

Transfer Pricing Function Benchmarking Report



2016

Survey Report

*Obtain real insights taken from industry professionals to
navigate the brave new world of BEPS*

INTRODUCTION

The transfer pricing (TP) regulatory environment is changing more quickly and profoundly than ever before. To help corporate tax departments adapt to change and find practical strategies to accomplish key responsibilities, I partnered with Informa plc (the creators of TP Minds which is the world's largest global conference series exclusively dedicated to Transfer Pricing issues) to conduct some research on how other tax professionals are preparing for an unprecedented era of increase in tax risk and tax compliance burden.

As a result, I felt compelled to take the initiative and catch a glimpse of what other in-house transfer pricing experts believe could be the key ingredients of an effective TP function. The survey sets itself apart from others for three reasons: it focuses on operational transfer pricing, it is not specifically about OECD's BEPS initiatives (as some of us suffer from BEPS fatigue) and it is designed by in-house tax professionals.

As a bonus, some of the questions were useful for to a self-assessment to measure the level of effectiveness of the respondent's transfer pricing function. Each participant received a score with an estimation of their organization's TP Practice level of maturity and effectiveness. TP practices with effective processes, easy access to key resources/data and strong risk management practices, generated top assessment scores.

Finally, I would like to express my gratitude to all the in-house tax professionals who submitted a survey response and provided feedback on the survey results. My special thanks go to Michele Costa and her team at TP Minds for supporting me with this survey.

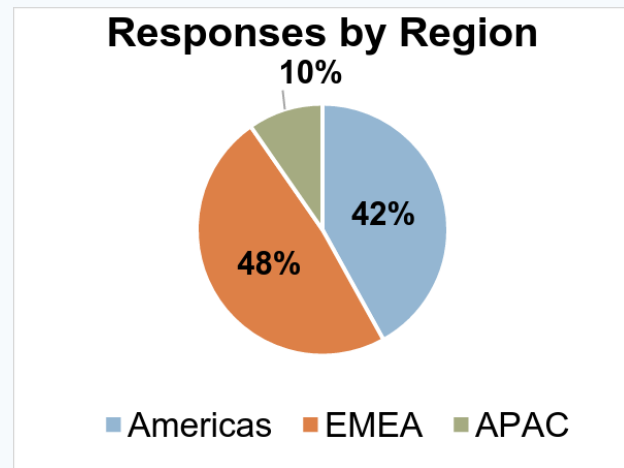
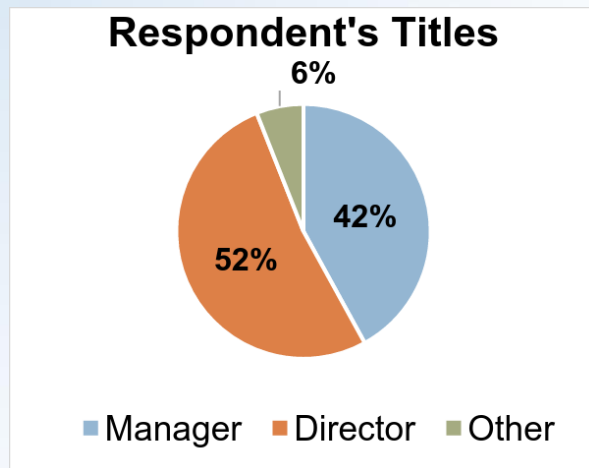
I hope you find this survey interesting and useful.

JC Ceballos

TABLE OF CONTENT

Introduction _____	2
Survey Statistics _____	4
Methodology _____	6
Survey Results _____	7
General Questions _____	7
People and Budget _____	7
IT Solutions Employed _____	11
Major Operational TP Challenges _____	13
TP Framework: Systems, Processes and Controls _____	19
Peer Survey Scores _____	21
Conclusion _____	23
About the Author _____	24

SURVEY STATISTICS



Top Industries Surveyed

Business Services

Industrial Goods

Health Sector

Insurance

Automotive

Food and Beverage

Telecommunications

Other Statistics:

