Transfer Pricing Services

Ensuring your transfer pricing is efficient and compliant

Elevating **people.**
Elevating **business.**
Elevating **society.**

The importance of transfer pricing

When independent parties transact with each other, the conditions of their commercial and financial relations are ordinarily determined by market forces. When associated parties transact with each other, their commercial and financial relations may not be directly affected by external market forces in the same way. Transfer pricing is an agreed framework of principles that seek to recreate the 'arm's length' position between connected persons or associated parties that would have existed had they been independent. The tax authorities in many countries, including South Africa, accept transfer prices only if they are in line with the arm's length principle.

The globalisation of business models and increasing tax authority focus has elevated transfer pricing to a mainstream priority for companies operating internationally.

Tax authority focus

Many governments have experienced a reduction in tax revenue as economic growth has weakened. Additionally, transfer pricing is often seen by governments as an area of compliance weakness and of potential abuse. As a result, it has been increasingly under the spotlight as tax authorities focus on cross border transactions between associated parties as a means of securing and increasing tax revenue.

The globalisation of business value chain models

In the competitive global economy, companies are always looking at commercial ways to improve the efficiency of their business. This may involve a restructure of the entire international value chain or it may be as simple as establishing a presence in a new country to be closer to suppliers or customers. In either case, differences in the business model adopted could drive very different tax outcomes and transfer pricing will be a critical consideration in both framing and measuring this.

Managing transfer pricing risk

These factors have made it of key importance for businesses to develop supportable transfer pricing policies, suitable documentation and to establish internal review processes to monitor the appropriate application of these policies. If a tax authority inquires into the cross border transactions of a company, they will expect to see documentation that supports the arm's length nature of the transactions.

A robust transfer pricing policy that is implemented correctly, as well as having accurate and complete transfer pricing documentation, will help minimise tax exposure and improve the chances of a successful defence on audit.

The financial risks of getting transfer pricing wrong are significant. The number of local compliance obligations is increasing year on year and many tax authorities will take a multiple year approach to an audit. This means that any adjustment will be across a number of financial years, magnifying the potential effect with a corresponding increase in interest on unpaid tax and/or penalty provisions and the potential for double taxation.

It is not just financial risk, defending against a transfer pricing audit can be a long and resource intensive process. Getting it right up-front will be a significant cost saving.

In order to assist our clients with the above, we specialise in:

- Development of an efficient transfer pricing strategy in line with business requirements
- Preparation, maintenance or review of Country-by-Country reporting
- Preparation, maintenance or review of master files and local files
- Preparation, maintenance or review of transfer pricing policy setting documentation
- Preparation of supporting benchmarking studies
- Conducting transfer pricing risk reviews
- Resolving of transfer pricing disputes with tax authorities
- Review and maintenance of transfer pricing control adequacy
- Pricing and supporting of financial transactions such as debt or guarantees
- Overall international tax planning
- Assisting with Reserve Bank approvals

Common transfer pricing pitfalls

The following areas are common pitfalls in the transfer pricing environment:

Management/support services: Tax authorities are concerned with what is included in the cost base and underlying calculation of a service fee, including if the costs have been allocated correctly to the right service recipients.

Identification of value-add intangibles and how these should be priced: Entities are not always aware what is considered an intangible from a transfer pricing perspective and how this should be priced.

Interest deductibility: The transfer pricing regulations require both the interest rate and the amount of debt to be arm's length. Determining if an entity has the debt capacity to borrow funds, and what the interest rate on the debt should be, is not simple and may require further analysis.

SARB or DTI approvals: Most transactions which result in funds leaving South Africa will require some sort of approval, including loans.

Increased compliance requirement: Entities may not be aware, but where certain thresholds are met, a local file must be submitted to SARS and certain information must be kept on file.

We take it personally. For further information, please contact us:

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