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by Vesela Grozeva, Chris Schulman, Jessie Coleman, and Pravin Ugalat

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In this article, the authors examine how companies can better use transfer pricing processes and technology to prepare for regulatory and reporting changes.

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Tax and transfer pricing practitioners must navigate an increasingly complex and uncertain tax landscape, while also responding to global shifts in the way multinational enterprises do business.

Over the last several years, the U.S. and global tax rules have undergone fundamental changes that affect the way MNEs think about transfer pricing, and there is no sign of the pace of new tax regulations slowing down. The OECD base erosion and profit-shifting action items introduced new guidance on how to analyze and document intercompany transactions. The Tax Cuts and Jobs Act lowered the U.S. tax rate and introduced new international tax rules that affect intercompany payments and the tax accounting related to them. The ongoing OECD inclusive framework "BEPS 2.0" effort is poised to upend the tax world once again by imposing a global minimum tax and granting new taxing rights that would initially affect the largest MNEs but would likely expand later. If passed in whole or part, the Build Back Better Act (H.R. 5376) could modify some of the tax rules introduced by the TCJA just five years ago and harmonize U.S. tax rules with the OECD BEPS 2.0 guidance and foreign tax rules.

As if the shifting tax regulatory and compliance framework was not enough of a challenge, MNEs must also address the business disruption caused by the coronavirus pandemic; trade tariffs; the rise of corporate environmental,

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social, and governance (ESG) awareness; and digital transformation. Adapting to and making decisions in that environment requires a reliable data pipeline that tax departments can use to comply with the new transfer pricing documentation requirements, assess risk areas and prepare for audit challenges, and perform cost-benefit analyses of potential business and supply chain restructurings.

This is the time for tax and transfer pricing practitioners to ask the hard questions: How should my organization's transfer pricing processes evolve, given the unrelenting whirlwind of tax and economic disruption? What technologies can be implemented into the transfer pricing process to allow my organization to keep up with the ever-changing tax regulations and reporting requirements?

This article addresses those questions and outlines steps tax departments can take not just to prepare for change but also to capitalize on it by considering robust operational transfer pricing (OTP) processes and technology solutions.

I. Changing Tax Landscape

Over the last few years, many countries have implemented or strengthened their transfer pricing transparency and compliance requirements and amplified their audit scrutiny into intercompany transactions. A recurring comment we hear from tax departments is that compliance has become more burdensome and data-intensive than ever, and it is difficult to keep up.

The United States implemented a major set of changes to the tax code in 2017, and the Biden administration is proposing another round of reforms. Many other countries have also proposed tax reforms. Prominent examples are the United Arab Emirates, which this year introduced a federal corporate income tax effective in 2023, and Singapore, which last year announced it will change its tax system.

It seems certain that tax regulatory changes will continue and even accelerate as countries begin implementing the global tax changes described in the BEPS 2.0 guidance. MNEs will need to track how countries' new tax rules affect the data they need for compliance. They also need to understand what data must be available to support potential changes to corporate structures and transfer prices.

A. Greater Transparency in Transfer Pricing

In 2015 the OECD released final guidance on transfer pricing documentation and country-by-country reporting, which applies to MNEs with consolidated revenues exceeding €750 million. That guidance is meant to enhance transfer pricing transparency for tax administrators, and it establishes higher standards for transfer pricing documentation, including a master file, a local file, and a CbC report. The master file is primarily a descriptive document and contains an overview of the company's global business operations, value creation process, and transfer pricing policies. The local file builds on the master file and provides jurisdiction-specific information about material intercompany transactions and analysis of their compliance with the arm's-length principle. The local file is both descriptive and quantitative: Its purpose is to present a functional, risk, and asset analysis while also disclosing the financial information used in the arm's-length analysis.

The CbC report is the most data-intensive component of the required documentation. It is a standardized report in a tabular format that discloses financial information about all affiliated entities, such as total and intercompany revenues, profits, taxes paid, number of employees, and other measures of economic activity. Tax authorities have swiftly adopted CbC reporting, and as of October 2021, over 100 jurisdictions had introduced CbC reporting rules.