- ❑ Median of Revenue = \$13 Billion
- ❑ Median of Employees = 42,000
- ❑ Employees for each full-time TP professional ranges from a 6,000 to 25,000 with a median of 14,000 employees.
- ❑ US and UK based companies represented about 55% of the total survey participants
- ❑ Five Fortune 50 companies participated in the survey

SAMPLE OF SURVEY RESPONDENTS



METHODOLOGY

This survey was responded by 31 multinational companies online and was focused on gathering qualitative data. Participation in the survey was mainly promoted in various LinkedIn groups between March 13, 2016, and May 26, 2016, and TP Minds's email list. Responses received from advisors, government employees and other individuals not representing multinational companies were excluded from the analysis.

Disclaimer: The opinions expressed in this article are the author's own and do not reflect the view of its employer Thermo Fisher Scientific Inc. or Informa plc. Furthermore, this document contains general information only, and neither the author or Informa plc is, by means of this communication, rendering professional services. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. This document contains general information only, and neither Informa plc or the author is, by means of this communication, rendering professional services. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser.

SURVEY RESULTS

General Questions

What is your employer or organization's annual revenue?



1	Between \$11 Billion - \$20 Billion	32%
2	More than \$21 Billion	26%
3	Between \$2.1 Billion - \$10 Billion	22%
4	Less than \$2 Billion	19%

People and Budget

How many FTEs (full time equivalence) dedicated transfer pricing employees work at your company?

1	2 - 3	26%
2	One (including Myself)	26%
3	More Than 6	22%
4	4 - 5	13%
5	None	13%

SURVEY RESULTS

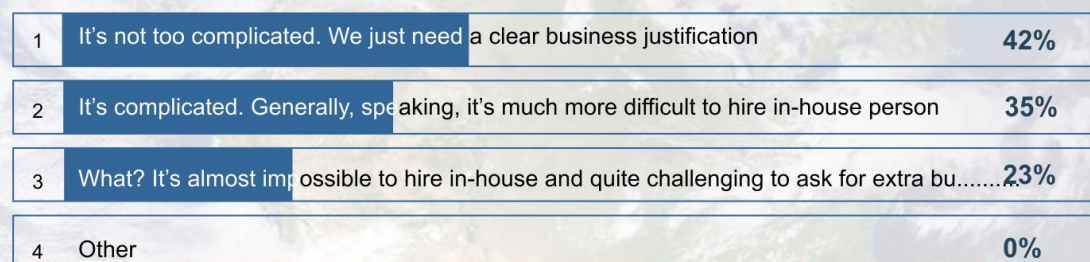
People and Budget

Our resources are very limited. We have difficulty in getting access to the right level of in-house or external staff for our TP functions to get essential work done.



Five stars = strongly agree. One star = strongly disagree.

How difficult is it to obtain approval for additional outside TP consultants or hire in-house



SURVEY RESULTS

People and Budget

How much do you spend on TP consultants on a global basis per year?



1	Between \$10k - \$250k	32%
2	Between \$1M - 2M	23%
3	Between \$501k - \$1M	19%
4	Between \$251k - \$500k	13%
5	I don't know	13%
6	More than \$2M	0%

What are your biggest concerns, challenges and complaints when working with TP consultants?

Selected participant responses:

- ☐ Copy and Paste
- ☐ I have to struggle with them to obtain exact recommendations
- ☐ Cost, scope creep, and quality of work
- ☐ Many don't have any in-house experience so the advice is not practical or expectations on how easy it is to obtain certain information are unrealistic, sometimes I even feel that consultants think in-house people don't know or understand anything
- ☐ Their business is to create dependency with the client
- ☐ They don't bear the costs of their advice if not supported in an audit
- ☐ They don't know our business and I am not always convinced they want what is best for us vs. giving us what is best for them.
- ☐ Not practical enough, too theoretical, don't live in "real world"

The Bottom Line

Generally speaking, respondents consistently complained about high costs, scope constantly increasing, and deliverables not properly vetted. Perhaps the concerns of industry professionals are linked to the client's TP practice maturity level or difficulty to switch advisors (i.e. lack of leverage or negotiation power).

