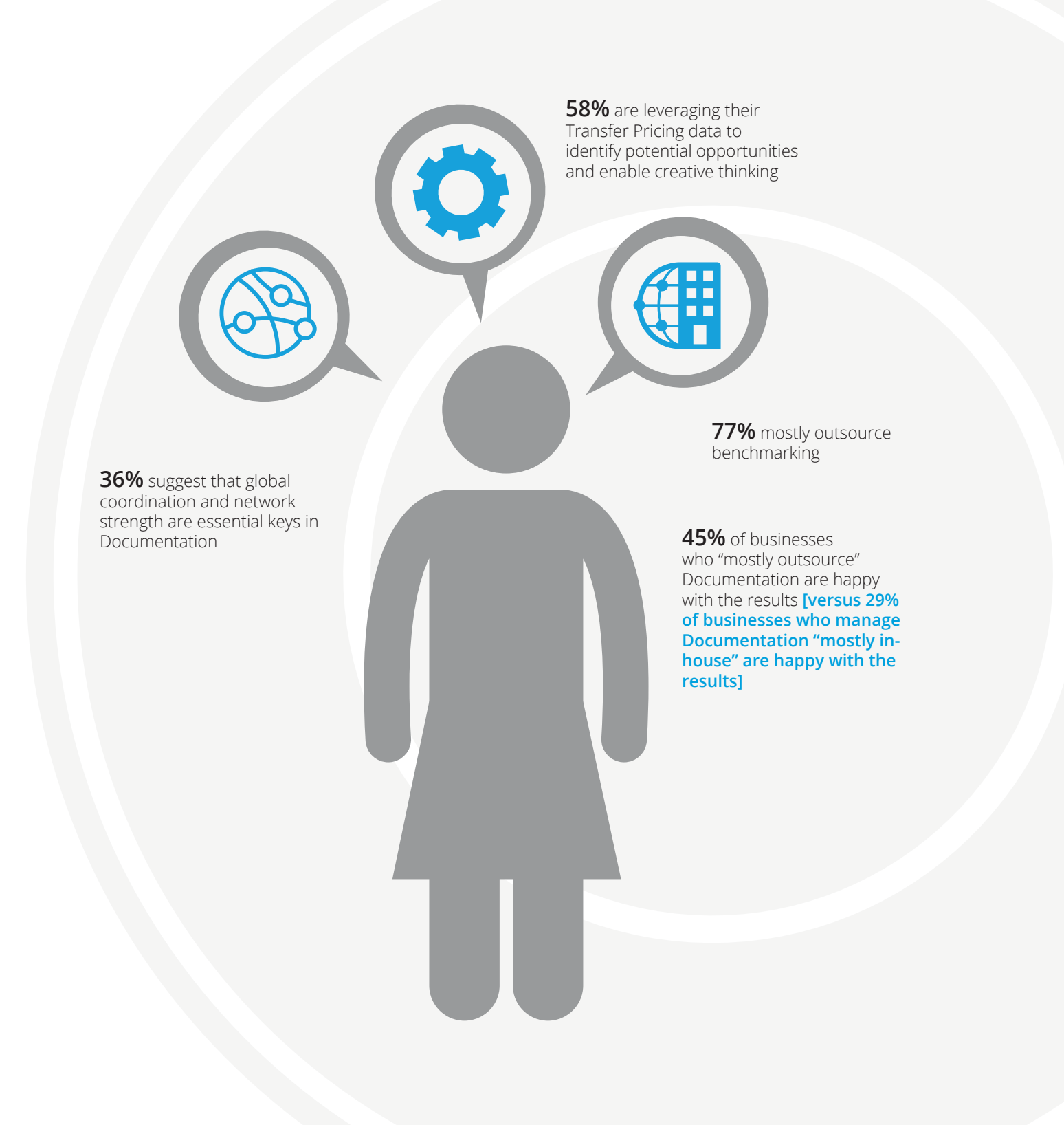
While tight budgets serve as a major barrier to the adoption of Transfer Pricing technology, a generally indiscernible benefits (and resultant ROI) compounds the matter. This is reflected by the relatively slow adoption of technology since 2015. A majority of businesses recognize a need for further Transfer Pricing technology, however, a case for significant investment does not yet exist in their minds.