From a practical perspective, the OECD BEPS project and resulting transfer pricing documentation guidance have led to an evolution of how tax authorities analyze intercompany transactions. On audit, tax authorities will look for information that is both comprehensive and granular and expect companies to produce it on short notice, even if they do not meet the €750 million revenue threshold.

Some jurisdictions have supplemented the guidance with additional documentation elements that require MNEs to obtain and analyze even more data. For example, the United Kingdom launched a public consultation on requiring companies to prepare master and local

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files, as well as requiring a summary audit trail, which would be a concise document summarizing the work already undertaken by the business in arriving at the conclusions in the transfer pricing documentation. Australia has formally adopted the documentation guidance but imposes a higher standard of transactional data disclosure.

The EU is introducing public CbC reporting, under which CbC reports will be published in an EU state's business register and on companies' websites. Public disclosure of CbC reports will be required for MNEs that meet the threshold for preparing those reports and have subsidiaries or branches in an EU jurisdiction. For calendar-year taxpayers, the first reporting year will be, at the latest, fiscal 2025, and the report will be due by the end of December 2026.

Importantly, the OECD documentation guidance and EU CbC regime use different bases of CbC preparation. MNEs will need to gather the data to prepare their public reports and will likely want to publish concurrently a clear narrative to explain the CbC report to the public. Many companies are considering further voluntary reporting of tax payment data for taxes beyond corporate income tax to provide a more complete narrative to the public.

B. Increased Transfer Pricing Controversy

Given the worldwide increase in transfer pricing audit activities, with tax authorities often requesting extremely granular data quickly, MNEs' financial reporting systems must be able to extract relevant, detailed, and up-to-date financial information.

Tax authorities increasingly use CbC reports to identify potential risks in taxpayers' transfer pricing positions and open an audit. The OECD is developing tools to assist jurisdictions with little sophistication in data analysis to interpret CbC reporting data and has released a tax risk assessment handbook to help tax authorities analyze and interpret those data. It has also developed a tax risk assessment questionnaire and is working on a tax risk evaluation and assessment tool. Some tax authorities have independently developed their own analytics tools to help them process the large number of CbC reports received.

Given those developments, it is unsurprising that there has been a trend of new audits motivated — rightly or wrongly — by the data disclosed in CbC reports. Further, tax authorities expect that taxpayers will be able to reconcile data in the CbC reports against tax returns and internal systems outputs. For example, in one recent audit, the Dutch tax authorities asked a taxpayer to explain the differences in the financial information in the CbC report, local file, and tax returns.

Tax authorities are also frequently requesting segmented financial information and asserting transfer pricing adjustments based on it. For example, recent transfer pricing audits in France, Thailand, and South Korea show that local tax authorities are highly likely to request segmented information and examine the segment-level, and even product-level, profitability. Having a well-reasoned and transparent process of preparing segmented profits and losses and monitoring transfer pricing results by segment can be one of the first lines of defense during an audit inquiry.

The intense focus on transfer pricing by tax authorities and the requests for more granular data highlight the importance of having a comprehensive data reporting framework. That will increase MNEs' confidence that the information reported on their CbC reports is accurate and allow them to identify potentially aggressive positions that can be addressed through either appropriate documentation or modifications to intercompany policies.

C. TCJA

The TCJA contained several international tax provisions that significantly affected the way MNEs with U.S. operations considered intercompany payments and general tax structuring. As proposed and final regulations were published, MNEs had to evaluate how to mechanically apply the new rules — often simple in purpose but complex in implementation — and where to make changes to the corporate structure, which often necessitated changes to transfer pricing. Historically, understanding the tax impact of a business, intellectual property, or supply chain restructuring was a bit more predictable, but modeling is now necessary

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because it is rarely intuitive. Key TCJA international provisions include:

