

TRANSFER PRICING

CONTROL THE RISKS AND BENEFIT FROM THE VALUE IT CAN CREATE



Transfer pricing, the price at which goods and services are sold between associated enterprises, is regularly acknowledged to be the most important tax issue facing multinational businesses in the current economic climate.

WHY IS TRANSFER PRICING OF PARTICULAR IMPORTANCE NOW?

OPPORTUNITIES...

The current global business environment has created issues for groups such as restricted cashflow, decreased earnings, stranded losses and reduced credit availability. Transfer pricing solutions such as the effective restructuring, repricing or refinancing of transactions can play an important role in addressing these issues.

In addition, an effective risk management strategy should provide certainty that transfer pricing exposures are managed efficiently and give assurance to directors, auditors and other stakeholders that the policy can be supported if challenged.

...COMPLIANCE RISKS

Fiscal authorities globally are under tremendous pressure to maintain tax receipts in the current environment and are increasingly recognising the possibilities provided by transfer pricing for revenue raising purposes. In recent years there has been a rapid growth in the number of jurisdictions expanding their transfer pricing capabilities by introducing new legislation and recruiting specialist auditors.

There is increasing political interest from both an international and domestic perspective to ensure that countries receive their fair share of tax. In South Africa, the Davis Tax Committee has specifically recommended changes to enforce arm's length transacting within multinationals.

...REPUTATIONAL RISKS

As governments worldwide are cutting costs on social projects and benefits there is increasing public and political pressure on multinationals to contribute to local corporate tax revenues. This was highlighted by the recent campaign in the UK against Starbucks.

In this climate, transfer pricing policies are increasingly under the spotlight to answer a "moral case" with significant reputation risks at stake.

In Africa, the risk extends beyond reputation as the developing world governments are suspicious of large multinationals who they often perceive as repatriating large amounts of untaxed profits. This is evidenced by the fact that South African companies are now required to disclose cross border connected party transaction to the South African Revenue Services.

...AND LEGISLATIVE PRESSURE

South African legislation sets out certain punitive measures against parties that do not enter into arm's length transactions with foreign related parties. The onus of proof is on the taxpayer to show that these international transactions are priced at arm's length. A failure to do so can result in understatement penalties being raised of up to 200%.

The benchmarking of relevant transactions and preparation of a transfer pricing policy is an accepted method of confirming that transactions with foreign connected parties are at arm's length.

HERE ARE SOME EXAMPLES OF CURRENT ISSUES AND THE SOLUTIONS WE OFFER

Requirement	Potential solutions	Value/benefits
Assurance		
<ul style="list-style-type: none"> The ability to set prices that produce intended financial results that are supportable and provide certainty that they are at arms length 	<ul style="list-style-type: none"> Diagnostic reviews Practical transfer pricing design and implementation 	<ul style="list-style-type: none"> Cost effective way of assessing the strengths and weaknesses of existing transfer pricing policies Control over transfer pricing risks and management of effective tax rate and regulatory risks
Tax efficiency		
<ul style="list-style-type: none"> To take advantage of planning opportunities that can be aligned with business needs and comply with regulatory and tax authority requirements 	<ul style="list-style-type: none"> Designing transfer pricing transactions that support changed business structures Provide documentation and implementation support 	<ul style="list-style-type: none"> Sustainable lower effective tax rate Control over audit and regulatory risk Transfer pricing is aligned with business operations
Dispute resolution		
<ul style="list-style-type: none"> To resolve transfer pricing disputes effectively, minimizing tax adjustments, double taxation, interest, penalties and damage to reputation 	<ul style="list-style-type: none"> Advice on strategy for handling audits Economic analysis to refute tax authority position 	<ul style="list-style-type: none"> Less management time diverted Certainty regarding liabilities Maintain relationship and credibility with tax authorities
Financial transactions/Capital Structure (Thin Capitalisation management)		
<ul style="list-style-type: none"> To ensure that debt is priced and structured in a tax efficient and supportable manner 	<ul style="list-style-type: none"> Advice on supportable borrowing capacity and interest rates 	<ul style="list-style-type: none"> Management of effective tax rate by maximising interest deductions Assurance that tax authority obligations are met

WHAT MAKES MAZARS DIFFERENT?

Our team in South Africa consist of highly skilled Tax specialists which ensures that we are able to provide effective and practical transfer pricing solutions.

We can also draw upon transfer pricing expertise from the 70 countries in our unique international practice so as to ensure that we produce results that fit with commercial and tax strategies.

CONTACT

For more information on how we can help with your transfer pricing requirements please contact.

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