Processes are not standardized, let alone optimized

Transfer Pricing continues to be a predominantly compliance focused function. The data is often seen to have nominal value beyond fulfilling tax authority requirements. It also appears that tax authorities are struggling to make use of the vast amounts of information they are provided.

Most businesses have yet to decide on the optimal resourcing approach to meet their Transfer Pricing Documentation requirements. There are mix of approaches relating to outsourcing, however it is high particularly in the area of Benchmarking. In addition, despite resource constraints many businesses face internal pressure to take on project management and global coordination efforts.

Businesses outsourcing Documentation tend to be more satisfied with their delivery model overall. Businesses say they want advisors who are globally "joined up" and demonstrate an understanding of their needs through tailored solutions and advice.





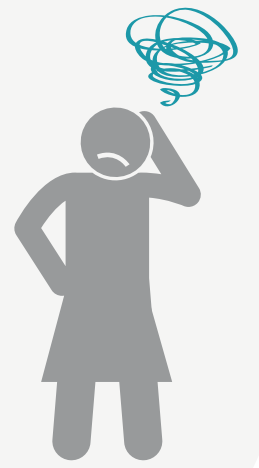
25% are happy with their Current Operational Transfer Pricing arrangements

90% are using Excel spreadsheets, either alone or in conjunction with other technology

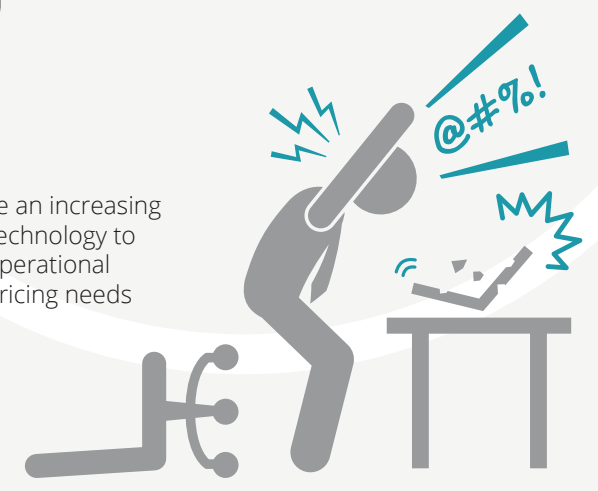


20% plan to invest in Operational Transfer Pricing technology and have sufficient budget available

89% mention at least one issue they would like to improve in regards to Operational Transfer Pricing



54% have an increasing need for technology to support Operational Transfer Pricing needs



Confusion around Operational Transfer Pricing

Compared to other areas, current satisfaction in Operational Transfer Pricing remains particularly low. Commonly identified concerns included inconsistency, insufficient oversight, and inefficiency.

A majority of businesses employ a highly manual approach to Operational Transfer Pricing – spreadsheets, specifically. Many acknowledge the need to invest in improvements to processes and controls in this area, however it is also evident that most do not know where to begin. In fact, many companies did not even understand exactly what Operational Transfer Pricing entails and how it differs from Documentation.

Among those considering technology investments in Operational Transfer Pricing, there was no clear consensus of a “best” approach. There is general uncertainty around available solutions (i.e., whether it is best to adapt an existing ERP system or to invest in a custom built solution), wider ERP compatibility, and use of third party solutions.

Another concern is a lack of clarity around how the tax authorities might use the data collected and their potential use of technology for deeper analysis. In short, most businesses are anxious to stay abreast of continued developments in Operational Transfer Pricing and how other organizations are responding.