- The global intangible low-taxed income regime, which created an income inclusion for U.S. shareholders of controlled foreign corporations and essentially gives rise to a minimum tax of 10.5 percent (to be increased to 13.125 percent in 2026) on the total amount of a U.S. shareholder's CFC income in excess of a normal rate of return (10 percent of the CFC's tangible assets).
- The base erosion and antiabuse tax, which generally imposes a new minimum tax (10 percent during 2019-2025 and 12.5 percent after 2025) for companies above a threshold ($500 million of annual domestic gross receipts) with a base-erosion percentage of at least 3 percent (2 percent for some banks or securities dealers). The targeted payments are generally to related foreign persons for which a deduction is allowable and include amounts paid in connection with the acquisition of depreciable or amortizable property from the foreign related party.
- The foreign-derived intangible income rules, which allow U.S. corporations to deduct a portion of income from selling or licensing property to foreign persons for a foreign use or providing services to persons, or for property, located outside the United States. The deduction produces an effective tax rate on FDII potentially as low as 13.125 percent (increasing to 16.4 percent in 2026).

As a result of those new rules, companies needed not only to create systems to capture the data and perform the calculations for GILTI, BEAT, and FDII, but also to obtain and maintain other related data. For example, companies near the BEAT's 3 percent base-erosion percentage cliff need the ability to monitor payments made to related foreign affiliates to determine if they should take steps to avoid having a BEAT liability, such as making specific elections or accounting method changes or even waiving deductions. For FDII, companies need to measure income from exporting products and providing qualifying services consistently with the new regulations.

Many companies perform numerous scenario analyses regarding changing corporate structuring and movement of intangible property. These efforts are possible only if their tax departments can timely access the appropriate data with sufficient detail.

D. OECD/G-20 BEPS 2.0 Inclusive Framework

In October 2021, 137 members of the inclusive framework approved a statement providing a framework for reforming the international tax rules under the OECD's two-pillar approach, with major changes proposed to come into effect in 2023 and 2024. While details are still being developed and subject to change, it is clear that once the rules are implemented, MNEs will need to efficiently obtain new data items and create processes to perform new calculations for both tax compliance and planning purposes.

Pillar 1 departs significantly from established international tax rules. It would formulaically reallocate more than $125 billion of profits (initially) from around 100 of the world's largest and most profitable MNEs to market jurisdictions without regard to the arm's-length principle or the traditional permanent establishment standard. In-scope MNEs will need to obtain company data to use a reliable method to source revenues to end-market jurisdictions where goods or services are used or consumed, regardless of whether the MNE has any direct activities in that market. Given the stated 2023 timeline, in-scope companies will need to determine if they have systems in place to track revenue to end markets and, if not, what types of systems will be required.

Some companies may also struggle to calculate the tax base for pillar 1, which will be determined by reference to financial accounting income but require adjustments. Pillar 1 would also introduce a marketing and distribution profits safe harbor, which would cap the amount of profits allocated to a market jurisdiction if a company already allocates profit to marketing and distribution activities there. Application of the safe harbor will require MNEs to calculate the cap for each participating jurisdiction where they operate.

While pillar 1 is planned to initially apply to the world's largest companies — that is, those with global turnover above €20 billion and profitability above 10 percent — if successfully implemented, its threshold for application will be

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reduced to a turnover of €10 billion, so the number of in-scope companies will grow significantly. Accordingly, MNEs need to be prepared.

The global anti-base-erosion (GLOBE) rules under pillar 2 consist of the income inclusion rule (IIR) and the UTPR, designed to implement a global minimum level of taxation of 15 percent. The rules are intended to stipulate a floor for tax competition among jurisdictions. In December 2021 the OECD released model rules for countries to use to implement the IIR and UTPR into their domestic legislation. Implementation of the IIR is expected to begin in late 2023, and implementation of the UTPR is expected to begin in 2024. The IIR would impose a top-up tax on parent entities similar to the U.S. GILTI, except that it applies on a country-by-country basis. The UTPR would deny deductions or require an equivalent adjustment if the low-taxed income of an entity in the multinational group is not subject to tax under an IIR. Countries also have the option of introducing their own qualified domestic top-up taxes to bring the tax rate on in-scope MNEs up to the minimum 15 percent rate.

