

Navigating the choppy waters of international tax

2013 Global Transfer Pricing Survey

EY

Building a better
working world



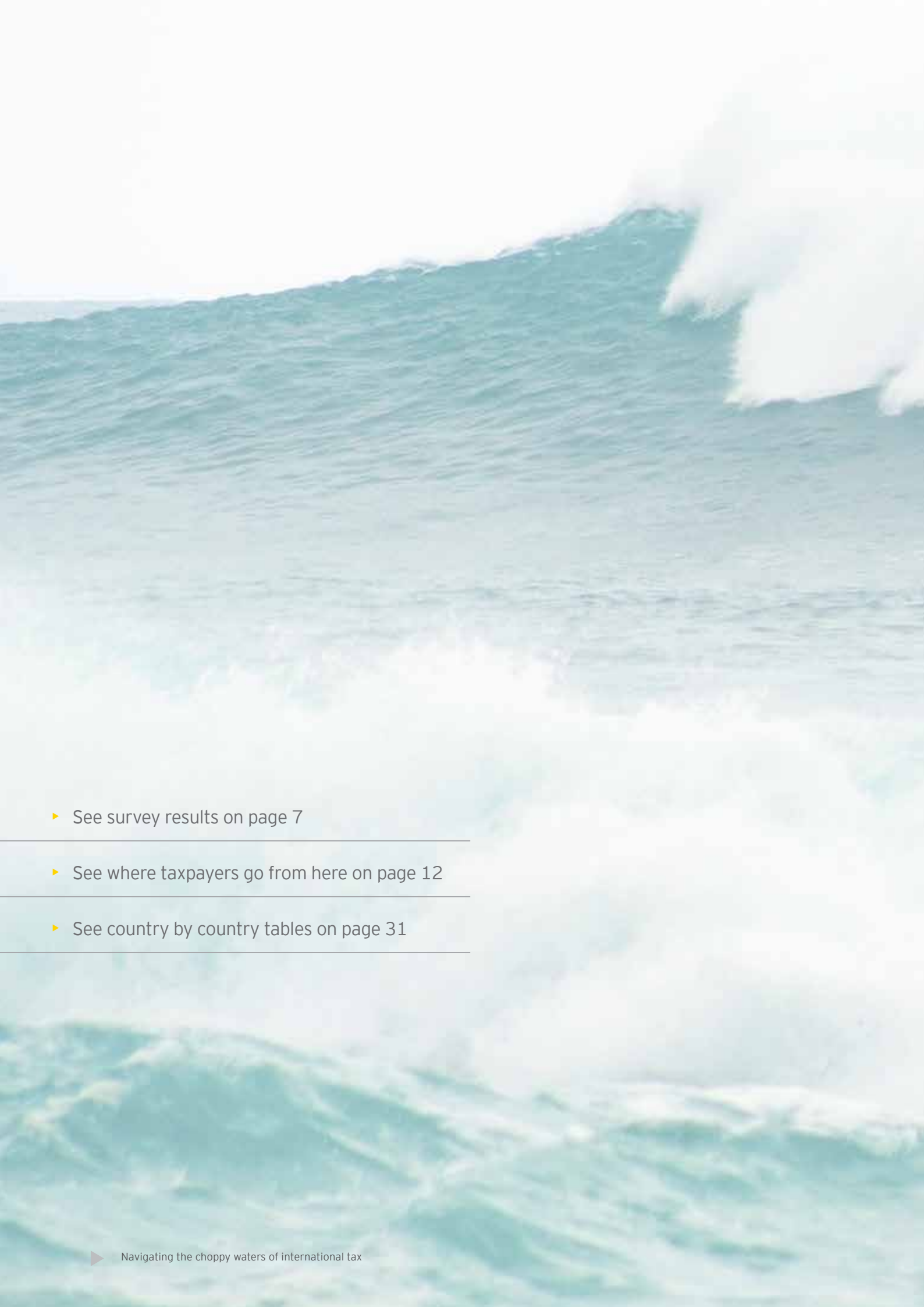
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Introduction

Thank you for reading this report on EY's 2013 *Global Transfer Pricing Survey*, which has served as a key industry benchmark chronicling taxpayer views on this essential function of cross-border commerce for nearly 20 years. While every survey provides new insights on taxpayers' efforts to comply with the ever-shifting array of transfer pricing documentation rules, this current report shines a bright light on how companies are adjusting to more and new sources of controversy around the world.

The current survey documents a clear shift toward prioritizing risk management in transfer pricing. The report identifies several sources of risk that may be contributing to this new, more cautious posture. These sources include the fact that more tax authorities say they view transfer pricing as a "high-risk" tax issue worthy of closer examination. The growing willingness of tax administrations in rapid-growth markets to challenge transactions and a broad and intense focus on international taxation generally, and transfer pricing specifically, by the news media and social justice organizations have amplified the pressure. And companies are well aware that the Organisation for Economic Co-operation and Development's (OECD) project on base erosion and profit shifting (BEPS) is likely to have substantial influence on the further development of transfer pricing rules.

It should come as little surprise, then, that our new survey finds controversy and double taxation is on the rise and that companies are struggling to manage a transfer pricing life cycle that has become more compressed than ever before. They are seeking to manage new players and new pressures in new places with fewer resources. And they are facing tax administrations that collect and share data like never before.

This 2013 *Global Transfer Pricing Survey* report seeks to put these findings in the broader context of other developments concerning cross-border taxation. We hope you find this comprehensive report to be useful.



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1

A sea of change for tax and transfer pricing



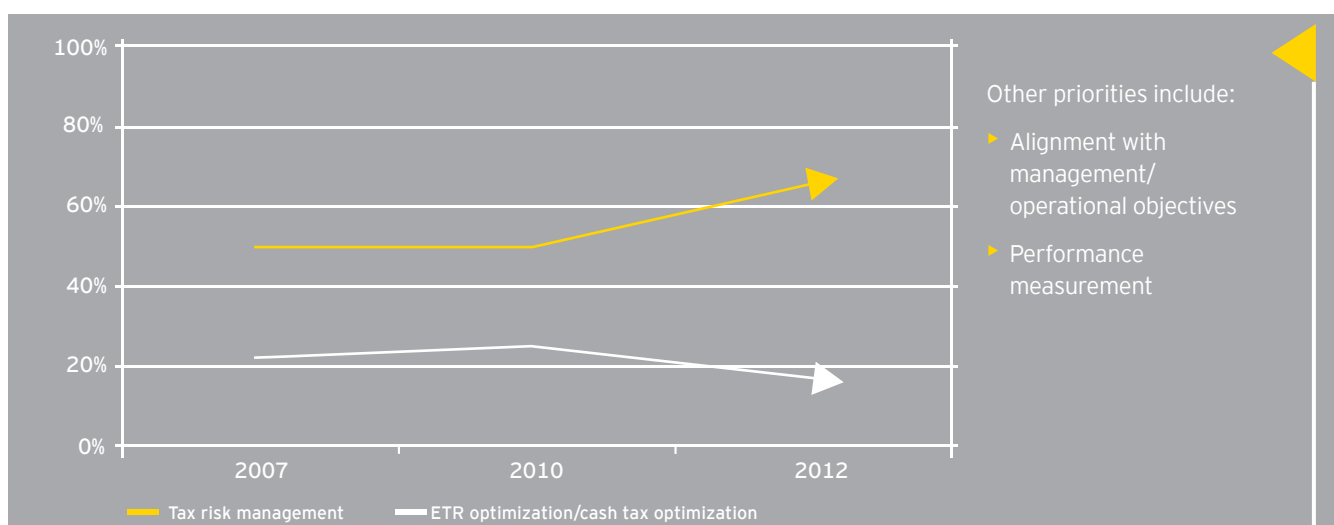
Transfer pricing continues to be a significant source of controversy between the world's tax authorities and multinational enterprises (MNEs). Since the publication of EY's last transfer pricing survey in 2010, the pace of globalization has increased, and businesses have been working hard to adapt by better managing their cross-border activities. They're struggling to comply with unfamiliar and frequently changing tax and statutory requirements in new markets, examining the tax efficiency of supply chains and administering a vast array of indirect taxes, including value-added taxes (VATs), customs duties and goods and services taxes (GSTs).

At the same time, tax authorities worldwide have stepped up their enforcement, and they are paying special attention to transfer pricing. Transfer pricing has also taken on a bigger profile with non-tax stakeholders who are acutely aware that, according to the OECD, "around 60% of world trade actually takes place within multinational enterprises."¹

Many companies are facing increasing exposure to new transfer pricing inquiries on a much broader scale. Our *2013 Global Transfer Pricing Survey* of international tax practitioners and C-suite executives in 26 countries confirms that controversy and double taxation are on the rise.

It also confirms that companies around the world are reacting to the new pressures. Most notably, 66% of companies identified "risk management" as their highest priority for transfer pricing in this latest survey, a 32% increase over surveys conducted in 2007 and 2010. Correspondingly, the percentage of companies identifying cash tax or effective tax rate optimization as their highest transfer pricing priority fell by nearly one-third – to 17% – from just three years ago.

Figure 1: Tax risk management increases as a priority



¹ "OECD Insights," *OECD Insights*, <http://oecdinsights.org/2012/03/26/price-fixing/>, 18 April 2013 Debate the Issues

Respondents report that examinations by revenue authorities have expanded in scope and complexity, while adjustments resulting in penalties are on the rise.

We attribute this more cautious posture to three main factors.

1 | Controversy on the rise, as transfer pricing deemed “high risk”

First, we have seen a sharp increase in tax controversy around the world in general, and regarding transfer pricing in particular. For instance, 77% of companies surveyed in our *2011-12 Tax Risk and Controversy Survey* said they anticipated managing tax risk and controversy would become more important in the next two years.²

Respondents to that survey reported that governments are demanding more disclosure from taxpayers, stiffening economic substance doctrines and, in some countries, imposing criminal sanctions for compliance failures. They also reported more frequent and aggressive audits that were more costly to defend or litigate, as well as more assessments and proposed penalties.

An increased focus on international tax by tax authorities and tax policymakers is reflected in a range of enforcement initiatives and even the proposal of alternatives to the arm’s-length standard for transfer pricing.

We are seeing more and more governments expanding their definition of “aggressive tax planning” and contemplating or adopting general anti-avoidance rules that empower their tax authorities to make broad challenges.

In addition, we are seeing tax authorities increasingly assert the existence of a permanent establishment and the triggering of the associated taxing rights, sometimes doing so on the basis arguments that rely on proposed changes to the Commentary to Article 5 of the OECD Model Treaty, which are still only in discussion draft form.

The *2011-12 Tax Risk and Controversy Survey* found 57% of tax administrators identified transfer pricing as their top risk focus in the next 12 months, while some 40% of companies responding to that survey also identified transfer pricing as their leading risk. Separately, our *2012 Global Transfer Pricing Tax Authority Survey* supported these findings, reporting that 46 of 48 countries surveyed are backing up their concern with additional resources to examine transfer pricing.³

This 2013 Global Transfer Pricing Survey finds plenty of evidence that the authorities’ emphasis is having an effect. Respondents report that examinations by revenue authorities have expanded in scope and complexity, while adjustments resulting in penalties are on the rise. Documentation requirements are also being strengthened – the frequency of transfer pricing documentation as filed being deemed adequate on audit declined for MNEs in 22 of the 26 countries covered by our survey. And there has been a significant increase in unresolved reviews and audits compared with previous years. In cases where examinations resulted in adjustments, penalties were imposed 24% of the time, up from 19% in 2010 and 15% in 2007.

