

Transfer Pricing Overview: Benchmarking vs. Documentation

	Benchmarking	Documentation
Objective	High-level document to establish transfer pricing strategy and targeted profit margin for subsidiaries	Report to justify and defend transfer pricing results in compliance with US and global transfer pricing regulations <u>Penalty protection document</u> in the event of an adjustment
Typical Use	Lower risk situations, such as start-up companies or companies with relatively low revenues Establish a basis, or economic analysis guidance, for cross-border pricing of intercompany transactions	Companies with significant volumes of intercompany transactions or higher risk situations Some countries require documentation at certain transaction thresholds
Deliverable Includes	High-level summary of the business and industry and a target range of annual profit margins based on financial results of similar companies Frequently 10 to 15-plus page documents	In-depth economic analysis of the business, industry and intercompany transactions to test whether transactions are consistent with “arm’s-length” prices Frequently 60 to 100-plus page documents
Audit Defense Level	Does not evaluate the “arm’s-length” nature of intercompany transactions and <u>does not</u> mitigate the risk of penalties if tax auditors issue an adjustment Tax authorities are <u>not required to agree</u> with transfer pricing benchmark approach	<u>First, and best, opportunity to avoid a transfer pricing audit</u> Mitigates the risk of penalties from a transfer pricing adjustment if prepared by the filing date of tax return, and must be updated annually to provide penalty protection Tax authorities are <u>not required to agree</u> with transfer pricing documentation
Cost	Entry-level cost, limited fact-finding is required for a benchmarking study	In-depth interviews and thorough factual and economic analysis are required for documentation Cost varies depending on the volume, number of countries involved and complexity of intercompany transactions