As countries begin implementing IIRs, UTPRs, and qualified domestic top-up taxes, MNEs will need to evaluate those new rules and understand how to perform the calculations. In-scope MNEs will need to navigate a complex set of rules for calculating the effective tax rate in each jurisdiction where they operate. While the GLOBE rules start with consolidated financial statements for the constituent entity, they include several adjustments for determining both tax and income. Determining the payment of any required top-up tax will require navigating the GLOBE rules of each relevant jurisdiction.

For U.S. MNEs, the impact of pillar 2 will also depend heavily on whether the United States changes GILTI so that it is considered a qualifying IIR and BEAT so that it is considered a qualifying UTPR. If the United States makes those changes to the GILTI rules, GILTI will be country by country, which will significantly increase MNEs' compliance burdens. If the United States does not change its international tax provisions in response to pillar 2, MNEs will need to navigate the interaction between the U.S. provisions and the GLOBE provisions implemented by other countries. Being able to comply with the new rules will require MNEs to evaluate their data requirements — that is, understanding what new data are required and where current data are held — and design processes for the new GLOBE calculations.

II. Supply Chain Disruptions and M&A

MNEs are facing an unprecedented wave of economic disruption and pressure to rethink and restructure their supply chains. The start of the global pandemic in early 2020 brought the economy to a halt except for goods and services of first necessity. Defying expectations, a few months into the pandemic, demand for consumer goods skyrocketed, and the dominant paradigm of just-in-time manufacturing was challenged. From raw materials to manufacturing operations to shipping, companies faced hurdles at every link of their global supply chains to bring products to consumers.

Temporary plant closures, shipping bottlenecks, and labor shortages can all contribute to large deviations of sales volumes and cost estimates from their forecast values. Relying on rules of thumb to set intercompany prices is no longer adequate to ensure that transfer pricing results align with intended policies. A limited-risk cost-plus entity would continue to earn an arm's-length return only if the transfer pricing process was nimble enough to distinguish normal versus pandemic-related expenses and evaluate how those expenses should be treated in light of a review of comparable companies. The ability of financial reporting systems to produce detailed P&L statements that transfer pricing professionals can rely on to monitor abnormal changes in profitability and identify the causes for those changes becomes key.

Realizing the fragility of global supply chains, some companies have started looking into alternative locations for their manufacturing facilities. Other entities are weighing whether their supply chains are consistent with their company values and with investor focus on ESG metrics. Yet other companies are still reeling from the prospect of new tariffs and trade restrictions being introduced in a volatile geopolitical environment. As businesses respond to those pressures, they must be able to comprehensively

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assess the costs and benefits of moving plant locations; changing the physical and legal flow of products in the global organization; and creating new value-adding departments, such as global ESG centers of excellence.

The pandemic has also accelerated the adoption of the work-from-anywhere employment model that allows employees to perform their duties remotely. Even as lockdowns, travel restrictions, and health and safety concerns subside, companies recognize that the option for remote work is valuable in the competition for talent. Remote work for extended periods can create PE exposure in jurisdictions other than the country of employment and shift development, enhancement, maintenance, protection, and exploitation functions in a company's value chain. MNEs must have tools to allow them to stay informed of the impact of remote work on tax.

With the world starting to come out of the pandemic and address the fragility of supply chains, mergers and acquisitions activity has increased significantly. M&A generally creates a new round of intercompany transactions subject to transfer pricing once integration occurs. It therefore gives rise to pain points regarding data availability, often caused by disparate enterprise resource planning (ERP) or financial reporting systems. That highlights the need to be able to model out planned business integrations from a tax perspective.

The cost-benefit analysis of those restructuring decisions could factor in the tax consequences in terms of the impact on effective tax rates, reporting obligations, exit taxes, and audit defense. It requires modeling different transaction flows and transfer pricing policies and integrating the modeling outputs with the company's broader international tax strategy. Even historically low-risk transactions can receive a higher level of audit scrutiny if the restructuring gives rise to exit tax.

III. How OTP Can Help

The increased transparency requirements and scrutiny on transfer pricing results, ever-changing tax regulatory landscape, supply chain disruption from the COVID-19 pandemic, and increased M&A activity have highlighted the importance of strong OTP now more than ever.