2 | Rapid-growth markets, emerging risks

The rise of compliance activities by tax authorities in some rapid-growth markets is the second reason companies report that risk management is an increased priority.

The number of respondents to this *2013 Global Transfer Pricing Survey* that reported they were subject to a review of their transfer pricing policies in India, for example, more than doubled in 2012 from 2007. Nearly 30% of parent companies operating in BRIC and African countries now say those are their No. 1 or No. 2 most important areas when it comes to managing transfer pricing.

² “2011-12 Tax risk and controversy survey,” Ernst & Young, <http://www.ey.com/GL/en/Services/Tax/2011-12-Tax-risk-and-controversy-survey/>, 28 April 2013

³ “2012 global transfer pricing tax authority survey,” T Magazine, <http://tmagazine.ey.com/insights/2012-global-transfer-pricing-tax-authority-survey/>, 18 April 2013

At the same time, the imposition of penalties by tax authorities in markets such as China, India and Indonesia indicates companies may need to increase their resources and change their focus to deal with transfer pricing matters in those jurisdictions.

The growing assertiveness by rapid-growth markets gives rise to occurrences of double taxation. Nearly 70% of companies answering the survey reported they had experienced double taxation as a result of an adjustment. The number of companies saying they had referred a transfer pricing matter to competent authority in the past three years increased 55% from 2010, the last time we asked the question.

3 | Reputational risks

The final factor influencing the shift to prioritizing transfer pricing risk management is the attention paid to transfer pricing by stakeholders who are not tax professionals. Transfer pricing has become a hot topic for journalists, antipoverty and social justice organizations, and political leaders around the world who are challenging international tax rules they feel do not fairly deliver the revenue they were intended to capture.

A broad debate about tax “fairness” playing out worldwide has thrust tax to the top of the C-suite risk agenda. In February 2013, British Prime Minister David Cameron compared “aggressive” tax avoidance by corporations to tax evasion: “The problem with that is that there are some forms of tax avoidance that have become so aggressive that I think there are moral questions we have to answer about whether we want to encourage or allow that sort of behavior.”⁴

In the United States, senators Carl Levin (D-MI) and Bernard Sanders (I-VT.) have used similar rhetoric and held public hearings examining how companies treat tax as part of their cross-border activities. Officials in Australia, New Zealand, Canada, as well as South Africa and Zambia have been equally critical of what they perceive to be a high frequency of international tax avoidance by multinational corporations. In June 2013, the G8 responded to the growing concerns with a communiqué expressing support for greater transparency with tax authorities and endorsing the OECD’s ongoing work on BEPS.

James Henderson, Chief Executive of global public relations firm Pelham Bell Pottinger, referred to the debate as “the tax spring” in the January 2013 edition of EY’s *T Magazine*. “In today’s climate of economic austerity, the public expects everyone to do their bit,” Henderson wrote. “Expectations about good citizenship are particularly high for well-known and popular consumer brands.”⁵

Many of the headlines and activist protests, as well as much of the political rhetoric, betray a lack of technical knowledge about how transfer pricing works. But the coverage has created a number of reputation risk challenges for companies looking to reconcile legally compliant tax positions with public perceptions about them. These concerns are magnified when accusations of tax avoidance are amplified by social media.

The media has focused its coverage heavily on the mobility of intangible assets. That appears to reflect the concern of tax authorities. It also appears to help explain an increase in the percentage of companies predicting intangible property will be their most important area of transfer pricing controversy by 2014.

Interestingly, this survey demonstrates that companies are mainly struggling with the burdens of complying with an increasingly onerous worldwide regulatory framework. The need to consider how the public at large has come to perceive transfer pricing only makes that task more complex.

⁴ “Cameron likens multinationals tax avoidance to illegal evasion.” [www. Bloomberg.org](http://www.bloomberg.org), <http://www.bloomberg.com/news/2013-02-18/cameron-likens-multinationals-tax-avoidance-to-illegal-evasion.html>, 23 April 2013

⁵ James Henderson. “How to talk about a tax crisis.” *T Magazine*. January 2013. <http://tmagazine.ey.com/insights/how-talk-tax-crisis/>

Supranationals foster the debate

Much of this growing focus on transfer pricing is driving an increasing amount of work by supranational organizations. This is evidenced by the current OECD project on BEPS that has intensified the activity of tax authorities to harmonize their approach to eliminate what they perceive as inappropriate tax avoidance.

The first BEPS report chronicles changes in how companies do business in the global economy and states that tax systems may not have kept pace. It also acknowledges the importance of tax sovereignty and recognizes that governments continue to offer incentives as part of an effort to build a competitive business environment that attracts investment. The recently issued BEPS Action Plan details where the OECD intends to focus its energies on cross-border taxation issues in the near term. Three of the fifteen action areas apply specifically to transfer pricing: intangibles, risk and overcapitalization. Several of the other action areas also have implications for transfer pricing.

The focus of the BEPS project was foreshadowed in the first report, “a number of indicators show that the tax practices of some multinational companies have become more aggressive over time, raising serious compliance and fairness issues.” It identified transfer pricing as a “key pressure area,” particularly “in relation to the shifting of risks and intangibles, the artificial splitting and ownership of assets between legal entities within a group, and transactions between such entities that would rarely take place between independents.”⁶

The OECD also revised its Transfer Pricing Guidelines since the last edition of this survey. In aggregate, these changes have increased the burden on taxpayers by introducing new concepts to evaluate intercompany transactions, as well as proposing a more complex and rigorous approach to benchmarking transactions.

Similarly, the United Nations (UN) issued a draft of its Practical Manual on Transfer Pricing for Developing Countries, and the African Tax Administration Forum (ATAF) held its conference on transfer pricing in October 2010. Both the UN manual and the ATAF conference served to reaffirm the arm’s-length principle. This commitment was affirmed by every country interviewed in our 2012 survey of tax authorities, with the notable exception of Brazil.

It will be a challenge for authorities to reconcile their collective commitment to avoiding double taxation for multinationals with their individual efforts to collect what they believe to be a “fair share” of tax related to cross-border activity. If the overall amount of tax revenues is not going to get any bigger, the debate will be over how it is distributed. With transfer pricing at the center of this debate, it is little wonder the survey reveals an increase in transfer pricing resources to focus on compliance.

This report, using the results of our survey, examines all of these issues also in the context of serious changes in the global economy that are having a significant impact on business and on tax revenues.

⁶ “Addressing Base Erosion and Profit Shifting,” OECD Publishing, 2013, p. 6.

Survey results at a glance

66% of respondents identified risk management as their top transfer pricing priority, a 32% increase from survey results in both 2010 and 2007

38% of companies view their financial results quarterly

36% review their financial results only annually

28% of companies reported using the mutual agreement procedure

26% of companies reported using the advance pricing agreement process (APA)

15% of companies reported having referred a case to litigation in the past year

28% of companies report unresolved transfer pricing examinations

60% of companies report having been subject to an interest charge when they had a transfer pricing adjustment

24% report having been subject to penalties when they had a transfer pricing adjustment

#1
or
#2 BRICs and Africa are #1 or #2 priority in terms of managing transfer pricing matters for 30% of companies with operations in those areas, but 74% of companies have no full-time transfer pricing personnel in those countries

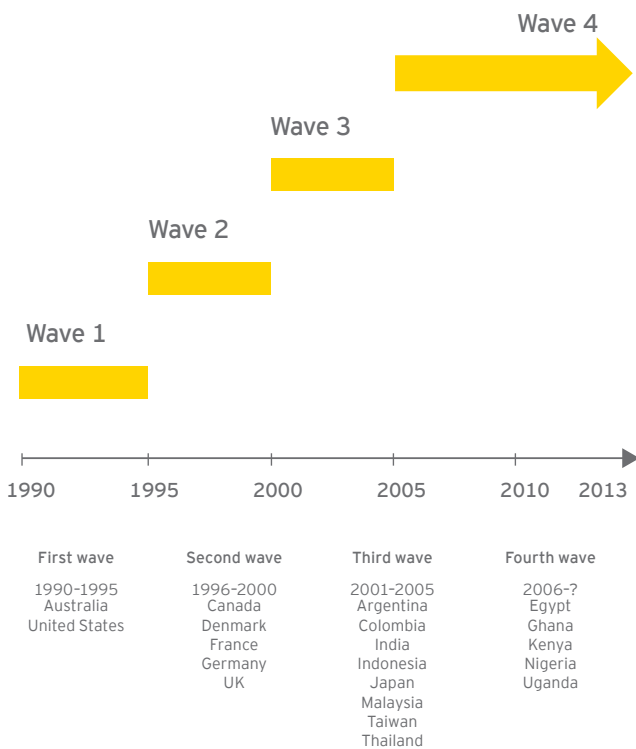


2 Transfer pricing frameworks increasingly under strain



First published in 1995, EY's *Global Transfer Pricing Survey* is nearly as old as transfer pricing documentation requirements themselves. At the time of our first survey, transfer pricing documentation requirements had only recently been introduced in a handful of countries, including the United States. The initial waves of documentation requirements, by and large, explicitly adopted the arm's-length principle, as affirmed in the OECD Transfer Pricing Guidelines for Multinational Enterprises.

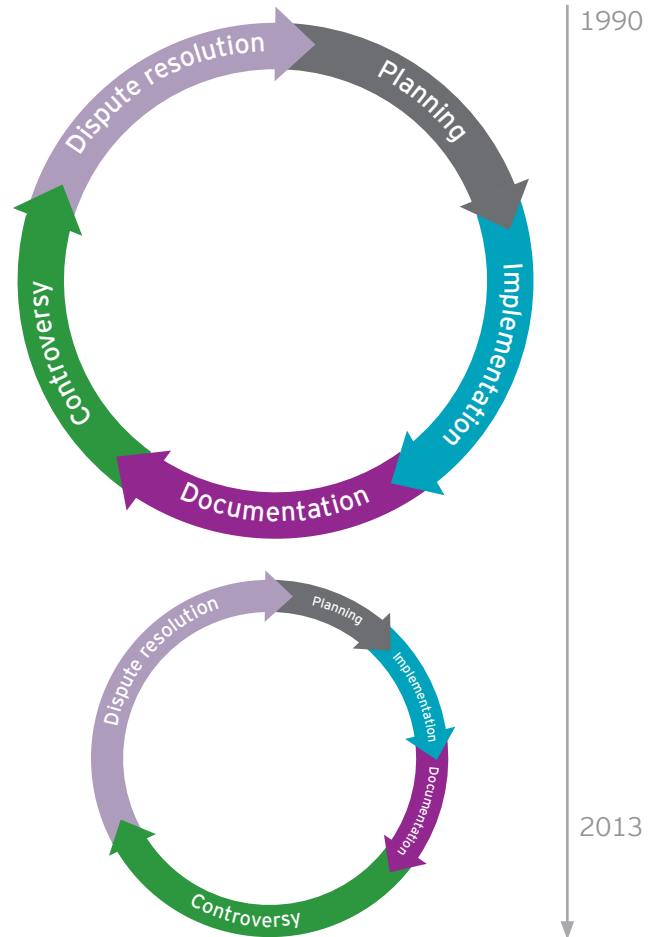
Figure 2:
Transfer pricing documentation standards have come in waves



Note: Representative countries with a legal or practical requirement for documentation.

Over the history of the survey, we have witnessed subsequent waves of transfer pricing documentation standards, as summarized in Figure 2. In addition, we have seen a compression within the life cycle where the planning, implementation and documentation stages are occurring in a shorter amount of time and the controversy and dispute resolution stages are expanding, as shown in Figure 3.

