



An Efficient In-house Transfer Pricing Function

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Presentation Outline

- 1 Introduction
- 2 Challenges of an In-house function
- 3 How and what to take in-house
- 4 Information, Communication and Monitoring
- 5 Conclusion
- 6 Q & A Session



1. Introduction

Why have TP management

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Transfer pricing and its effect on financial reporting

Multinational companies face high-risk tax accounting.

BY JOHN MCKINLEY, CPA, CGMA, J.D., AND JOHN OWSLEY, PH.D.

October 1, 2013



Global firms such as Starbucks, Google and Amazon have come under fire for avoiding paying tax on their British sales. There seems to

In today's Magazine

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Bloomberg Markets Tech Pursuits Politics Opinion

Kenya Enacts Tax-Avoidance Law to Deal With Transfer Pricing

by Adelaide Changole

Revealed: How Karuturi got away with denying Kenya millions of shillings in taxes

By Moses Michira
Updated Tue, March 25th 2014 at 00:00 GMT +3



By Moses Michira

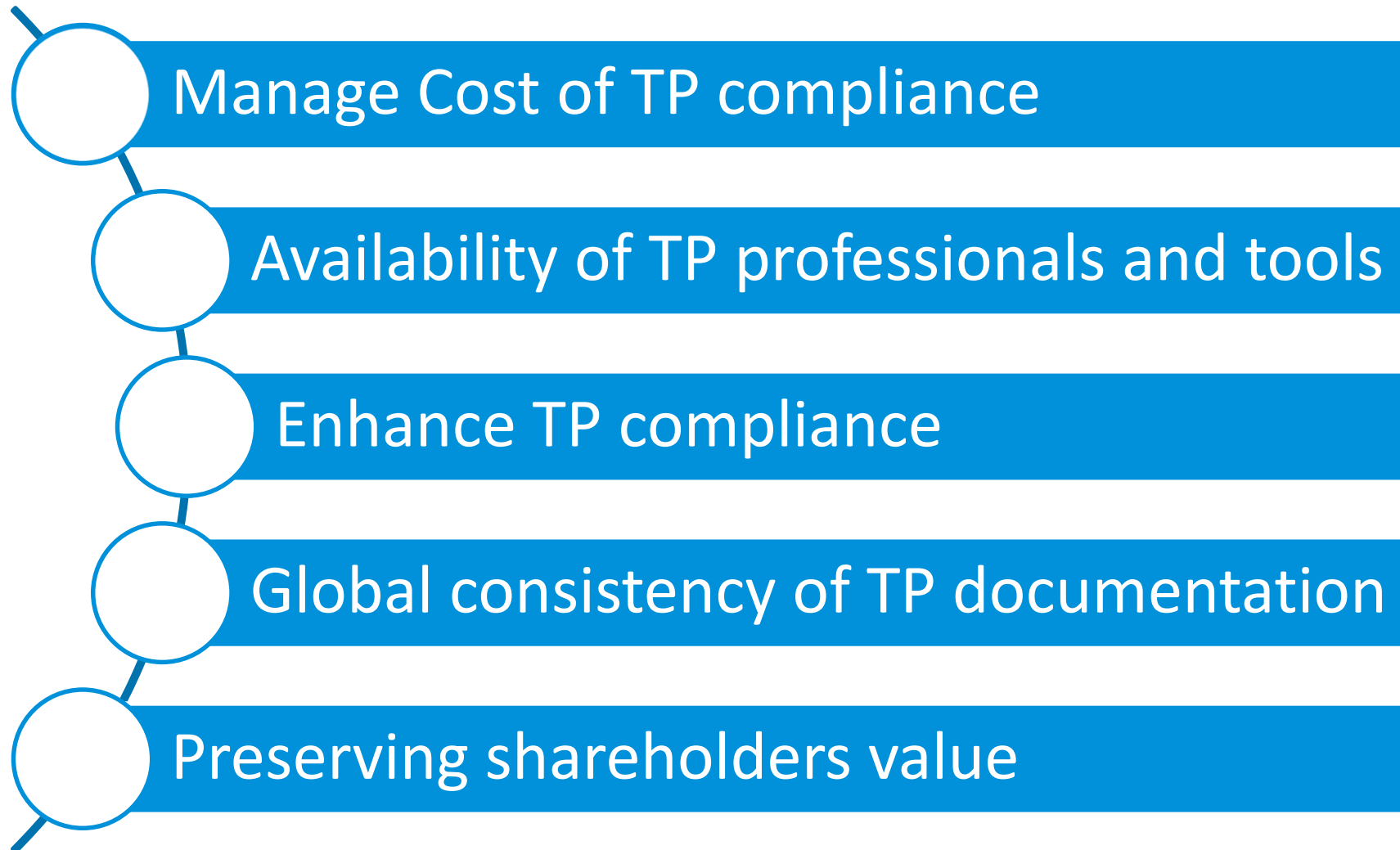


- TP is more associated with tax avoidance – Media
- TP teams are focused on gaining expertise rather checking on the implementation of the TP policy