OTP refers to the implementation of transfer pricing policies to effectuate or account for them in an organization's financial statements. It includes gathering and wrangling data to apply the policies, setting transfer prices, and monitoring and calculating adjustments. It also involves people to perform those calculations and supporting processes and service delivery models to execute them, controls and governance to ensure accuracy and reduce risk of error, and the underlying data and technology that enables it all. Common objectives of OTP are to streamline the implementation of transfer pricing policies and reduce the burden of manual, repetitive, and error-prone processes.

Effective OTP not only makes monthly or quarterly close processes more efficient by leveraging technology to automate calculations, but also enables the flexibility to quickly react to changes to transfer pricing policies and provides transparency to withstand scrutiny on audit. More specifically, it addresses the challenges brought on by the current transfer pricing environment outlined previously, including:

- meeting new or increased reporting requirements and providing greater transparency into supporting calculations;
- decreasing large year-end transfer pricing adjustments that cause audit scrutiny;
- providing the capability to perform scenario planning analyses in response to changing regulations; and
- bringing forth seamless integration of transfer pricing into broader tax and finance processes, such as international tax planning, indirect tax and trade and customs compliance, income tax provision and treasury operations.

A. Reporting Requirements and Transparency

The advent of the CbC reporting compliance requirements and the resulting scrutiny on transfer pricing results emphasized the need to be able to both report related-party revenue by jurisdiction and show that those amounts were calculated in accordance with transfer pricing policies. The complexity of doing so is often compounded by the fact that it is common for

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legal entities in an organization to have multiple transfer pricing functions, which have transfer pricing policies that need to be tested separately. Further, those transfer pricing functions often do not coincide with how the organization views itself from a management reporting perspective, resulting in the need to generate P&Ls for transfer pricing purposes that are not inherently supported by the organization's financial systems but are needed to meet the demands of tax authorities. That means transfer pricing practitioners have to create those segmented financials themselves, which is usually a complex manual process that is hard to scale. That delays the availability of the segmented financials and makes them difficult to tie back to audited financial statements, which is important for a review during financial or tax audits.

As a leading practice, OTP implementation includes the automation of generating segmented financials by transfer pricing function. That starts with understanding what data is available in source systems and what insight can be gleaned from it to establish and maintain a method to perform the segmentation. That is often a combination of data mappings that can be discretely assigned to a transfer pricing segment and allocations of data that inherently support all segments. Allocation keys vary by company and can be a combination of calculated keys, such as revenue or gross profit, or manual inputs, such as percentage of time spent.

After the segmented financials are created, the transfer pricing logic is applied to calculate any required transfer pricing adjustments. Once the segmentation and transfer pricing calculation methods are established, the process can be operationalized by establishing automated data sourcing; providing a user interface for maintaining mappings, policy inputs, and manual adjustments; and building calculation logic and reporting that clearly show how the results were determined in an intuitive manner. Developing that automation results in an efficient process with reliable results that can be clearly traced back to the source. That decreases the burden of increased reporting requirements (such as related-party revenue on a CbC report) and provides the transparency and accuracy necessary to support the result on audit.

B. Decreasing Large Year-End Adjustments

When a legal entity (or operating segment) is not achieving the results dictated by its transfer pricing policy by the end of the fiscal year, a transfer pricing adjustment is typically booked to remedy the situation. In some cases, the entity is so far from its intended results that it requires a large adjustment that can cause tax issues for the organization, such as:

- nondeductibility for income tax purposes for a downward — that is, reduction in profitability — adjustment;
- a required adjustment to indirect tax (VAT, for example) reporting;
- misalignment of transfer price with customs valuation (if a tangible goods transaction); and
- general tax audit scrutiny.

Effective OTP can reduce or even eliminate year-end transfer pricing adjustments through a combination of process leading practices and technology enablement. From a process perspective, setting intercompany prices at the beginning of the fiscal year with an intercompany profit component already included will reduce or eliminate the year-end transfer pricing adjustment because the adjustment is essentially occurring throughout the year with each intercompany purchase rather than at the end of the year. For transactions involving tangible goods, the accuracy of that initial intercompany pricing can be increased by using forecast data for the upcoming year, rather than prior-year data, and considering inventory already on hand along with its related inventory turnover.