Figure 3:
Transfer pricing life cycle had compressed over time



Dissatisfaction with the status quo has been reflected in an unprecedented level of OECD activity ...

Reevaluation of existing frameworks in mature transfer pricing jurisdictions

The first wave of countries to adopt documentation standards now have 20 years of experience with which to assess how their frameworks for enforcing the arm's-length principle have functioned in practice. Many are seeking to change the frameworks. Tax authorities are voicing concern that, among other perceived weaknesses, existing transfer pricing rules give taxpayers excessive latitude in the following areas:

- ▶ The ability to define intangibles too narrowly and to value them too conservatively
- ▶ The freedom to restructure activities by moving key functions and risks to low-tax jurisdictions without explicit compensation
- ▶ The power, in today's digital age, to access huge national customer bases

Dissatisfaction with the status quo has been reflected in an unprecedented level of OECD activity on topics such as permanent establishments, business restructurings and intangibles, and most recently the OECD's BEPS report. Also, the BEPS report in part is an expression of discontent with some of the results produced by the existing transfer pricing framework, as well as a call for rethinking in some key areas.

At the time of this survey, we heard many threats but little in the way of international consensus that might help taxpayers attain certainty on how to prepare for whatever changes might emerge.

New and sometimes dissenting voices in emerging markets

Even as the mature jurisdictions revisit the frameworks they have created over the last 20 years, the emerging markets in Asia and Africa have learned from their mature counterparts' experience and are bringing their own perspectives to the transfer pricing debate.

Since our last survey, the UN Committee of Experts on International Cooperation in Tax Matters has emerged as a new and, in the view of some commentators, rival transfer pricing voice to the OECD. Likewise, the ATAF's Transfer Pricing Project has focused more attention on the concerns of African tax authorities.

While the movement of intangibles from developed markets into perceived tax havens is a stated concern of mature transfer pricing jurisdictions, emerging markets are asserting that the existing transfer pricing frameworks have not properly recognized the intangibles developed and contributed by their local markets.⁷ They are also questioning whether traditional methods of arm's-length benchmarking properly assign location savings to emerging markets. These concerns all found expression in the UN Transfer Pricing Manual, issued in October 2012.

⁷ See for example, the case study in *Annex C: Examples of MNEs' tax planning structures* (page 76) of "Addressing Base Erosion and Profit Shifting," OECD Publishing, 2013.

Emerging markets are asserting that the existing transfer pricing frameworks have not properly recognized the intangibles developed and contributed by their local markets.

Practical considerations are placing a strain on the arm's-length principle

As well as disagreement over the practical application of the arm's-length principle, mature transfer pricing jurisdictions are grappling with the sheer volume of intercompany trade and the necessity of reconciling the transfer pricing standards of a larger number of tax jurisdictions. These conditions have created significant backlogs in competent authority caseloads, and in the case of India and the United States, they have brought the competent authority process to a de facto standstill. Our survey confirms that taxpayers have begun to feel the effects of delays and impediments in the competent authority process, with respondents reporting a significant increase in the number of unresolved reviews and audits compared with previous years.

To address the practical difficulties posed by transfer pricing disputes, the OECD, in a reversal of its opposition to safe harbors expressed in the 1995 Transfer Pricing Guidelines for Multinational Enterprises, has for the first time suggested the use of negotiated safe harbor returns to distribution, manufacturing, and research and development functions to be implemented through a series of bi- or multilateral mutual understandings between tax authorities.



Where do taxpayers go from here?

Current developments and the responses to our survey indicate that taxpayers may need to reassess or reorient their priorities throughout the transfer pricing life cycle. Potential actions include:

Planning

- ▶ To avoid unpleasant VAT and customs surprises, make sure that your transfer pricing practices take into account indirect tax implications.

Implementation

- ▶ Pay more attention to how you implement and account for intercompany transactions, rather than concentrating exclusively on documenting your transfer pricing policies. Processes and outcomes matter and will be tested as much as underlying policies.

Documentation

- ▶ Align your transfer pricing resources to respond to increased transfer pricing documentation requirements and controversy in rapid-growth markets that may have been lower priorities in the past.
- ▶ Preempt difficult technical disputes over marketing intangibles, location savings and the source and exploitation of customer relationships through more rigorous transfer pricing documentation.

Controversy

- ▶ Bolster your transfer pricing defense by developing high-standard documentation in a wider range of countries than ever.
- ▶ Be aware that your intercompany pricing may be affected by a broader array of enforcement mechanisms, such as permanent establishment provisions and anti-avoidance rules.

Dispute resolution

- ▶ Mutual Agreement Procedures are increasingly under strain. Be prepared to rely on other channels of resolution, including those you may not have considered to date, such as APAs and arbitration.
- ▶ Keep in mind the reputational risk that the public debate over transfer pricing generates and engage in a dynamic way with internal and external stakeholders to minimize the possibility of unfavorable outcomes.





3

Taxpayers are navigating less-charted waters



Taxpayers are responding to the current transfer pricing environment by orienting their priorities toward risk management.

As we noted in Chapter 1, two-thirds of companies now identify risk management as their top transfer pricing priority, a sharp increase from past surveys. There has been a corresponding drop in the number of companies citing cash tax or effective tax rate optimization as their top priority. While we identified three broad reasons for this shift in Chapter 1, this chapter focuses on tax-specific trends that help explain it. In general, this survey reveals that the geographic focus of compliance is shifting and intangibles have emerged as a major concern for taxpayers.

Figure 4: Highest priorities in transfer pricing strategy (parents)

Transfer pricing priorities	2012	2010	2007
Tax risk management	66%	50%	50%
ETR optimization	11%	18%	22%
Cash tax optimization	6%	7%	
Alignment with management/operational objectives	14%	20%	18%
Performance measurement	1%	5%	7%
None of these	1%	0%	3%

Survey respondents remain very concerned with managing transfer pricing controversy in mature markets, and they have the resources in place in those countries to prove it. But survey respondents have already begun to recognize the increased importance of emerging markets. The number of survey respondents reporting that they were subject to a review of their transfer pricing policies in India, for example, more than doubled from 2007 to 2012, and emerging markets (China, India, Indonesia and South Korea) made up half of the top eight jurisdictions imposing transfer pricing penalties.

Figure 5: Top countries in which penalties were imposed

Italy	24%	China	6%
India	9%	Germany	6%
Canada	7%	Indonesia	6%
France	7%	South Korea	6%

Taxpayers are increasingly focused on risk rather than opportunity.

66% of parent company respondents in the current survey identified risk management as their top transfer pricing priority.

While one-third of parent companies said intangibles were their most important area of controversy in the last three years, 41% expect it to be the most important area in the next two years.

Shifting geographic priorities

Taxpayers' geographic priorities have begun to shift in response, but they have not necessarily aligned their resources with those priorities. Nearly 30% of parent companies with operations in the BRIC and Africa countries identified those regions as their No. 1 or No. 2 most important transfer pricing jurisdictions. However, 74% of those companies had no full-time transfer pricing professionals based in those regions, and 8% had only one. By contrast, they had higher staff ratios in North America and Western Europe.

Positioning people more broadly in rapid-growth markets is a universal challenge, and companies often deal with it by making temporary assignments or relying on business travelers. Nearly half of companies surveyed in Ernst & Young's *2012 Global Mobility Effectiveness Survey* said they had increased the number of people sent to growth markets, particularly China, countries in Africa and India.⁸ This mobility creates its own tax compliance challenges, especially concerning payroll and social security.

The overwhelming majority of parent companies surveyed had at least some awareness of the OECD's Discussion Draft on Intangibles issued in September 2012⁹ and, in line with policy discussions, expect an increase in intangibles controversy in the future.

While one-third of parent companies said intangibles were their most important area of controversy in the last three years, 41% expect it to be the most important area in the next two years.

Against this backdrop, companies need to ensure that they have a clear understanding of what their intangibles are, the value they contribute to the organization and where fiscal returns associated with them should reside. In particular, it will be critical to monitor the emerging revised Chapter 6 of the OECD Guidelines on Intangibles and ensure that any transfer pricing position taken reflects the final position on the definition of intangibles, as well as the importance and whereabouts of people developing, enhancing, maintaining and protecting those intangibles. This will require greater interaction within many companies of the tax team with R&D, marketing, business development and legal teams than in our experience commonly happens today.

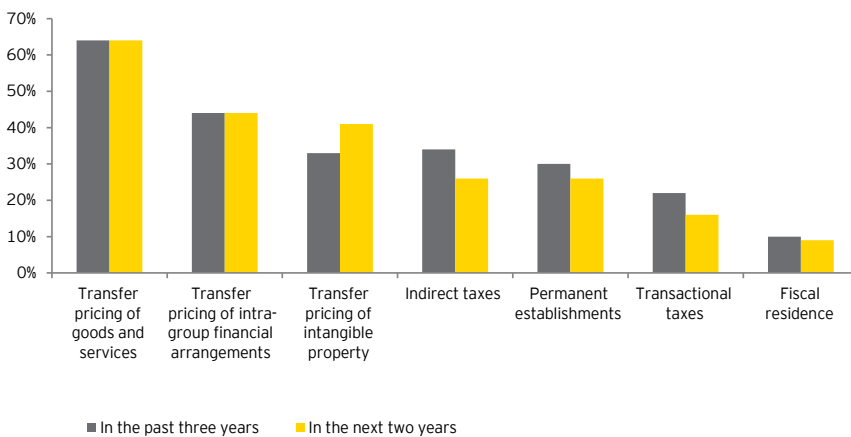
Not surprisingly, intangible property transactions were of greatest concern to taxpayers in industries that rely heavily on proprietary technology or content. Fifty-eight percent of media and entertainment companies cited intangible property transactions as their most important area of transfer pricing controversy in the last three years, and 69% of pharmaceutical parent companies expected them to be the most important area of controversy in the next two years.

⁸ "Driving business success: Global Mobility Effectiveness Survey 2012," Ernst & Young, 2012, <http://www.ey.com/GlobalMobilitySurvey2012>

⁹ <http://www.oecd.org/tax/transfer-pricing/50526258.pdf>

The geographic focus of compliance begins to shift as intangibles emerge as a major concern for taxpayers.

Figure 6: Most important areas of transfer pricing controversy



challenge, primarily in the United States, Canada and India, jurisdictions that have witnessed landmark litigation with respect to marketing intangibles in the pharmaceutical industry or that have a tax authority practice of asserting additional marketing returns to local sales and promotional activities. A disproportionate number (23%) of US consumer products companies have also faced such challenges.

Disputes over the legal versus beneficial ownership of intangible assets also accounted for 13% of intangible assets challenges across all countries. Such challenges were slightly more common in Germany, where they accounted for 16% of challenges.

Challenges take many forms

An intangibles challenge can take many forms and may arise even when a taxpayer hasn't explicitly recognized an intangible transaction. Many of these challenges reflect the concerns expressed in the OECD's Discussion Draft on Intangibles or in the UN Transfer Pricing Manual: differences between legal and economic ownership of intangible assets, lack of adequate substance to control and manage the development of the intangibles and the recharacterization of local market and selling expenses as a service provision to the intangible owner.

Based on the survey results, the most common intangible challenges arose from the assertion of uncompensated marketing intangibles and disputes over legal versus beneficial ownership.