Needless to say, if you have an advisor that is practical that has consistently provided high quality deliverables and can stand behind each of his/her foreign partner's work. Be sure to keep him/her as advisor!

SURVEY RESULTS

IT Solutions Employed

What technology is used to monitor entity profits and calculate transfer pricing adjustments (true ups)?

1	Excel Spreadsheet	55%
2	A combination of the above sources or tools	29%
3	External Technology (e.g SAP, Oracle, Hyperion TP, KPMG, IPS, Onesource, Access	23%
4	Internally developed technology	10%
5	We generally don't monitor entity profit	6%
6	Don't Know N/A	3%

We currently have manual and time-consuming processes as well as difficulty mapping source data among tax returns, key calculations and/or annual financial statements.

1	★★★★★	35%
2	★★★★★	29%
3	★★★	16%
4	★	13%
5	★★	6%

Five stars = strongly agree. One star = strongly disagree.

If a genie granted your wish for software (or glorified spreadsheet) that would simplify your key TP responsibilities, how would that solution look like?

Main Themes:

- ☐ Real time tracking of all intercompany flows by transaction or geography
- ☐ Segment income and cost of sales by SKU and product line
- ☐ Measure actual results with policies (e.g. cost plus, profit margins, etc.)
- ☐ Reduce data mismatches, support reconciliation, and improve internal tax controls
- ☐ Ability to quantify system profits in the entire value chain by business, entity or type of transaction
- ☐ Ability to create automated prospective and retroactive TP adjustments
- ☐ Simplify expense allocation processes and automate the generation of TP documentation reports
- ☐ Generate supporting files for audit defense purposes

The Bottom Line

In general, respondents expressed different ways technology could help them streamline the transfer pricing calculation process as well as executing and defending their company's TP policies. In most cases, TP entries are manually calculated and prepared in Excel. As a result, a software that interfaces with ERP systems to automate all or portions of the operational TP function would be much welcome. In a growing company, this activity is error prone and very time consuming to perform for every legal entity.

A small percentage of participants reported having automated transfer pricing calculations through software licensed or developed internally. Therefore, it appears that a significant amount of multinationals need to play catch up in the next few years when it comes to appreciating the benefits of leveraging technology and investing on it.

SURVEY RESULTS

Major Operational TP Challenges

What are the top routine and repetitive tasks that suck the most time of the schedule for you and your team? Select as many as are applicable:

1	Collecting, sorting or validating data	81%
2	Finding the right people or sources of information	68%
3	Monitoring/reporting performance of legal entity financial results	45%
4	Staying up to date with regulatory changes	45%
5	Update intercompany agreements or sections of TP studies	45%

What's the TP responsibility that is most important to you on a day basis?

1	Manage TP Audits and Controversy	56%
2	Address BEPS TP implications	50%
3	TP Policy implementation/Maintenance	50%
4	TP Planning/Tax Optimization	44%
5	Prepare TP Documentation	38%
...	Show More (3)	

SURVEY RESULTS

Major Operational TP Challenges

Do you have the systems, procedures and resources to assess actual profit splits across your organization's global value chain?

1	Not Really	55%
2	Yes, to some extent. However, a significant amount of additional time and resources...	42%
3	I don't know /NA	3%
4	Yes, to most extent	3%
5	Other	0%

At my company, the tax team proactively deals with important organization or supply structure changes (i.e. manage resulting risks and opportunities)

1	★★★★	43%
2	★★★★★	33%
3	★★★★★☆☆	13%
4	★	7%
5	★☆☆	3%

Five stars = strongly agree. One star = strongly disagree.

SURVEY RESULTS

Major Operational TP Challenges

How frequently does your company make TP adjustments when the results of the monitoring are out of the policy range?



We are generally prepared for BEPS related TP documentation and new local disclosure requirements.

