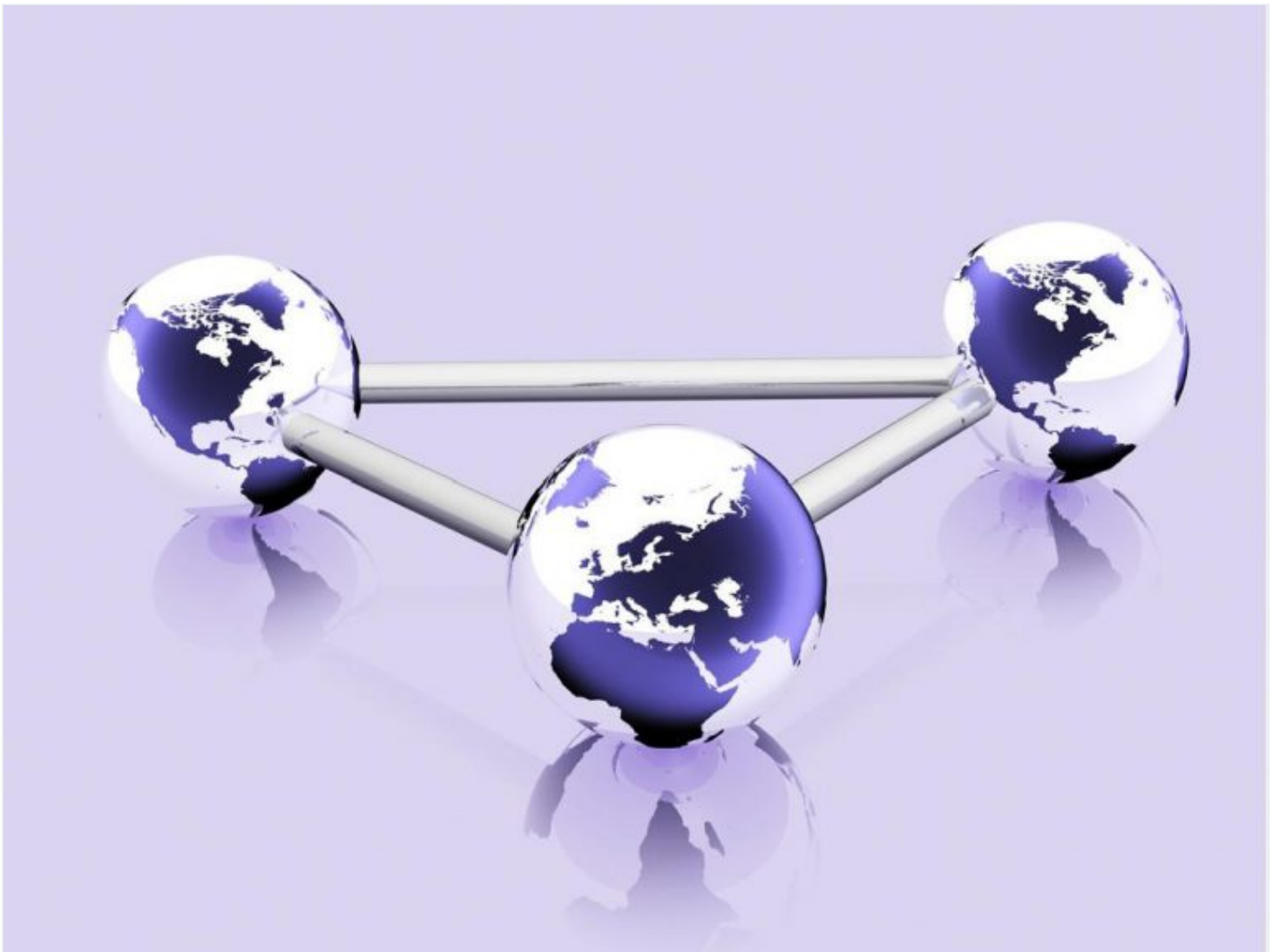


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Transfer pricing activities have faced increased scrutiny by tax authorities around the world and within the United States. As such, many companies are seeking more guidance on how to best manage their transfer pricing life cycle. The life cycle

consists of four phases, which include planning, implementation, documentation

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**The life cycle begins with planning**, which is essential to the successful creation of company's transfer pricing policy. Early involvement by multiple stakeholders in the tax, finance, accounting, and business functions will better enable companies to align their transfer pricing strategy with business objectives and better control their risks.

One way for organizations to get key stakeholders involved early is to establish a committee that meets on a recurring basis to discuss topics that could result in cross-border or interstate activity, such as the creation and marketing of new products and the outsourcing of operations. In addition to regular meetings, stakeholders should develop a step by step plan to understand and address any new intercompany transactions or changes to existing transactions.

The key components of this plan should include streamlining a process to identify individuals within the organization that are knowledgeable about new intercompany transactions, and are able to gather the information necessary to perform an economic analysis that will form the basis of an arm's-length charge.

Once an arm's-length transfer price has been determined, the planning phase should be supported with **an established set of rules to ensure the policy is implemented consistently** throughout the organization. A formal intercompany contract that outlines the terms and conditions of the transaction should be prepared, reviewed by stakeholders and legal counsel, and signed by representatives of all the entities involved in the transaction. Developing an intercompany agreement, however, is only part of the implementation process. Ensuring that the terms of the agreement are followed by the business is the second, and most critical, component.

**Documentation is a retrospective exercise** in which intercompany transactions are tested to determine whether or not related parties conducted their intercompany activities at arm's length. The importance of documentation has proliferated in

recent years as the number of countries requiring transfer pricing documentation

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applicable jurisdictions.

In the U.S., companies should prepare transfer pricing documentation contemporaneously with the filing of their corporate tax return (generally between three and nine months after the fiscal year end). Companies operating in countries that adhere to the OECD's guidance on transfer pricing documentation and country by country reporting must file their transfer pricing documentation within one year from the fiscal year end, assuming they do not meet the small and medium enterprise exception.

Once a transfer pricing policy is set, **monitoring becomes the central focus** of the tax department to ensure that transfer prices result in the desired arm's-length outcome. The comparison of budgeted financials to actual results should be performed at least quarterly to address any problems as they arise. To the extent possible, monitoring of transfer pricing positions should be automated and adjustment capabilities should be set up to ensure transfer prices are adjusted in a timely manner. At this point, a company should also review its intercompany agreements to confirm that the substance of the agreement matches the form of the intercompany transaction. If properly implemented, monitoring capabilities can result in substantial efficiencies such as lower compliance costs and, more importantly, lower financial statement and tax risks.

There are numerous benefits to properly managing all four phases of the transfer pricing life cycle over and above transfer pricing risk reduction and tax savings. Organizations can also expect improved communication and overall efficiency. In addition, opportunities to effectively manage the organization's effective tax rate through more informed decision making and the release of provisions stemming from uncertain tax positions are added benefits. With transfer pricing scrutiny not expected to subside any time soon, companies are encouraged to build a thorough

process to mitigate risks inherent to transfer pricing compliance and realize the

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