Across all industries, 13% of parent companies reported a tax challenge in the last three years asserting the existence of uncompensated marketing intangibles. In the pharmaceutical industry, 31% of companies reported such a

Overall, only 6% of taxpayers indicated that their intangible property arrangements had been challenged on the grounds that the intangible owner lacked the substance and control to manage the intangible property. However, such challenges were relatively common in the United States (21% of all intangible assets challenges).

Reflecting the position taken by the Indian tax authority in the UN Transfer Pricing Manual, 19% of intangible assets challenges in India asserted that local marketing and advertising expenditures constituted a service to the non-Indian brand owner and therefore deserved an additional profit element.

The incidence of successful recharacterization of entities by tax authorities, in order to increase the tax base of those entities, remained infrequent, constituting only 9% of intangibles challenges across all countries. Such challenges were more common, however, in Germany, Sweden and Switzerland.

4

Taxpayers' experiences throughout the transfer pricing life cycle

Planning

Despite the attention tax authorities and the OECD devote to so called “limited risk” entities and special purpose companies, our survey indicates that their use is more the exception than the rule. When employed, they tend to be more common in some industries than others and may have arisen in response to specific industry conditions.

The use of special purpose companies was most common among taxpayers in industries facing considerable risk. The insurance industry reported the greatest use (60% of parent respondents), followed by the oil and gas industry (51% of parent respondents). The pharmaceutical industry was the most likely to report the use of a toll and contract manufacturing arrangement (59% of parent respondents). This reflects industry-specific issues, such as the high value of intangibles in the industry and the need to control and protect them rigorously.

Factoring indirect taxes into the transfer pricing equation

The survey shows that a minority of taxpayers incorporate indirect tax considerations into their transfer pricing strategies. Only 21% reported that they took customs issues fully into account, and only 27% said they took VAT issues fully into account when making transfer pricing decisions. Not surprisingly, customs and duties considerations were most important in those industries that face high customs duties or where tangible goods make up a significant portion of the value chain.

The automotive industry, which engages in high volumes of intercompany tangible goods trades that are often subject to duty, reported a high level of concern with indirect taxes. Forty-two percent of parent respondents said indirect taxes were a significant area of controversy, 84% took customs considerations into account in transfer pricing planning, and 75% took VAT considerations into account in transfer pricing planning.

Only **21%** reported that they took customs issues fully into account, and only **27%** said they took VAT issues fully into account when making transfer pricing decisions.

Few taxpayers report monitoring their financial results for compliance with transfer pricing policies on either a real-time or a monthly basis.

Likewise, 83% of parent respondents in the consumer products industry reported that customs and duty concerns affected their transfer pricing planning, and 77% reported that VAT considerations affected their transfer pricing planning.

Not surprisingly, only 40% of professional service companies and 34% of banking companies reported that their transfer pricing policies were affected by customs and duties considerations.

In our experience, the reason that few MNCs take a holistic view of the interface between transfer pricing and duties is that they fall into different areas of responsibilities and accountability. The corporate tax team often has no or little jurisdiction over duties. This has to change. Often a trade-off is needed to find a compliant policy in respect of both transfer pricing and duties. That can only be found with both camps represented in designing the best solution. The use of advance customs rulings and/or APAs should be considered carefully as a tool to manage the risk associated with this difficult interface.

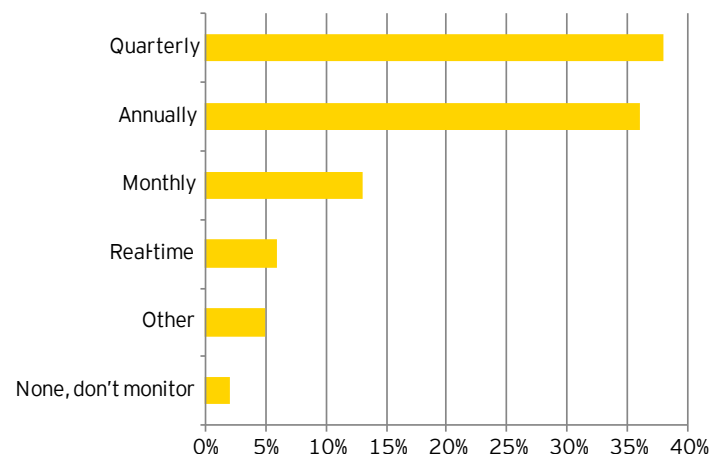
Implementation

Effective operationalization of transfer pricing has always been important in containing controversy risks and managing the risk associated with lack of acceptance of year-end true-ups. In addition, properly operationalizing transfer pricing helps ensure that indirect tax obligations, such as VAT and customs duties, are met. Post-period-end transfer pricing adjustments create indirect tax risks because they impose retroactive adjustments on the prices that served as the basis for indirect tax charges at the time of the transaction. But now the implementation of intercompany prices has also begun to receive heightened scrutiny from a purely transfer pricing perspective.

The OECD is reviewing not just how prices are set and tested but also how they are implemented. With the issuance of its Discussion Draft on Timing Issues, the OECD explicitly acknowledged that whether taxpayers set prices ex ante or ex post is more than a bookkeeping formality. The timing of price adjustments has a real effect on the allocation of risk among related parties. Inflexible arrangements under which transfer prices cannot be adjusted will therefore lead to uncertainty. In our view, the more frequently transfer prices are reviewed and adjusted, the better. In order to achieve certainty of outcome, taxpayers need to have the ability to set and adjust intercompany prices as frequently as required. The survey suggests that many taxpayers do not currently have that capability.

Few taxpayers report monitoring their financial results for compliance with transfer pricing policies on either a real-time or a monthly basis. Thirty-eight percent reported that they reviewed their results quarterly, and 36% said they did so only annually. Infrequent monitoring raises the incidence of true-ups, which can cause indirect tax difficulties.

Figure 7: Frequency with which companies review their financial results



Taxpayers cited a number of conditions that prevent them from more frequent monitoring. One-third of parent respondents cited a lack of automation, with higher proportions of companies headquartered in Brazil, Canada, China, Denmark, Mexico, New Zealand, Russia, Switzerland and the United States giving that reason.

Many parent respondents indicated that their system capabilities lagged behind their transfer pricing needs. A troubling number, 41%, said their systems are not set up for tax and transfer pricing, and fully 58% rely on Microsoft Excel spreadsheets to perform transfer pricing analytics. Only 7% of parent companies say they have “highly automated” systems supporting transfer pricing data needs for analysis, monitoring and planning.

Finally, one-quarter of companies cited insufficient headcount as a barrier to effective operationalization. Lack of headcount was most acute among companies based in China (67%), Canada (52% of parent respondents) and the Netherlands (44%). Twenty-seven percent of companies also report their current personnel lack the necessary training or skills, with at least 40% of companies in Japan, Netherlands, Russia, South Africa, South Korea and Sweden citing that reason.

Technology choices vary

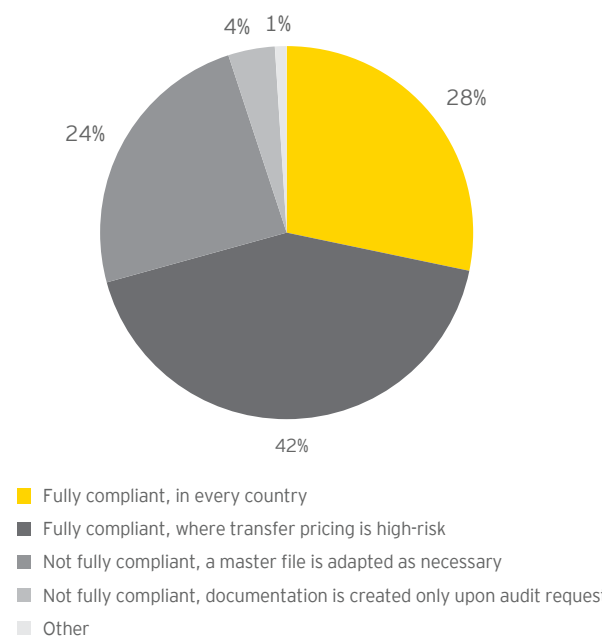
Forty-eight percent of parent companies said they use SAP as their primary technology platform for intercompany and financial reporting. Sixteen percent use Hyperion, 15% rely on legacy or custom-designed software and 13% use Oracle products.

SAP was also the most commonly used primary technology platform for planning, budgeting and forecasting, with one-third of companies saying they use it. Twenty-four percent said they rely on Microsoft Excel, and 20% said they use Hyperion.

Documentation

The shift toward risk management is evident not only in the way taxpayers rank their tax priorities but also in the level of effort they devote to documenting their intercompany transactions. Only a very small minority of parent companies (4%) left the preparation of transfer pricing documentation until an audit request arose. In fact, 70% of companies claim to be either fully compliant with the transfer pricing rules in every country in which they operate or fully compliant wherever they consider transfer pricing to be high-risk.

Figure 8: Levels of transfer pricing compliance



*Numbers do not total 100% because of rounding.

The survey provides some evidence that risk-based approaches have not always afforded taxpayers with adequate transfer pricing protection.

With documentation requirements in place in more and more countries, it is challenging for even the most diligent taxpayer to obtain complete compliance, and the survey responses reflect the magnitude of the challenge. Only 28% of parent respondents claimed to be fully compliant in every country. The highest percentages of taxpayers reporting full compliance were based in countries with strict requirements for contemporaneous documentation: Argentina (83% of parent respondents) and Mexico (70% of parent respondents). Instead of targeting comprehensive compliance, a plurality of parent respondents (42%) take a risk-based approach to where they document by fully documenting only in those markets that they consider to be high-risk.

The survey provides some evidence that risk-based approaches have not always afforded taxpayers with adequate transfer pricing protection. In fact, the rate at which transfer pricing documentation was rejected as inadequate increased in 22 of 25 countries surveyed since 2010.

The challenge of managing the documentation process will only increase as the number of countries requiring documentation grows, and as more countries institute country-specific requirements such as transfer pricing disclosure forms. The latest waves of documentation requirements implemented in African, Asian and Latin American countries have often opted for more formal treatments, such as transfer pricing disclosure and information returns. As a result, taxpayers that are used to relying on a master file to satisfy documentation requirements may need to reexamine whether they are in compliance with local requirements in Africa, Asia and Latin America. Exacerbating the risk is the fact that these are also the jurisdictions likely to impose penalties for failure to prepare transfer pricing documentation.

To manage the documentation burden, taxpayers rely predominantly on third-party service providers to achieve compliance.

Most taxpayers reported that they were satisfied with their documentation processes. The most common reason for dissatisfaction was the length of the process (43% of parent respondents). But 32% indicate the process led to an undesired or poor final product.

Transfer pricing risk may arise from non-transfer pricing challenges

A taxpayer's transfer pricing risk extends beyond transfer pricing-specific challenges. There is a growing trend toward alternative or parallel challenges to transfer pricing, including invoking anti-abuse provisions and asserting permanent establishments.

Although only a minority of taxpayers surveyed had faced an assertion of a permanent establishment in the last three years (13% of parent companies) or a dispute with tax authorities on the amount of profit attributed to a permanent establishment (14%), the tax authority focus on permanent establishments is increasing. And tax authorities are having some success in this area, as evidenced by the fact that of the permanent establishment-based challenges reported in the survey, 33% resulted in a final adjustment and 16% even resulted in the imposition of penalties. Typical fact patterns that can trigger a permanent establishment assertion are summarized in the following table. As the table shows, these situations are quite common for survey respondents.