Controversy is evolving as a key concern

Continued regulatory change, increasingly sophisticated tax authorities, and heightened transparency and information-sharing protocols are fueling a rise in Transfer Pricing Controversy as a 'reputational' concern. Accordingly, outsourcing in the area of Transfer Pricing Controversy and audit defense remains high and has increased in some areas since 2015 - specifically Mutual Agreement Procedures (MAP), appeals, and litigation. Outsourcing appears set to grow further in the near future and a sizable portion of those increases will likely to come from those businesses already outsourcing or co-sourcing with advisors.

Complexities around intangible property, intragroup financial arrangements, and permanent establishments are further fueling Transfer Pricing Controversy concerns. In response, businesses noted they are seeking advisors with strong local credentials, an established track record, practical experience dealing with tax authorities, and sound understanding of their industry.



39% of businesses "mostly outsourcing" Controversy are happy with their current delivery model

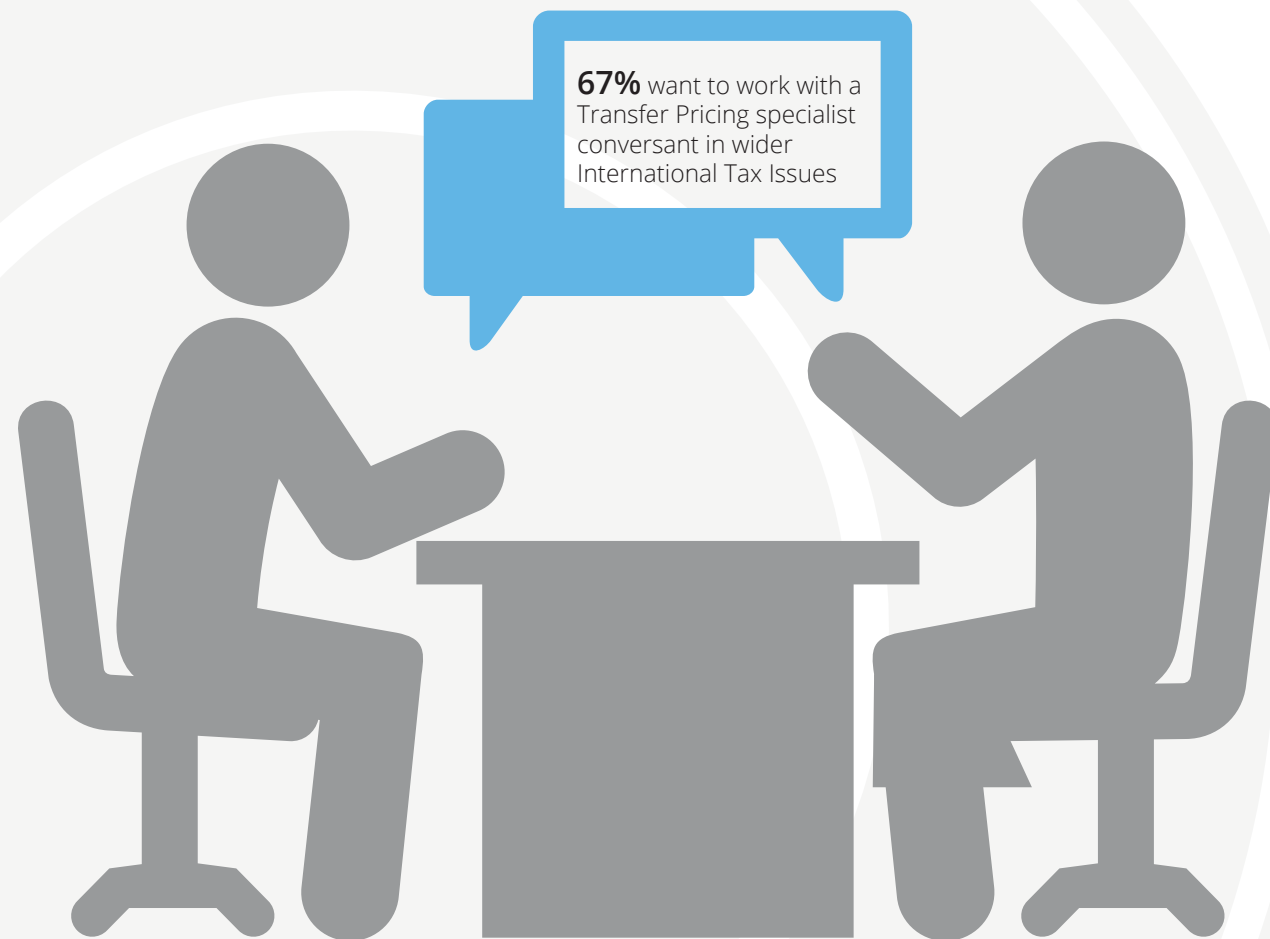
81% anticipate an increase in Controversy outsourcing in the future