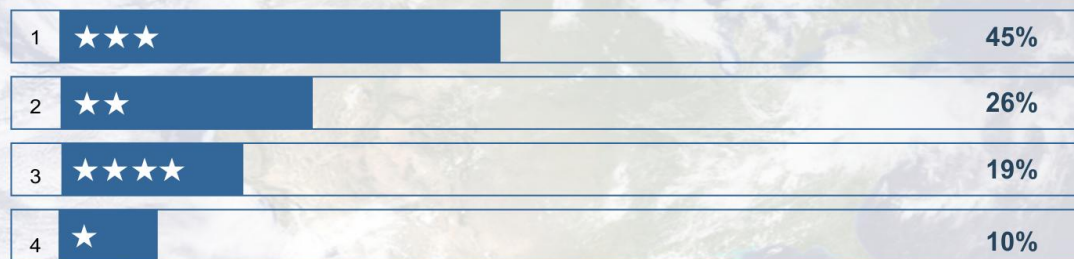


Five stars = strongly agree. One star = strongly disagree.

SURVEY RESULTS

Major Operational TP Challenges

At my company, there are minimal disconnects among tax planning, TP implementation compliance and/or audit defense



Five stars = strongly agree. One star = strongly disagree.

What is your main fear or frustration about your top day to day responsibility?

That is the #1 biggest challenge related to your top responsibility as in-house TP specialist.

Selected participant responses:

- ☐ Inconsistent TP practices across the organization
- ☐ Not enough resources (people + budget + IT solutions) to do things well
- ☐ Working in a company that is rapidly expanding into new countries, it's difficult to stay on top of the local differences in transfer pricing (and tax)
- ☐ Avoid working in silos in the management of the TP lifecycle
- ☐ I'd say fighting data (sorting, mapping and validating) due to our multiple ERPs
- ☐ Constant changes to the organization without timely consideration of the TP
- ☐ Struggling for audit defense files
- ☐ Further improvements to systems and policies to support accounting principle differences
- ☐ Getting support from other departments

The Bottom Line

For most survey respondents, the biggest fear or frustration relates to the lack of data or resources such as staff, budget, and IT solutions. Other participants mentioned they faced internal challenges when working with other functions or departments. This feedback is in line with other questions that are part of the “Major Operational TP Challenges” section.

What TP challenges or responsibilities typically cause your company to shell out the most money every year?

Key Themes:

- ☐ Data quality
- ☐ Outsourcing large documentation projects
- ☐ Double taxation
- ☐ Audit defense
- ☐ Tax reserves

The Bottom Line

Generally speaking, TP challenges causing significant financial costs to a company are broad and diverse. Such challenges could be attributed to the lack of specialized personnel in-house as well as the complexity of the organization, industry, audit history or structure of the intercompany transactions. The company's risk tolerance to tax matters and level of maturity with regards to their operational transfer pricing function could also play an important role. However, respondents repeatedly emphasize that audit defense and outsourcing large projects to advisors represented the biggest financial costs to their company

SURVEY RESULTS

TP Framework: Systems, Processes and Controls

Do you prepare (or have access to) detailed segmented financial data as part of your profit margin review process?



1	Yes, We currently have a manual and time-consuming processes	45%
2	Yes, we have an automated or semi-automated process that is largely mapped to so...	43%
3	Not yet. We are looking into it	19%
4	Impossible due too misalignment of chart of accounts/ERP Systems.	10%
5	Don't Know/NA	3%

We have up to date intercompany agreements, policies, internal procedures, risk assessments, record management policies and supporting files.

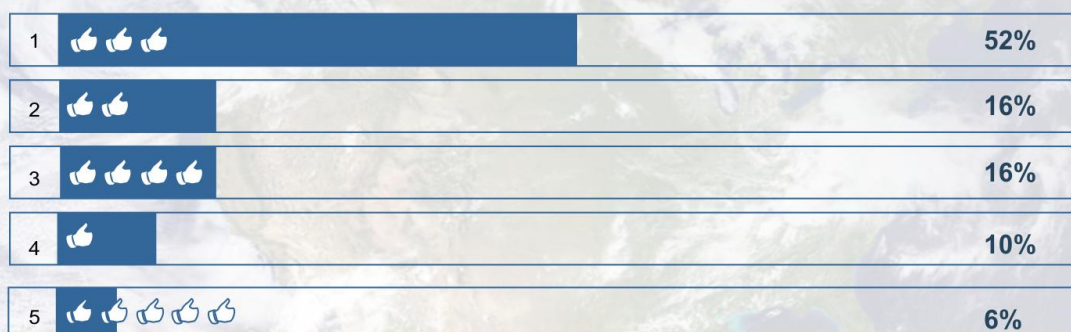
1	★★★★	45%
2	★★	19%
3	★★★★★	19%
4	★	10%
5	★★☆☆	6%