Figure 9: Incidence of arrangements that frequently give rise to permanent establishment challenges

Subcontracting arrangements	55%
Frequent business travelers and seconded employees	79%
Toll or contract manufacturing and sales or promotion activities performed by the same legal entity abroad	42%
Deliveries of goods abroad	67%
Provision of services through employees or other personnel abroad	77%
Special purpose companies	39%
None of these	3%

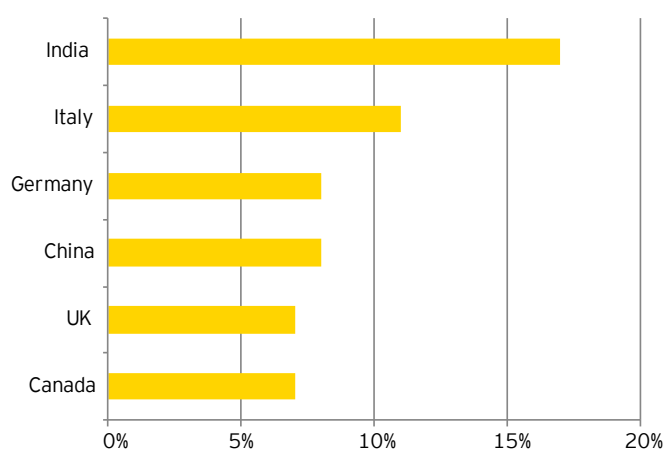
Where challenges were reported, the provision of services was the most frequently cited basis for the assertion of a permanent establishment (57% of cases). Sales through agents or commissionaires and business travelers or seconded employees were also common reasons (31% and 25% of cases, respectively).

Figure 10: Bases for permanent establishment assertions

Provision of services	57%
Sales through agents and/or commissionaires	31%
Business travelers or seconded employees	25%
Arrangements involving subcontractors	16%
Construction, assembly or installation projects	24%
Toll or contract manufacturing arrangements	8%
Other bases	11%

The survey responses showed permanent establishment assertions were most common in India, Italy, China, Germany, Canada and the United Kingdom.

Figure 11: Jurisdictions asserting permanent establishments



In all, 47% of parent companies reported that they have experienced double taxation as a result of a transfer pricing adjustment.



Assertion of permanent establishments and litigation of permanent establishment disputes have been on the rise for some time, and we expect them to continue to increase for a number of reasons. The proposed new OECD Commentary to Article 5 significantly widens the definition of permanent establishment, and the permanent establishment concept may be broadened even further as a result of both the OECD BEPS work and the interest, especially on the part of emerging markets, in source-based taxation. In addition, as tax authorities attempt to increase their tax bases in the face of declining revenues, foreign businesses are a likely target, and permanent establishment assertions are a likely tool.

Controversy

The survey confirms that transfer pricing is receiving greater scrutiny in most markets, and that unresolved reviews and audits have increased compared with previous years. Twenty-eight percent of parent respondents reported unresolved transfer pricing examinations, up from 17% in 2010 and 12% in 2007.

The survey also indicates that taxpayers are suffering more frequent penalties in transfer pricing cases and that they expect the imposition of penalties to increase in the future. Twenty-four percent of parent respondents were subject to a penalty in the past three years, in comparison with 19% in 2010 and 15% in 2007. The incidence of penalties has increased or remained steady in more than half of the countries surveyed from 2010 to 2012.

In addition to penalties, 60% of parent companies also reported suffering an interest charge as a result of a transfer pricing adjustment. Interest charges were most common in Germany, Italy, France, the United States and Canada.

As tax authorities attempt to increase their tax bases in the face of declining revenues, foreign businesses are a likely target, and permanent establishment assertions are a likely tool.

Tax authorities still target tangible goods and services rather than more complex transfer pricing issues, but financial transactions are coming to the fore

As in past surveys, the majority of parent companies (64%) continue to report that tangible goods and services transactions were their most important area of tax controversy in the past three years. However, continuing a trend noted in the 2010 survey, financial transactions are assuming greater importance. Forty-four percent of parent companies identified transfer pricing of intra-group financial arrangements as their most important area of controversy in the past three years. Financial transactions tended to be of most concern in industries that employ significant physical or financial capital. Respondents in the insurance, transportation, utilities and real estate sectors all cited intercompany financing as their top area of transfer pricing controversy in the last three years or their top projected issue over the next two years.

Dispute resolution

In all, 47% of parent companies reported that they have experienced double taxation as a result of a transfer pricing adjustment. An incidence of double taxation was reported in 18 of the 25 countries surveyed, but it was most common in cases involving Germany (18% of cases), France (15%), Italy (15%), the United Kingdom (14%) and the United States (13%).

To mitigate double taxation, 28% of companies said they had referred a transfer pricing matter to competent authority in the past three years, a 55% increase over 2010.

When applied, Mutual Agreement Procedures or arbitration are usually effective means of mitigating double taxation arising from transfer pricing adjustments. Twenty-three percent of parent respondents reported suffering double taxation in spite of the application of Mutual Agreement Procedures or arbitration.

Despite its effectiveness, the competent authority process is showing increased signs of strain. Tax authorities are struggling to cope with the volume of transfer pricing controversy generated by increasing global trade and broader, more stringent enforcement of transfer pricing standards. The United States' Internal Revenue Service has reported an increasing inventory of unresolved Mutual Agreement Procedure cases despite decreases in processing time, while the OECD has reported that the total number of open Mutual Agreement Procedures cases among member countries had increased by 15.3% from 2010 to 2011 and by 63.2% from 2006 to 2011.

APAs are an effective dispute resolution option, but a heightened risk environment and resulting double taxation concerns may be driving increased interest in the APA process. Twenty-six percent of parent companies surveyed reported using an APA in 2012, up from 21% in 2007. Fifteen percent reported using bilateral APAs, and 14% reported using unilateral APAs. Just 2% reported using multilateral APAs.

The level of satisfaction with the APA process remains high (79% of parent companies) – slightly higher, in fact, than reported levels of satisfaction with the transfer pricing documentation process itself (76%). Again, as with transfer pricing documentation, the length of the process was the primary source of dissatisfaction. Of those dissatisfied with the APA process, 89% cited the length of time required to complete as the primary source of dissatisfaction.

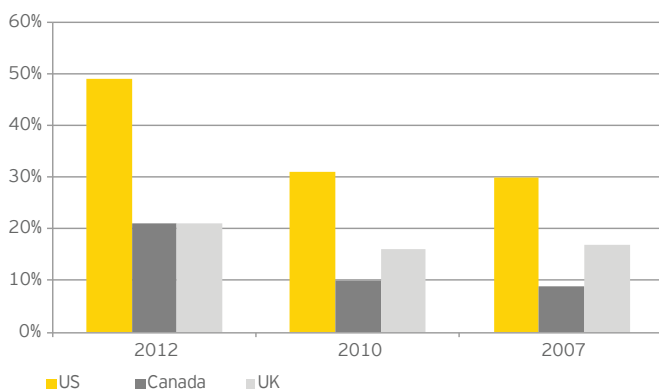
Forty-seven percent of parent respondents in the oil and gas industry indicated they had entered into APAs, primarily in the United Kingdom, the United States and Canada.

Despite the now global reach of documentation requirements and the current availability of APAs in more jurisdictions, including developing markets, APAs in practice remain largely a province of the earliest waves of countries that adopted documentation requirements following the arm's-length principle. Respondents reported that nearly half of their APAs were with the United States, up from just 30% in 2007. Canada and the United Kingdom experienced sharp increases as well at 21% each, up from 9% and 17% in 2007, respectively.

Some industries favor the use of APAs more than others. The use of APAs was highest in industries that, as a result of high profit levels, complex value chains or dependence on intellectual property, are subject to frequent tax authority challenge. The pharmaceutical industry reported the highest level of APA use: 56% of parent respondents reported having entered into an APA. Pharmaceutical companies also appear to seek comprehensive risk reduction through their APAs; relatively high proportions (50%) of their APAs were bilateral or multilateral.

Forty-seven percent of parent respondents in the oil and gas industry indicated they had entered into APAs, primarily in the United Kingdom, the United States and Canada. Thirty-one percent of parent respondents in the automotive industry had entered into APAs, primarily in key auto-producing countries such as the United States, Japan and Canada.

Figure 12: Top three countries involved in APAs



Transfer pricing litigation remains undesirable, unpopular

Litigation remains the least favored and least satisfactory means of dispute resolution. Only 15% of parent respondents had referred a matter to litigation in the previous two years. Mutual Agreement Procedures and APAs remained more common means of dispute resolution at 28% and 26%, respectively. However, the incidence of litigation has shown a steady increase since 2007.

Levels of satisfaction with litigation remain much lower than levels of satisfaction with APAs. Only 31% of parent respondents reported satisfaction with the process. Again, the length of the process was the primary source of dissatisfaction, but dissatisfaction with the results of the process was also significant (43% of parent respondents).

Figure 13: Use of litigation

	2012	2010	2007
Yes	15%	11%	4%
No	85%	89%	96%





5 Conclusions



Our *2013 Global Transfer Pricing Survey* leaves little doubt that companies are struggling to meet their heightened obligations in a rapidly changing world. We have every reason to believe the current environment will remain difficult for the next several years, and companies should take some steps to prepare.

Take a view of your intercompany transactions in their totality

Recent OECD developments, such as the BEPS project and the OECD Intangibles Discussion Draft, indicate tax authorities will increasingly wish to review your transfer pricing based on the totality of intercompany transactions. As a result, it will soon no longer be good enough to simply make sure your individual intercompany transactions satisfy a checklist of technical requirements. Tax authorities are signaling that they will be taking a holistic view of taxpayers' intercompany transactions to assess the total profit shifted from their jurisdictions, without specific regard to the individual transactions that shifted it. Tax authorities are also using non-transfer pricing provisions, such as permanent establishment and general anti-avoidance rules, to supplement their transfer pricing review powers. To understand and mitigate your risks, consider taking the following steps:

- ▶ Review the system-wide profit allocations that result from your transfer pricing policies
- ▶ Revisit and reassess your transfer pricing of intangible assets in the light of the new OECD Guidelines
- ▶ Perform an inventory of where local markets may have developed or contributed to the development of intangible property
- ▶ If you use limited return entities, consider your risk not only under transfer pricing principles but also under permanent establishment and general anti-avoidance rules

Make sure your systems are up to the challenge of handling your transfer pricing processes

Year-end or post-year-end adjustments continue to create indirect tax exposures. These challenges can be particularly severe if you operate in an industry where tangible goods are a significant portion of the value chain. But as attention begins to shift to how taxpayers implement and adjust prices, taxpayers in all industries should make sure that they have the people and systems in place to undertake frequent reviews and adjustments to transfer prices in order to eliminate uncertainty of outcomes.

The inability to evaluate the system profit on a product-by-product or intangible-by-intangible basis may limit your ability to assess how profits are currently allocated across your business and leave you open to tax authority challenge.

Consider the perspectives of the rapid-growth markets

In the past, your chief intangibles considerations may have started out from the value given to the intangibles from the developed markets' position. That issue is in sharper focus than ever, but tax authorities in developing countries may also conclude that intangibles have been developed locally that you haven't acknowledged, much less compensated. Only a rigorous and current analysis of functions, risks and intangibles across your organization can assist in uncovering where your risks may lie.

Similarly, if you have related-party service providers in an emerging market, be aware that an unenhanced cost-plus markup to those affiliates may not reflect what local tax authorities consider sufficient compensation for what the market offers.

Confronting the new sources of risk in rapid-growth markets may mean hiring new people in new places with different skill sets. Or you may need to mobilize your best people to new areas. These transitions will create new challenges, especially with regard to language and cultural differences.