Change is required

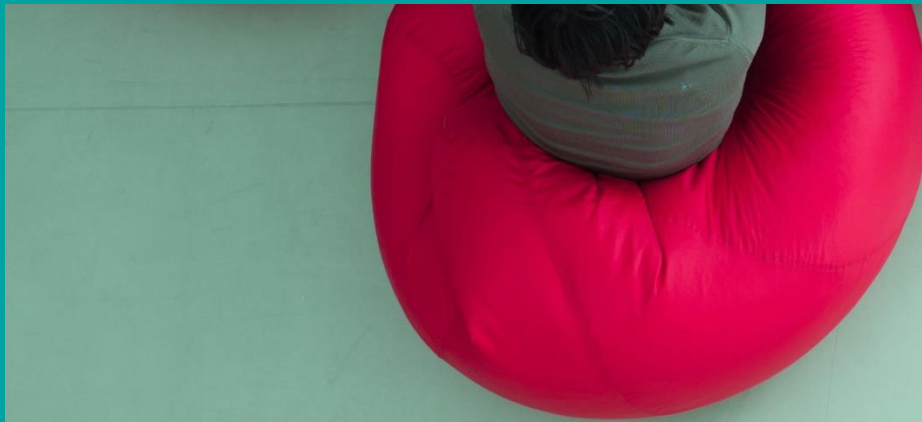
- Given the increasing administrative burdens of the OECD BEPS project requirements (country-by-country reporting etc.)
- Operational substance is required for a company's TP positions

Why have an In-house TP function





TP Issues to take In-house



Expectation of an internal TP function

- Internal communication with all subsidiaries
- External communication on the position of the Group
- Adequate and timely management of transfer pricing compliance cycles
- Proper risk management to avoid:
 - *Mis-stated financial statements; and*
 - *Increased tax liabilities through penalties*

What TP issues to take In-house

Routine documentation updates

Interviews and FAR

Developing a TP software

Routine queries to Revenue Authority

Quarterly compliance checks

What to outsource

Complex TP documentation

Economic and benchmarking analysis

Revenue audit and dispute resolution

Development of new TP documents

TP optimization reviews

What TP issues to take In-house

- Consider establishing a cross-functional committee to:
 - Govern and manage intercompany processes
 - Represent all key functional constituents
 - Oversee the execution of all processes in accordance with tax policy and accounting requirements
 - Identify improvement opportunities
 - Make recommendations to senior management
 - Implementing required changes to continuously improve the intercompany environment

Implementing In-house TP

- Allocating roles and responsibilities between **in-house** roles and **external advisers** by defining who should be:
 - *Responsible;*
 - *Accountable;*
 - *Consulted; or*
 - *Informed*

On the various TP work flows.

Implementing In-house TP

Alignment

- Business process
- System

Accounting framework

- Customized accounting software

Assessment

- Current TP obligation
- Adjustments
- Reporting
- Training



2. Challenges of an In-house TP function



Challenges

Communication breakdown – strategy



An incoherent accounting system



lack of clearly defined and documented responsibilities



Lack of training on latest TP Developments

Think

About it...

☐ Why are information gathering, communication and monitoring important??



Information Integration and monitoring

- In the face of globalization and increased scrutiny corporate finance and tax functions must have a clear and auditable Operational TP process to ensure compliance.
- .The collation of information permits:
 - Transparency;
 - Widespread knowledge and awareness within the organization;
 - Lower risk of mis-information or breakdown in communication; and
 - A greater ability to monitor any changes.

Communication is Key

- Proper and timely communication between the CFO and the TP team is key in managing transfer pricing risks.
- CFOs should always be updated on any deviations between transfer pricing policy and actual compliance.
- A communication plan that clearly does the following will be required:
 - Identifies the key organizational and operational aspects of the transfer pricing function;
 - Sets clear guidance about format and timing will ensure that the transfer pricing team spends its time and effort on the most important requirements; and
 - Delivers what it needs to deliver in a timely manner.

Communication is Key

- By using structured questionnaires and putting in place a well-defined and regular communication structure, CFOs can:
 - Get a much more accurate grip on transfer pricing reality;
 - Encourage a more process-oriented approach to transfer pricing among transfer pricing teams; and
 - Ensure that transfer pricing risks are managed efficiently and on time.

A high-angle, top-down photograph of a group of seven business professionals in a meeting. They are gathered on a light-colored, large-tiled floor. In the center, a man with grey hair in a grey suit and striped tie holds a blue clipboard and points at it. To his left, a man in a brown suit and a woman in a light beige blazer look on. Another woman in a light beige blazer is pointing at the clipboard. To the right, a man in a light blue shirt and dark tie looks down. Further right, a woman with grey hair in a light beige suit and pearl necklace holds a white notepad. In the bottom left, the legs and feet of a person in light blue trousers and white shoes are visible. A teal banner with the text '5. Conclusion' is overlaid on the left side of the image.

5. Conclusion

Remain in control

Control over a company's TP risks is achieved through:

- A better functioning governance and control framework
- Enhanced certainty about existing and future transfer pricing positions and processes
- Proactive and actionable transfer pricing risk management
- Facts-based communication to both internal and external stakeholders.
- software system - key data source for all information relevant for full TP transparency.



Q & A



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Thank You

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