



Transfer pricing considerations for COVID-19

The COVID-19 pandemic changed the way the world economy functions, as multinational companies (MNCs) navigate through new business and tax needs. Tax planning and priorities shifted when organizations took immediate action and explored long-term strategies to respond, recover, and thrive during the pandemic. What impact has the pandemic had on MNCs with respect to their transfer pricing? The following insights and suggested actions describe the transfer pricing considerations that should be top of mind for multinational enterprises in the current economic environment.

5 insights you should know

COVID-19 may impact taxpayers' liquidity needs. Changes to companies' operations and/or economic events may necessitate financial rebalancing.

The uncertainty surrounding the pandemic made accurate forecasting extremely difficult. As things become more certain, it is important for taxpayers to continue to effectively plan and document their transfer pricing position.

Many industries are suffering from significant supply chain disruptions as a result of COVID-19. To prevent future unforeseen challenges, it is important that MNCs maintain an understanding of risks that exist within their supply chain.

Tax planning may potentially help mitigate COVID-19 related impacts. Operational changes, as well as BEAT, section 250 deduction, or FDI planning may reduce cash taxes while supporting business needs.

Global tax authorities continue to monitor the current environment and analyze the need to update tax guidance. The OECD has released transfer pricing guidance in applying the arm's-length principle under the circumstances introduced by the pandemic and recommends that taxpayers conduct a much more detailed review of their transfer pricing than in prior years.

5 actions to take now

- 1 Consider liquidity needs.** Taxpayers may consider prepayments and buybacks, renegotiations of arrangements, cash pooling, refinancing, or factoring as potential approaches to increasing liquidity.
- 2 Reanalyze transfer pricing positions and documentation.** Taxpayers should consider revisiting routine returns, renegotiating risk allocations, or intangible property planning.
- 3 Analyze potential for supply chain disruptions.** Taxpayers should analyze COVID-19 related cost carve outs and the impact on value drivers such as digitization, remote monitoring, enhanced use of technology vs live interactions. Taxpayers should also control permanent establishment risk or crisis management.
- 4 Review COVID-19 tax considerations.** Taxpayers should review intercompany agreements, existing policies vs. new intercompany transactions, contemporaneous documentation, benchmarking, indirect tax, and advanced pricing agreements.
- 5 Analyze new transfer pricing guidance.** Taxpayers should review the new guidance, which focuses on the following four areas: comparability analysis, losses/excessive profits, and the application of COVID-19 specific costs/gains, government assistance programs, and APAs.

New driving forces



Workforce

Remote working, labor shortage, reduced headcounts, and travel restrictions in key geographies impact business models and require thoughtful tax solutions to manage the new normal.



Digital

Digital has pushed the optimization of supply chains. Global tax (data) management intends to keep pace: One single source of truth in a cloud, fully digital and searchable, in one or more data lakes, in open platform(s), integrated with finance, and aligned with the business.



Logistics

Warehouse operations develop to transshipment warehouses, choices of plant and warehouse locations are rethought; automated, autonomous, alternative transport models enlarge as well. At the same time, international tax law is experiencing a complete overhaul.



Planning

To improve resilience of business models, planning for the unexpected is crucial. Tax Business leaders are shifting to new decision criteria for value chain aligned tax considerations such as transparency, liquidity and cash management, and shifting to regional and local models.



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