Your risk assessment may need updating

Increasingly detailed documentation requirements at the local level, combined with increased scrutiny by tax authorities, will require companies to adjust their approach to documentation globally. Documentation requirements are in place in markets that may never have been on your radar screen in the past. And the requirements in those jurisdictions may be more onerous and individualistic than what you are accustomed to in mature markets.

Economies of BRIC countries and much of the African continent, are building upon the experience of their more developed trading partners to cement their policies more quickly, and they're frequently injecting controversy earlier into the process.

Finally, remember that the risk you face may not be just the risk of additional tax, penalties and interest, but real damage to your company's reputation. Transfer pricing is in the media spotlight and will likely remain there for some time.

- 
- ▶ Argentina
 - ▶ Australia
 - ▶ Belgium
 - ▶ Brazil
 - ▶ Canada
 - ▶ China
 - ▶ Denmark
 - ▶ Finland
 - ▶ France
 - ▶ Germany
 - ▶ India
 - ▶ Ireland
 - ▶ Italy
 - ▶ Japan
 - ▶ Mexico
 - ▶ Netherlands
 - ▶ New Zealand
 - ▶ Norway
 - ▶ Russia
 - ▶ South Africa
 - ▶ South Korea
 - ▶ Spain
 - ▶ Sweden
 - ▶ Switzerland
 - ▶ United Kingdom
 - ▶ United States

Countries surveyed ▶

Argentina

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	Argentina (Parents)	Americas (Parents)	Global (Parents)
Importance of transfer pricing			
Latin America (excluding Brazil) was most often cited as the most important jurisdiction for transfer pricing issues.	100%	8%	3%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	50%	62%	66%
General audit and controversy experience			
Indirect taxes (e.g., VAT, customs, payroll taxes) and transactional taxes tied as the most important area of tax controversy in the last three years.			
▶ Indirect taxes (e.g., VAT, customs, payroll taxes)	67%	34%	34%
▶ Transactional taxes	67%	25%	22%
Transfer pricing policy was examined by a tax authority in any country since 2009.	83%	87%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	11%	17%	24%
Penalties were imposed on the adjustment.	0%	7%	24%
Interest was imposed on the adjustment.	0%	68%	60%
Adjustments resulted in double taxation since 2009.	100%	35%	47%
(Of the percentage that answered YES to previous question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	0%	15%	23%
(Of the percentage that answered NO to previous question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	NA	30%	25%
APAs have been used as a controversy management tool.	0%	25%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	33%	29%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	0%	14%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	0%	32%	27%
_____ was most often the basis for the assertion of a permanent establishment.	NA	NA	NA
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	0%	14%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	17%	13%	18%
Beneficial vs. legal ownership was most often cited as an issue giving rise to a tax challenge.	17%	11%	13%
ETR (effective tax rate) is the most important to the organization.	67%	57%	51%
Operationalizing transfer pricing			
Data quality and accuracy is the top transfer pricing issue from an operational perspective.	33%	31%	25%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	83%	44%	38%
Lack of time needed during the financial close was most often cited as the single issue having the greatest impact on the transfer pricing process.	50%	30%	33%
Systems not set up for tax and transfer pricing and lack of automation was tied as the largest data or technology challenge that has the biggest impact on the transfer pricing process.			
▶ Systems not set up for tax and transfer pricing	33%	42%	41%
▶ Lack of automation	33%	16%	19%

Australia

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	Australia (Parents)	Asia-Pacific (Parents)	Global (Parents)
Importance of transfer pricing			
Asia-Pacific was most often cited as the most important jurisdiction for transfer pricing issues.	64%	45%	12%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	79%	79%	66%
General audit and controversy experience			
Transfer pricing of intra group financial arrangements (loans, guarantees etc) has been the most important area of tax controversy in the last three years.	71%	35%	44%
Transfer pricing policy was examined by a tax authority in any country since 2009.	96%	66%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	14%	24%	24%
Penalties were imposed on the adjustment.	50%	43%	24%
Interest was imposed on the adjustment.	88%	46%	60%
Adjustments resulted in double taxation since 2009.	75%	54%	47%
(Of the percentage that answered YES to previous question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	17%	32%	23%
(Of the percentage that answered NO to previous question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	100%	38%	25%
APAs have been used as a controversy management tool.	29%	22%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	25%	18%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	4%	6%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	11%	14%	27%
Sales through agents and/or commissionaires was most often the basis for the assertion of a permanent establishment.	100%	50%	31%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	14%	11%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	14%	8%	18%
Beneficial vs. legal ownership and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as the most often cited issues giving rise to a tax challenge.			
▶ Beneficial vs. legal ownership	7%	8%	13%
▶ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	7%	7%	9%
ETR (effective tax rate) is the most important to the organization.	54%	43%	51%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	36%	41%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	39%	31%	38%
Documentation to support taxing authority audits was most often cited as the single issue having the greatest impact on the transfer pricing process.	50%	38%	40%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	43%	43%	41%

Belgium

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	Belgium (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	65%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	70%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	65%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	90%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	36%	27%	24%
Penalties were imposed on the adjustment.	33%	26%	24%
Interest was imposed on the adjustment.	40%	61%	60%
Adjustments resulted in double taxation since 2009.	33%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	20%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	10%	22%	25%
APAs have been used as a controversy management tool.	45%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	40%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	20%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	15%	28%	27%
Sales through agents and/or commissionaires was most often the basis for the assertion of a permanent establishment.	100%	23%	31%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	55%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	50%	24%	18%
Beneficial vs. legal ownership was most often cited as an issue giving rise to a tax challenge.	15%	15%	13%
ETR (effective tax rate) is the most important to the organization.	55%	50%	51%
Operationalizing transfer pricing			
Data quality and accuracy is the top transfer pricing issue from an operational perspective.	35%	26%	25%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	45%	37%	38%
Lack of time needed during the financial close was most often cited as the single issue having the greatest impact on the transfer pricing process.	50%	37%	33%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	30%	39%	41%

Brazil

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	Brazil (Parents)	Americas (Parents)	Global (Parents)
Importance of transfer pricing			
North America, BRICs and Africa tied as the most important jurisdictions for transfer pricing issues.			
▸ North America	32%	58%	32%
▸ BRICs and Africa	32%	11%	12%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	56%	62%	66%
General audit and controversy experience			
Transfer pricing of goods and services and indirect taxes (e.g., VAT, customs, payroll taxes) tied as the most important area of tax controversy in the last three years.			
▸ Transfer pricing of goods and services	56%	64%	64%
▸ Indirect taxes (e.g., VAT, customs, payroll taxes)	56%	34%	34%
Transfer pricing policy was examined by a tax authority in any country since 2009.	60%	87%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	4%	17%	24%
Penalties were imposed on the adjustment.	0%	7%	24%
Interest was imposed on the adjustment.	0%	68%	60%
Adjustments resulted in double taxation since 2009.	0%	35%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	NA	15%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	0%	30%	25%
APAs have been used as a controversy management tool.	4%	25%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	28%	29%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	4%	14%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	20%	32%	27%
_____ was most often the basis for the assertion of a permanent establishment.	NA	NA	NA
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	12%	14%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	4%	13%	18%
Absence of substance to control and manage IP in a low-tax jurisdiction and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as issues giving rise to a tax challenge.			
▸ Absence of substance to control and manage IP in a low-tax jurisdiction	4%	8%	6%
▸ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	4%	8%	9%
ETR (effective tax rate) is the most important to the organization.	68%	57%	51%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	36%	21%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a monthly basis.	40%	14%	13%
Documentation to support taxing authority audits was most often cited as the single issue having the greatest impact on the transfer pricing process.	68%	38%	40%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	40%	42%	41%

Canada

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	Canada (Parents)	Americas (Parents)	Global (Parents)
Importance of transfer pricing			
North America was most often cited as the most important jurisdiction for transfer pricing issues.	76%	58%	32%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	76%	62%	66%
General audit and controversy experience			
Transfer pricing of intra group financial arrangements (loans, guarantees, etc.) has been the most important area of tax controversy in the last three years.	64%	45%	44%
Transfer pricing policy was examined by a tax authority in any country since 2009.	100%	87%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	11%	17%	24%
Penalties were imposed on the adjustment.	14%	7%	24%
Interest was imposed on the adjustment.	29%	68%	60%
Adjustments resulted in double taxation since 2009.	71%	35%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	20%	15%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	0%	30%	25%
APAs have been used as a controversy management tool.	36%	25%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	32%	29%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	4%	14%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	24%	32%	27%
Provision of services was most often the basis for the assertion of a permanent establishment.	75%	58%	57%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	12%	14%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	12%	13%	18%
Beneficial vs. legal ownership was most often cited as an issue giving rise to a tax challenge.	24%	11%	13%
Cash tax (corporate taxes) is the most important to the organization.	64%	36%	42%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	32%	21%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	52%	44%	38%
Implementation of policy was most often cited as the single issue having the greatest impact on the transfer pricing process.	56%	35%	38%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	44%	42%	41%

China

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	China (Parents)	Asia-Pacific (Parents)	Global (Parents)
Importance of transfer pricing			
Asia-Pacific was most often cited as the most important jurisdiction for transfer pricing issues.	33%	34%	32%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	80%	79%	66%
General audit and controversy experience			
Transfer pricing of goods and services and indirect taxes (e.g., VAT, customs, payroll taxes) tied as the most important areas of tax controversy in the last three years.			
▶ Transfer pricing of goods and services	53%	51%	64%
▶ Indirect taxes (e.g., VAT, customs, payroll taxes)	53%	15%	34%
Transfer pricing policy was examined by a tax authority in any country since 2009.	40%	66%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	38%	24%	24%
Penalties were imposed on the adjustment.	33%	43%	24%
Interest was imposed on the adjustment.	0%	46%	60%
Adjustments resulted in double taxation since 2009.	67%	54%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	0%	32%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	0%	38%	25%
APAs have been used as a controversy management tool.	7%	22%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	27%	18%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	13%	6%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	7%	14%	27%
_____ was most often the basis for the assertion of a permanent establishment.	NA	NA	NA
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	7%	11%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	7%	8%	18%
Beneficial vs. legal ownership was most often cited as an issue giving rise to a tax challenge.	27%	8%	13%
ETR (effective tax rate) is the most important to the organization.	67%	43%	51%
Operationalizing transfer pricing			
Clear vision and strategy and data quality and accuracy tied as the top transfer pricing issues from an operational perspective.			
▶ Clear vision and strategy	40%	41%	29%
▶ Data quality and accuracy	40%	12%	25%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	33%	35%	36%
Inconsistency of process or methods across the company was most often cited as the single issue having the greatest impact on the transfer pricing process.	53%	27%	35%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	67%	43%	41%

Denmark

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	Denmark (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	60%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	56%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	72%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	92%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	23%	27%	24%
Penalties were imposed on the adjustment.	8%	26%	24%
Interest was imposed on the adjustment.	54%	61%	60%
Adjustments resulted in double taxation since 2009.	23%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	0%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	40%	22%	25%
APAs have been used as a controversy management tool.	24%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	32%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	12%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	16%	28%	27%
Provision of services, arrangements involving subcontractors and toll or contract manufacturing arrangements tied as the most often bases for the assertion of a permanent establishment.			
▶ Provision of services	50%	58%	57%
▶ Arrangements involving subcontractors	50%	19%	16%
Toll or contract manufacturing arrangements	50%	4%	8%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	44%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	36%	24%	18%
Beneficial vs. legal ownership and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as the most often cited issues giving rise to a tax challenge.			
▶ Beneficial vs. legal ownership	12%	15%	13%
▶ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	12%	11%	9%
Cash tax (corporate taxes) is the most important to the organization.	52%	42%	42%
Operationalizing transfer pricing			
Clear vision and strategy and policy, procedure and work processes tied as the top transfer pricing issues from an operational perspective.			
▶ Clear vision and strategy	32%	29%	29%
▶ Policy, procedure and work processes	32%	15%	17%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	56%	37%	38%
Manual activities or lack of automation and lack of time needed during the financial close tied as the most often cited issues having the greatest impact on the transfer pricing process.			
▶ Manual activities or lack of automation	48%	31%	33%
▶ Lack of time needed during the financial close	48%	37%	33%
Lack of automation was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	40%	19%	19%