Five stars = strongly agree. One star = strongly disagree.

SURVEY RESULTS

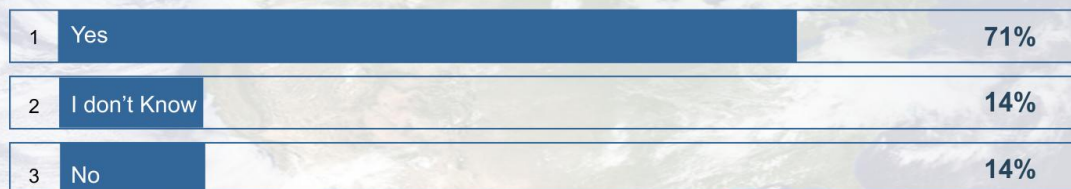
TP Framework: Systems, Processes and Controls

How sophisticated are your organization's governance and risk management practices with regards to TP?

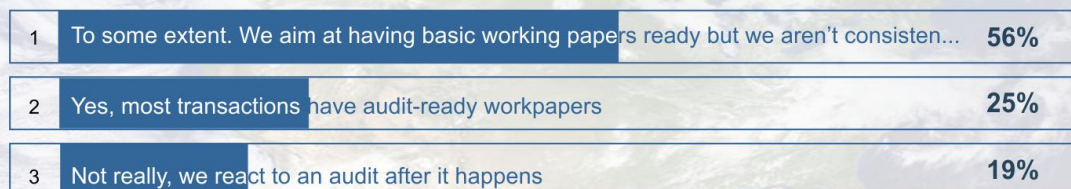


Five thumbs up = well defined and documented processes and controls.

Have TP risks and opportunities (including BEPS measures) have been recently discussed with your C-suite Boardroom



Do your company's TP practices include through preparation before audits happen?



Peer Survey Scores

As mentioned above, some of the questions were useful for to a self-assessment to measure the level of effectiveness of the respondent's transfer pricing function. Each participant received a score with an estimation of their organization's transfer pricing function level of maturity and effectiveness.

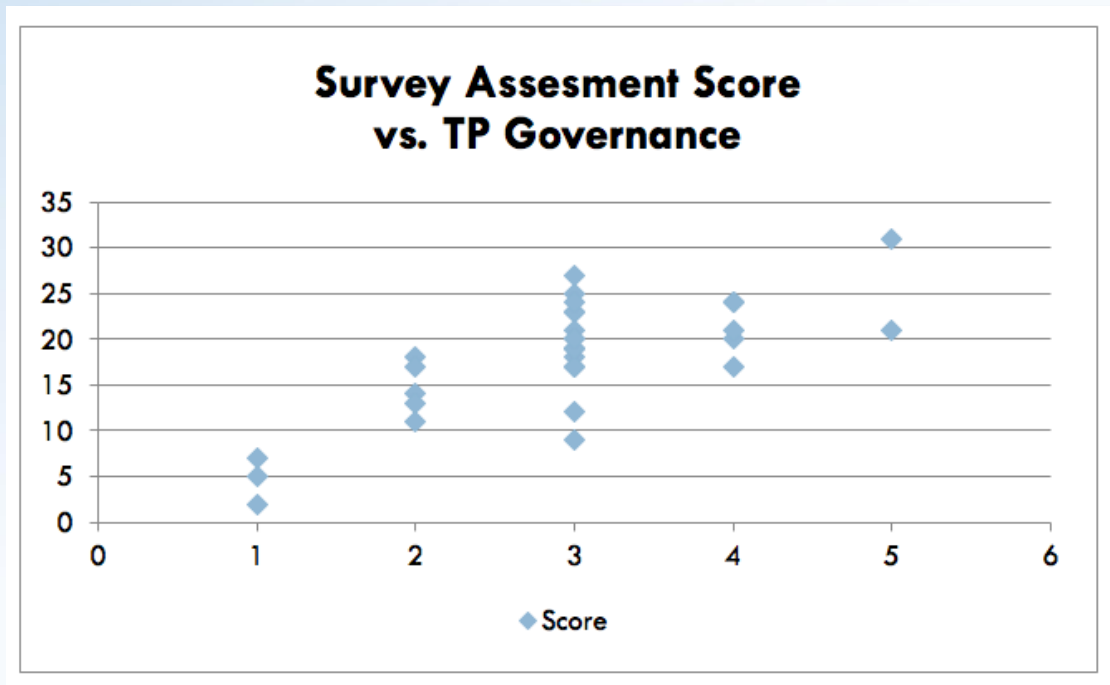
The assessment results lower quartile was 17, the upper quartile 21 and the median 19 points. The minimum score for a participant was 2 points and the best score reported was 31 from a maximum of 41. Accordingly, transfer pricing function's maturity level was determined based on the following scale:

