

CASE STUDY: INTERNATIONAL TAX

Industrial products company
tackles transfer pricing issue



Overview

A \$150 million Midwestern industrial products company had been using RSM for many years for a variety of international tax services. Belastingdienst, the Dutch taxing authority, challenged the company's European headquarters, claiming that the company was paying too much for U.S. component parts. The company initially relied on its in-house finance group to address this transfer pricing dispute.

Project

The Dutch taxing authority began its inquiry by investigating the company's sales receipts and financial reporting. While this middle-market company had a sizable financial team, it did not have an in-house transfer pricing expert or an international tax director. Like many companies of its size, the company was neither equipped to provide the detailed reports the taxing authority was demanding nor adequately staffed to focus on the audit.

Over a four-month period, the company's chief financial officer engaged in a long-drawn-out question and answer session with the Dutch taxing authority, which proved to be inefficient, frustrating and, eventually, unproductive. The final straw came when the Dutch taxing authority asked to confer with the company's in-house transfer pricing specialist on the transfer pricing policy of the company. The CFO then asked RSM to work with the internal team to resolve the ongoing line of questioning.

In an effort to end the back and forth, RSM's international tax team produced a summary defense memorandum explaining the taxpayer's organization structure and business model and clearly outlining the reasonableness of the company's transfer pricing policies.

Outcomes

Upon receipt of the memorandum, the Dutch taxing authority stopped its inquiry, since it was able to get a full understanding of the profit centers. RSM assisted this company with a proactive approach to structuring their transfer pricing, as well as the implementation of the systems needed to track and defend profit centers.

RSM recommends that taxpayers facing a transfer pricing examination prepare for it by:

- Organizing the facts in a way that tells a compelling story (e.g., through early development of a statement of facts that can be used as a guide in responding to information document requests, developing position papers, responding to a Notice of Proposed Adjustment and preparing a protest)
- Preparing to discuss their documentation in detail and to explain specific controlled transactions
- Identifying and gathering key documents and preparing personnel in advance of an examination
- Using the information document request process affirmatively to tell the taxpayer's story

Lesson learned: a proactive approach to presenting a company's transfer pricing structure in a clear, positive manner can often prevent extensive superfluous requests for data and satisfy the audit requirements of a questioning taxing authority.

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