82% of businesses working with an advisor for Controversy are outsourcing appeals and litigation work (and mainly to Big Four firms over traditional law firms) **[up from 73% in 2015]**

74% of businesses working with an advisor for Controversy are outsourcing MAP related work **[up from 61% in 2015]**

55% are mostly outsourcing their Controversy requirements





50% would approach their Transfer Pricing specialist for strategy and planning advice

60% feel that understanding their business needs is among the most important attributes of an advisor

57% outsource strategy and planning projects

Seeking broader value

In Transfer Pricing, most businesses are focused on merely 'keeping up' with requirements and there is evidence of systemic fatigue. First and foremost, they want advisors' support in managing the compliance driven tasks (which have nominal perceived benefits). But many businesses also are seeking to garner deeper insights based on their data and operations.

Accordingly, businesses are actively seeking advice across supply chain, intellectual property, legal, indirect tax, and other global tax issues. They want to partner with advisors who are conversant in a broad range of evolving concerns and able to deliver specialized advice from other parts of their practice.

Buyers are ultimately looking for 'innovative ideas which enhance their operations', including:

- Updates on the activity of revenue authorities
- Value chain alignment and coordinated delivery approaches
- Advice on evolving business trends such as digitalization, artificial intelligence (AI), data driven insights, and automation
- Tailored process improvements delivering tangible efficiencies

Clarity. Consistency. Confidence.

New business models are challenging traditional tax planning and regulatory change is shifting the ground on which risk management was based. Transfer Pricing leaders are looking to regain a sense of control.

Deloitte's approach to Transfer Pricing delivers clarity on a path forward by making sense of the ambiguity, increases global consistency by establishing an effective framework, and provides tax leaders the requisite confidence to effectively elevate the Transfer Pricing discussion in their organization.

Advising in-house Transfer Pricing departments looking to re-evaluate their operational approach and offering outsourcing solutions for companies seeking an end-to-end solution, Deloitte helps rethink processes, technology choices, and management philosophy of Transfer Pricing activities to adapt to today's evolving tax landscape.

While no one knows exactly what the future will look like, one certainty is tomorrow will look very different than today. Businesses need a balance of timely strategic advice and innovative, technology-enabled solutions to regain a sense of control over their Transfer Pricing operations. With a distinctive approach focusing on your company's unique needs, Deloitte helps companies take a forward-thinking approach to Transfer Pricing amidst this period of unprecedented change.

About this survey

Methodology & survey respondent profile

Respondents were key decision makers regarding the purchase of Transfer Pricing services. This was a blind study. Participants were not told Deloitte was the sponsor until after the surveys and interviews were complete.

Global view: Companies were selected at random from a Dunn & Bradstreet list based on the following criteria:

- Global revenue more than US \$1 billion
- Operating in five or more countries
- Representative spread of multinational business headquarters locations
- Broad spread of subsidiary locations with good representation across all regions and countries
- Spread of Big 4 Audit relationships
- Representative spread of industry sectors
- Identified target market universe of circa 2,500 companies

Broad view: Thirty-minute quantitative interviews with Transfer Pricing decision makers from 250 multinational companies

Deep view: Twenty-five qualitative interviews with decision makers from 10 multinational companies responsible for Transfer Pricing on a global basis

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