0-13 Points - A work in progress

14-22 Points - In the development stage

23+ Points - In the maturity stage

It is worthwhile to note that one survey answer showed a strong connection to high assessment scores. Not surprisingly, it was the level of perceived sophistication of an organization's governance and risk management practices with respect to transfer pricing. In particular, survey respondents were asked to qualify their own company's TP governance practices from 1 to 5. The highest standard was 5. The next graph depicts the trend described above. Each dot in the graph represents the actual score of a survey respondent.



While more resources allocated to the transfer pricing function did not guarantee high assessment scores. Most survey takers with scores above the lower quartile reported that at least they employed two transfer pricing specialists (full time) and spent more than \$700k in annual advisor fees.

If you would like to take the TP practice assessment. Please contact **JC Ceballos** at www.linkedin.com/in/ceballosjc

CONCLUSION

In the current global environment when the tax matters of multinational companies are under unprecedented levels of scrutiny from tax authorities, nongovernmental organizations (NGOs) and independent media outlets. There is no doubt that the bar has been raised for transfer pricing compliance work. Therefore, taking action in minimizing tax risk, increase transparency and enhancing the effectiveness of the TP practices is more important than ever.

Based on the survey results, factors such as effective processes, easy access to key resources/data, company's risk tolerance and risk management practices, have more influence in the effective execution and control of transfer pricing policies by multinationals.

While for some companies improving their transfer pricing practices might mean implementing a new software, for others that may be unrealistic or not necessary. Other companies may require aligning tax compliance with senior executive and board expectations to build a business case for change. Having said that, if your organization is in the process of identifying better ways to navigate the brave new world of BEPS. I suggest you review this report carefully (particularly, pages 17-18), identify an action plan for all stakeholders and value its potential benefits.

ABOUT THE AUTHOR



JC Ceballos currently serves as Head of Transfer Pricing for Thermo Fisher's Life Sciences Group. He has broad experience in developing, implementing, documenting and defending worldwide transfer pricing strategies for tax and finance departments of multinational companies. He is passionate about using operating transfer pricing to manage tax risk. In

2009, he joined the newly created Life Technologies Corp (Nasdaq: LIFE), later acquired by Thermo Fisher (NYSE: TMO) in 2014 to build an in - house TP department due to the merger of Invitrogen and Applied Biosystems. As an in-house professional, JC has most notably simplified the execution of TP policies, streamlined the profit review analysis process, prepared documentation in-house, coordinated with outside TP consultants special projects involving licensing intellectual property, APAs, audit defense and Cost Sharing Agreements. Previous to joining his current in-house role, he spent 8 years as a transfer pricing advisor at Deloitte and E&Y.

© copyright: 2016. All rights reserved.