Finland

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	Finland (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	72%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	60%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	76%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	84%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	19%	27%	24%
Penalties were imposed on the adjustment.	20%	26%	24%
Interest was imposed on the adjustment.	60%	61%	60%
Adjustments resulted in double taxation since 2009.	40%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	0%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	0%	22%	25%
APAs have been used as a controversy management tool.	16%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	4%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	8%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	32%	28%	27%
Construction, assembly or installation projects was most often the basis for the assertion of a permanent establishment.	50%	29%	24%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	16%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	20%	24%	18%
Assertion that local advertising and promotion expenditure is a service to the brand owner was most often cited as an issue giving rise to a tax challenge.	24%	12%	9%
ETR (effective tax rate) is the most important to the organization.	72%	50%	51%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	52%	29%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly and annual basis.			
▸ Quarterly	40%	37%	38%
▸ Annually	40%	40%	36%
Lack of time needed during the financial close was most often cited as the single issue having the greatest impact on the transfer pricing process.	44%	37%	33%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	28%	39%	41%

	France (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	68%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	68%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	72%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	84%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	32%	27%	24%
Penalties were imposed on the adjustment.	26%	26%	24%
Interest was imposed on the adjustment.	79%	61%	60%
Adjustments resulted in double taxation since 2009.	89%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	29%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	0%	22%	25%
APAs have been used as a controversy management tool.	40%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	44%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	20%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	40%	28%	27%
Business travelers or seconded employees and arrangements involving subcontractors tied as the most often bases for the assertion of a permanent establishment.			
▶ Business travelers or seconded employees	60%	29%	25%
▶ Arrangements involving subcontractors	60%	19%	16%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	12%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	32%	24%	18%
Assertion that local advertising and promotion expenditure is a service to the brand owner was most often cited as an issue giving rise to a tax challenge.	16%	12%	9%
ETR (effective tax rate) is the most important to the organization.	52%	50%	51%
Operationalizing transfer pricing			
Data quality and accuracy is the top transfer pricing issue from an operational perspective.	36%	26%	25%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	52%	40%	36%
Implementation of policy and lack of time needed during the financial close tied as the most often cited issues having the greatest impact on the transfer pricing process.			
▶ Implementation of policy	48%	39%	38%
▶ Lack of time needed during the financial close	48%	37%	33%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	52%	39%	41%

Germany

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	Germany (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	48%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	64%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	88%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	100%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	33%	27%	24%
Penalties were imposed on the adjustment.	17%	26%	24%
Interest was imposed on the adjustment.	52%	61%	60%
Adjustments resulted in double taxation since 2009.	74%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	24%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	17%	22%	25%
APAs have been used as a controversy management tool.	40%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	48%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	20%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	24%	28%	27%
Construction, assembly or installation projects was most often the basis for the assertion of a permanent establishment.	100%	29%	24%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	44%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	36%	24%	18%
Existence of marketing intangibles was most often cited as an issue giving rise to a tax challenge.	40%	14%	13%
Cash tax (corporate taxes) is the most important to the organization.	44%	42%	42%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	44%	29%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	52%	40%	36%
Inconsistency of process or methods across the company was most often cited as the single issue having the greatest impact on the transfer pricing process.	56%	35%	35%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	44%	39%	41%

	India (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
BRICS and Africa were most often cited as the most important jurisdictions for transfer pricing issues.	40%	13%	12%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	60%	63%	66%
General audit and controversy experience			
Transfer pricing of intra group financial arrangements (loans, guarantees, etc.) has been the most important area of tax controversy in the last three years.	80%	46%	44%
Transfer pricing policy was examined by a tax authority in any country since 2009.	93%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	48%	27%	24%
Penalties were imposed on the adjustment.	33%	26%	24%
Interest was imposed on the adjustment.	67%	61%	60%
Adjustments resulted in double taxation since 2009.	67%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	25%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	25%	22%	25%
APAs have been used as a controversy management tool.	13%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	27%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	40%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	7%	28%	27%
Arrangements involving subcontractors was most often the basis for the assertion of a permanent establishment.	100%	19%	16%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	27%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	27%	24%	18%
Assertion that local advertising and promotion expenditure is a service to the brand owner and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as the most often cited issues giving rise to a tax challenge.			
▶ Assertion that local advertising and promotion expenditure is a service to the brand owner	13%	12%	9%
▶ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	13%	11%	9%
ETR (effective tax rate) is the most important to the organization.	60%	50%	51%
Operationalizing transfer pricing			
Policy, procedure and work processes is the top transfer pricing issue from an operational perspective.	27%	15%	17%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	60%	37%	38%
Documentation to support taxing authority audits was most often cited as the single issue having the greatest impact on the transfer pricing process.	60%	41%	40%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	40%	39%	41%

Ireland

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	Ireland (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	50%	53%	35%
ETR (effective tax rate) optimization was most often identified as being of the highest priority when devising transfer pricing strategy.	70%	12%	11%
General audit and controversy experience			
Transfer pricing of intra group financial arrangements (loans, guarantees, etc.) has been the most important area of tax controversy in the last three years.	90%	46%	44%
Transfer pricing policy was examined by a tax authority in any country since 2009.	80%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	12%	27%	24%
Penalties were imposed on the adjustment.	0%	26%	24%
Interest was imposed on the adjustment.	50%	61%	60%
Adjustments resulted in double taxation since 2009.	0%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	NA	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	50%	22%	25%
APAs have been used as a controversy management tool.	40%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	10%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	0%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	30%	28%	27%
_____ was most often the basis for the assertion of a permanent establishment.	NA	NA	NA
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	20%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	0%	24%	18%
Assertion that local advertising and promotion expenditure is a service to the brand owner was most often cited as an issue giving rise to a tax challenge.	20%	12%	9%
ETR (effective tax rate) is the most important to the organization.	90%	50%	51%
Operationalizing transfer pricing			
Data quality and accuracy is the top transfer pricing issue from an operational perspective.	40%	26%	25%
To ensure compliance with transfer pricing policies, financial results are monitored on a monthly and annual basis.			
▶ Monthly	40%	13%	13%
▶ Annually	40%	40%	36%
Documentation to support taxing authority audits was most often cited as the single issue having the greatest impact on the transfer pricing process.	60%	41%	40%
Lack of automation was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	30%	19%	19%

	Italy (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	64%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	68%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	52%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	68%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	21%	27%	24%
Penalties were imposed on the adjustment.	38%	26%	24%
Interest was imposed on the adjustment.	63%	61%	60%
Adjustments resulted in double taxation since 2009.	63%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	20%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	0%	22%	25%
APAs have been used as a controversy management tool.	8%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	36%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	32%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	8%	28%	27%
Provision of services was most often the basis for the assertion of a permanent establishment.	100%	58%	57%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	16%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	20%	24%	18%
Assertion that local advertising and promotion expenditure is a service to the brand owner and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as the most often cited issues giving rise to a tax challenge.			
▶ Assertion that local advertising and promotion expenditure is a service to the brand owner	8%	12%	9%
▶ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	8%	11%	9%
ETR (effective tax rate) is the most important to the organization.	76%	50%	51%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	44%	29%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	44%	37%	38%
Implementation of policy was most often cited as the single issue having the greatest impact on the transfer pricing process.	48%	39%	38%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	40%	39%	41%

Japan

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	Japan (Parents)	Asia-Pacific (Parents)	Global (Parents)
Importance of transfer pricing			
North America was most often cited as the most important jurisdiction for transfer pricing issues.	43%	34%	32%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	90%	79%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	43%	51%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	57%	66%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	37%	24%	24%
Penalties were imposed on the adjustment.	57%	43%	24%
Interest was imposed on the adjustment.	50%	46%	60%
Adjustments resulted in double taxation since 2009.	64%	54%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	44%	32%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	20%	38%	25%
APAs have been used as a controversy management tool.	37%	22%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	17%	18%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	7%	6%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	37%	14%	27%
Business travelers or seconded employees and construction, assembly or installation projects tied as the bases for the assertion of a permanent establishment.			
▶ Business travelers or seconded employees	67%	50%	25%
▶ Construction, assembly or installation projects	67%	50%	24%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	13%	11%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	10%	8%	18%
Existence of marketing intangibles, assertion that local advertising and promotion expenditure is a service to the brand owner and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as the most often cited issues giving rise to a tax challenge.			
▶ Existence of marketing intangibles	10%	6%	13%
▶ Assertion that local advertising and promotion expenditure is a service to the brand owner	10%	4%	9%
▶ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	10%	7%	9%
Cash tax (corporate taxes) is the most important to the organization.	63%	52%	42%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	40%	41%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	47%	35%	36%
Inability to true-up profits in some countries was most often cited as the single issue having the greatest impact on the transfer pricing process.	40%	29%	23%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	40%	43%	41%

Mexico

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	Mexico (Parents)	Americas (Parents)	Global (Parents)
Importance of transfer pricing			
North America was most often cited as the most important jurisdiction for transfer pricing issues.	80%	58%	32%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	50%	62%	66%
General audit and controversy experience			
Transfer pricing of goods and services and transactional taxes (capital gains and valuations) tied as the most important area of tax controversy in the last three years.			
▶ Transfer pricing of goods and services	50%	64%	64%
▶ Transactional taxes (capital gains and valuations)	50%	25%	22%
Transfer pricing policy was examined by a tax authority in any country since 2009.	80%	87%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	0%	17%	24%
Penalties were imposed on the adjustment.	NA	7%	24%
Interest was imposed on the adjustment.	NA	68%	60%
Adjustments resulted in double taxation since 2009.	NA	35%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	NA	15%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	NA	30%	25%
APAs have been used as a controversy management tool.	10%	25%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	10%	29%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	0%	14%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	0%	32%	27%
_____ was most often the basis for the assertion of a permanent establishment.	NA	NA	NA
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	20%	14%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	20%	13%	18%
Assertion that local advertising and promotion expenditure is a service to the brand owner was most often cited as an issue giving rise to a tax challenge.	20%	7%	9%
ETR (effective tax rate) is the most important to the organization.	60%	57%	51%
Operationalizing transfer pricing			
Data quality and accuracy is the top transfer pricing issue from an operational perspective.	40%	31%	25%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	40%	30%	36%
Implementation of policy and lack of time needed during the financial close tied as the issues having the greatest impact on the transfer pricing process.			
▶ Implementation of policy	50%	35%	38%
▶ Lack of time needed during the financial close	50%	30%	33%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	50%	42%	41%