Continuously monitoring the entity's current and forecast profitability during the year allows the calculation of forward-looking or prospective pricing adjustments as an alternative to period-end adjustments that are retroactive in nature. For example, a limited risk distributor may purchase its products from related parties. After initial price setting, the entity's profitability has to be reevaluated during the year to ensure it achieves the intended policy. If after considering its year-to-date actuals, inventory on hand, and forecast activity for the remainder of the year, it is determined that the entity's profitability will still be higher than its transfer pricing policy, an

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increase to the transfer price of future intercompany purchases will result in the entity's profitability decreasing for the remainder of the year to take it back to its policy. Conversely, a decrease in transfer price can increase the entity's profitability for the remainder of the year if its forecast profitability is too low. In many cases, the practice of prospective adjustments can be so effective that the entity's profitability is within its policy range by the end of the year, so no retroactive adjustment is required.

Another benefit of a prospective adjustment approach is that it allows the organization to take proactive action when unforeseen circumstances arise that have a material effect on financial performance relative to plan. A salient example is the onset of the COVID-19 pandemic, which in many cases dramatically reduced actual profitability of an organization relative to plan, resulting in many transfer prices of limited risk entities being set too high because the profitability expected when those prices were set did not come to fruition. A prospective approach allowed organizations to adjust the transfer prices during the year to minimize the large year-end adjustments that would have been necessary under a retroactive adjustment approach.

Although prospective adjustments are a leading practice as compared with retroactive ones, they can be challenging for some organizations to implement. That is because the case can range from a lack of quality forecast data or low inventory turnover (which essentially negates the effect of a prospective adjustment because it does not allow enough time for the prospective adjustment to manifest itself into the income statement) to resistance from inventory accounting teams to multiple changes in pricing during the year. Those challenges can be offset through the automation provided by a technology solution that reduces the burden of monitoring and adjusting results on a forward-looking basis.

C. Scenario Planning

Although changing tax regulations have always been a reality for tax and transfer pricing practitioners, the BEPS initiative, U.S. tax reform, and the rapid pace of those initiatives, as well as supply chain disruptions and increased M&A activity, have made it more important than ever to understand the implications of those changes to the organization. That is especially true for changes that have not yet been finalized so that the organization can make proactive decisions to minimize potential negative effects (or maximize potential positive effects) of initiatives or legislation under consideration, such as BEPS 2.0 or the Build Back Better Act. Fortunately, effective OTP can position the organization to leverage technology to analyze the effects of multiple scenarios on pretax income to support tax modeling.

When designing an OTP technology solution, it is important to capture the scenario planning requirement so that the concept of multiple scenarios can be factored into the data model on which the solution relies. Doing so allows for multiple simultaneous calculations using the same calculation engine but different versions of inputs and logic. It is therefore necessary to identify which inputs and calculation logic could change between scenarios in order to design user interfaces to allow the user to specify those changes. Common examples include changes to transfer pricing policies, such as switching from a cost-plus to a limited risk distributor; modifying policy markups or target operating margins; evaluating multiple allocation methods; changing transaction counterparties; or shifting IP ownership between jurisdictions. Once the concept of having multiple parallel scenarios is incorporated into the solution data model, the user can easily toggle through the scenarios and compare their results. That capability becomes even more powerful when the OTP solution includes a data visualization technology, which visually depicts the results to enable intuitive comparison and allows the user to interact with the visualizations and see results instantly.

D. Integration With Tax and Finance Processes

Transfer pricing policies and outcomes have implications for many calculations, including income taxes, indirect taxes, customs duties, tax provisions, cash management, and legal entity forecasting. A complete OTP solution will be built with input from various stakeholders in the tax, treasury, accounting, legal, and finance departments so that the output can be integrated into their data pipelines and reports. That

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provides a holistic view of how changing transfer pricing policy for a set of legal entities can cascade down the system and what unintended consequences should be considered.

Transfer pricing is also an integral component of internal controls under the Sarbanes-Oxlex Act of 2002. An automated OTP solution can reduce errors caused by manual calculations and ad hoc processes for calculating transfer pricing adjustments, recording journal entries, and invoicing. In the era of "the Great Resignation," an automated workflow for executing transfer pricing policies can significantly mitigate companies' internal control risks that arise from employee turnover.

IV. OTP Technology Options

While many companies are still performing OTP via manual spreadsheets an increasing number are evaluating and implementing alternatives more capable of addressing the challenges brought on by the transfer pricing environment. There are various OTP technology options in the market, each with their own strengths. These can broadly be categorized into three types: (1) custom solutions; (2) vendor solutions; and (3) ERP or enterprise performance management (EPM) integrated solutions.

A. Custom Solutions

Custom solutions comprise technologies that serve as transfer pricing calculation engines and are sometimes bolstered by additional components, such as data visualization, data warehousing, and file management. They often use technologies that were not designed specifically for the OTP use case but for a multitude of use cases throughout an organization (including OTP). Because of that, it is common for organizations to have preexisting licenses and resources with expertise to support the technologies after going live. Examples include models using spreadsheets or low-code/no-code data transformation tools, reporting using data visualization, and file storage and sharing platforms. While the fact that the solution is inherently custom means even the most specific requirements can be met, in some cases the capabilities the solutions provide can be met by a vendor solution that already exists.

B. Vendor Solutions

Vendor solutions are software that can be licensed from third parties to meet the organization's OTP needs. Much of that software has out-of-the-box functionality that was purpose-built to address OTP processes such as segmentation and calculation of common transfer pricing transactions, including services, cost allocations, royalties, and limited-risk-distributor transfer price setting and monitoring. The out-of-box functionality turns the implementation effort into a configuration exercise rather than development from scratch. However, these solutions come with a recurring license fee and potentially introduce a new technology vendor into the organization's IT landscape.

C. ERP or EPM Integrated Solutions

Most ERP or EPM systems provide the capability to build custom rules that can be used to perform OTP calculations. The specific application will vary by ERP or EPM vendor, and there are often even multiple options for accomplishing that in the suite of products offered by the same vendor.

That can be attractive to organizations with the mandate to house in the ERP or EPM system as many finance processes as possible to make the most of the licensing cost. It also can present an opportunity to include OTP as part of a larger finance transformation or systems implementation initiative in the organization. While that often makes funding for the implementation more accessible, it requires the use of specialized resources to develop the solution and provide ongoing maintenance and support.

D. Choosing an OTP Solution

Given the variety of OTP technology options in the market, there are many factors an organization should consider when evaluating them. Those include more tangible factors, such as development timeline and cost, and intangible factors, such as the organization's IT roadmap, its appetite for third-party vendors, and the presence and availability of resources to support the solution after go-live. Because of the dynamic nature of transfer pricing, the flexibility of the

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solution to modify existing calculation logic and the ability to scale existing calculation logic to new entities are usually some of the highest priority factors, along with the transparency the solution provides reviewers and auditors. Also important is factoring in the size, composition, and physical location of the user base because some solutions provide out-of-box functionality, including multiple security roles and approval workflows to manage a large, decentralized user base that are not as germane to a smaller, centralized team. Because of the multitude of considerations, it is common for an organization to carry out a "Phase Zero" assessment to evaluate OTP technology options before proceeding with implementation.

V. Conclusion

Tax, transfer pricing, and accounting practitioners must now ask the hard questions, including how they have addressed, and will continue to address, the rapidly changing tax landscape caused by regulatory changes and the calls for increased transparency in tax, financial, and ESG reporting. They also must figure out how to keep up with the business restructurings and integrations caused by supply chain adjustments and M&A. Without doing so, organizations will be unable to keep up with the speed of change, which will create unintended cash tax or effective rate consequences, tax risks in the financials, material misstatements, and tax audits that will be difficult to defend from tax authority scrutiny. At a minimum, practitioners should assess current people, processes, and technologies and how a strong, cohesive OTP solution can produce a return on investment to the MNE.[1] ■

[1]The information in this article is not intended to be written advice concerning one or more federal tax matters subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230. The information herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser. This article represents the views of the author(s) only and does not necessarily represent the views or professional advice of KPMG LLP.

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