Netherlands

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	Netherlands (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	56%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	84%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	80%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	100%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	30%	27%	24%
Penalties were imposed on the adjustment.	11%	26%	24%
Interest was imposed on the adjustment.	47%	61%	60%
Adjustments resulted in double taxation since 2009.	47%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	44%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	40%	22%	25%
APAs have been used as a controversy management tool.	56%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	44%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	12%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	40%	28%	27%
Provision of services was most often the basis for the assertion of a permanent establishment.	80%	58%	57%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	28%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	20%	24%	18%
Beneficial vs. legal ownership and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as the most often cited issues giving rise to a tax challenge.			
▶ Beneficial vs. legal ownership	12%	15%	13%
▶ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	12%	11%	9%
Cash tax (corporate taxes) and ETR (effective tax rate) tied as the most important to the organization.			
▶ Cash tax (corporate taxes)	40%	42%	42%
▶ ETR (effective tax rate)	40%	50%	51%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	32%	29%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	52%	40%	36%
Inconsistency of process or methods across the company was most often cited as the single issue having the greatest impact on the transfer pricing process.	48%	35%	35%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	52%	39%	41%

New Zealand

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	New Zealand (Parents)	Asia-Pacific (Parents)	Global (Parents)
Importance of transfer pricing			
Asia-Pacific was most often cited as the most important jurisdiction for transfer pricing issues.	50%	45%	12%
Tax risk management and alignment with management or operational objectives tied as most often identified as the highest priority when devising transfer pricing strategy.			
▶ Tax risk management	50%	79%	66%
▶ Alignment with management or operational objectives	50%	12%	14%
General audit and controversy experience			
Transfer pricing of goods and services and transfer pricing of intra group financial arrangements (loans, guarantees, etc.) tied as the most important areas of tax controversy in the last three years.			
▶ Transfer pricing of goods and services	50%	51%	64%
▶ Transfer pricing of intra group financial arrangements (loans, guarantees, etc.)	50%	35%	44%
Transfer pricing policy was examined by a tax authority in any country since 2009.	90%	66%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	21%	24%	24%
Penalties were imposed on the adjustment.	0%	43%	24%
Interest was imposed on the adjustment.	25%	46%	60%
Adjustments resulted in double taxation since 2009.	0%	54%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	NA	32%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	25%	38%	25%
APAs have been used as a controversy management tool.	30%	22%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	20%	18%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	10%	6%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	10%	14%	27%
Sales through agents and/or commissionaires was most often the basis for the assertion of a permanent establishment.	NA	NA	NA
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	10%	11%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	0%	8%	18%
Beneficial vs. legal ownership was most often cited as an issue giving rise to a tax challenge.	10%	8%	13%
Cash tax (corporate taxes) is the most important to the organization.	70%	52%	42%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	40%	41%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a monthly basis.	40%	14%	13%
Manual activities or lack of automation and lack of time needed during the financial close tied as the issues having the greatest impact on the transfer pricing process.			
▶ Manual activities or lack of automation	40%	27%	33%
▶ Lack of time needed during the financial close	40%	23%	33%
Lack of automation and poor transfer pricing reports tied as the largest data or technology challenges that had the biggest impact on the transfer pricing process.			
▶ Lack of automation	40%	20%	19%
▶ Poor transfer pricing reports	40%	14%	10%

Norway

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	Norway (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	56%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	64%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	56%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	80%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	18%	27%	24%
Penalties were imposed on the adjustment.	38%	26%	24%
Interest was imposed on the adjustment.	63%	61%	60%
Adjustments resulted in double taxation since 2009.	25%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	0%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	50%	22%	25%
APAs have been used as a controversy management tool.	20%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	16%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	12%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	36%	28%	27%
Provision of services and sales through agents and/or commissionaires tied as the most often bases for the assertion of a permanent establishment.			
▶ Provision of services	67%	58%	57%
▶ Sales through agents and/or commissionaires	67%	23%	31%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	16%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	12%	24%	18%
Existence of marketing intangibles was most often cited as an issue giving rise to a tax challenge.	12%	14%	13%
Cash tax (corporate taxes) is the most important to the organization.	76%	42%	42%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	32%	29%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	48%	40%	36%
Documentation to support taxing authority audits and implementation of policy tied as the most often cited issues having the greatest impact on the transfer pricing process.			
▶ Documentation to support taxing authority audits	48%	41%	40%
▶ Implementation of policy	48%	39%	38%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	56%	39%	41%

	Russia (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Eastern Europe was most often cited as the most important jurisdiction for transfer pricing issues.	67%	4%	3%
Tax risk management and ETR (effective tax rate) optimization tied as the most often identified as being of the highest priority when devising transfer pricing strategy.			
▶ Tax risk management	33%	63%	66%
▶ ETR (effective tax rate) optimization	33%	12%	11%
General audit and controversy experience			
Indirect taxes (e.g., VAT, customs, payroll taxes) has been the most important area of tax controversy in the last three years.	33%	41%	34%
Transfer pricing policy was examined by a tax authority in any country since 2009.	33%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	66%	27%	24%
Penalties were imposed on the adjustment.	0%	26%	24%
Interest was imposed on the adjustment.	50%	61%	60%
Adjustments resulted in double taxation since 2009.	0%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	NA	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	100%	22%	25%
APAs have been used as a controversy management tool.	33%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	67%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	0%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	0%	28%	27%
_____ was most often the basis for the assertion of a permanent establishment.	NA	NA	NA
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	0%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	0%	24%	18%
_____ was most often cited as an issue giving rise to a tax challenge.	NA	NA	NA
ETR (effective tax rate) is the most important to the organization.	67%	50%	51%
Operationalizing transfer pricing			
Clear vision and strategy, data quality and accuracy and skills/capabilities and training tied as the top transfer pricing issues from an operational perspective.			
▶ Clear vision and strategy	33%	29%	29%
▶ Data quality and accuracy	33%	26%	25%
▶ Skills/capabilities and training	33%	5%	4%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	67%	40%	36%
Manual activities or lack of automation was most often cited as the single issue having the greatest impact on the transfer pricing process.	100%	31%	33%
Poor transfer pricing reports was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	67%	10%	10%

South Africa

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	South Africa (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
BRICS and Africa was most often cited as the most important jurisdiction for transfer pricing issues.	60%	13%	12%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	80%	63%	66%
General audit and controversy experience			
Permanent establishments has been the most important area of tax controversy in the last three years.	60%	28%	30%
Transfer pricing policy was examined by a tax authority in any country since 2009.	50%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	0%	27%	24%
Penalties were imposed on the adjustment.	NA	26%	24%
Interest was imposed on the adjustment.	NA	61%	60%
Adjustments resulted in double taxation since 2009.	NA	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	NA	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	NA	22%	25%
APAs have been used as a controversy management tool.	20%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	10%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	20%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	60%	28%	27%
Business travelers or seconded employees was most often the basis for the assertion of a permanent establishment.	75%	29%	25%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	10%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	10%	24%	18%
Existence of marketing intangibles and assertion that local advertising and promotion expenditure is a service to the brand owner tied as the most often cited issues giving rise to a tax challenge.			
▶ Existence of marketing intangibles	20%	14%	13%
▶ Assertion that local advertising and promotion expenditure is a service to the brand owner	20%	12%	9%
Cash tax (corporate taxes) is the most important to the organization.	60%	42%	42%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	30%	29%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly and annual basis.			
▶ Quarterly	40%	37%	38%
▶ Annual	40%	40%	36%
Documentation to support taxing authority audits was most often cited as the single issue having the greatest impact on the transfer pricing process.	60%	41%	40%
Systems not set up for tax and transfer pricing and lack of automation tied as the largest data or technology challenges that have the biggest impact on the transfer pricing process.			
▶ Systems not set up for tax and transfer pricing	30%	39%	41%
▶ Lack of automation	30%	19%	19%

South Korea

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	Korea (Parents)	Asia-Pacific (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	68%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	68%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	63%	51%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	53%	66%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	30%	24%	24%
Penalties were imposed on the adjustment.	33%	43%	24%
Interest was imposed on the adjustment.	17%	46%	60%
Adjustments resulted in double taxation since 2009.	33%	54%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	50%	32%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	50%	38%	25%
APAs have been used as a controversy management tool.	7%	22%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	7%	18%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	3%	6%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	0%	14%	27%
_____ was most often the basis for the assertion of a permanent establishment.	NA	NA	NA
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	7%	11%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	3%	8%	18%
Existence of marketing intangibles and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as the most often cited issues giving rise to a tax challenge.			
▶ Existence of marketing intangibles	7%	6%	13%
▶ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	7%	7%	9%
Cash tax (corporate taxes) is the most important to the organization.	57%	52%	42%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	47%	41%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	40%	31%	38%
Implementation of policy was most often cited as the single issue having the greatest impact on the transfer pricing process.	53%	37%	38%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	47%	43%	41%

	Spain (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	52%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	80%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	68%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	80%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	23%	27%	24%
Penalties were imposed on the adjustment.	36%	26%	24%
Interest was imposed on the adjustment.	91%	61%	60%
Adjustments resulted in double taxation since 2009.	36%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	50%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	14%	22%	25%
APAs have been used as a controversy management tool.	12%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	36%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	20%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	28%	28%	27%
Provision of services was most often the basis for the assertion of a permanent establishment.	100%	58%	57%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	28%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	20%	24%	18%
Beneficial vs. legal ownership was most often cited as an issue giving rise to a tax challenge.	24%	15%	13%
Cash tax (corporate taxes) and ETR (effective tax rate) is the most important to the organization.			
▶ Cash tax (corporate taxes)	44%	42%	42%
▶ ETR (effective tax rate)	44%	50%	51%
Operationalizing transfer pricing			
Data quality and accuracy and policy, procedure and work processes tied as the top transfer pricing issues from an operational perspective.			
▶ Data quality and accuracy	28%	26%	25%
▶ Policy, procedure and work processes	28%	15%	17%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	52%	40%	36%
Implementation of policy was most often cited as the single issue having the greatest impact on the transfer pricing process.	60%	39%	38%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	32%	39%	41%

	Sweden (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	56%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	60%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	56%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	80%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	23%	27%	24%
Penalties were imposed on the adjustment.	42%	26%	24%
Interest was imposed on the adjustment.	50%	61%	60%
Adjustments resulted in double taxation since 2009.	50%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	33%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	17%	22%	25%
APAs have been used as a controversy management tool.	28%	28%	26%
A specific transfer pricing matter has been referred to litigation since 2009.	20%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	32%	28%	27%
Provision of services was most often the basis for the assertion of a permanent establishment.	67%	58%	57%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	32%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	24%	24%	18%
Beneficial vs. legal ownership and recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles) tied as the most often cited issues giving rise to a tax challenge.			
▶ Beneficial vs. legal ownership	16%	15%	13%
▶ Recharacterization of contract manufacturers and limited risk distributors as "something more" (e.g., owners of intangibles)	16%	11%	9%
Cash tax (corporate taxes) is the most important to the organization.	52%	42%	42%
Operationalizing transfer pricing			
Governance, roles and responsibilities is the top transfer pricing issue from an operational perspective.	24%	13%	11%
To ensure compliance with transfer pricing policies, financial results are monitored on an annual basis.	52%	40%	36%
Implementation of policy was most often cited as the single issue having the greatest impact on the transfer pricing process.	44%	39%	38%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	32%	39%	41%

Switzerland

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	Switzerland (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	60%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	56%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	68%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	92%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	45%	27%	24%
Penalties were imposed on the adjustment.	22%	26%	24%
Interest was imposed on the adjustment.	67%	61%	60%
Adjustments resulted in double taxation since 2009.	33%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	0%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	11%	22%	25%
APAs have been used as a controversy management tool.	40%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	52%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	24%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	44%	28%	27%
Provision of services and construction, assembly or installation projects tied as the most often bases for the assertion of a permanent establishment.			
▶ Provision of services	60%	58%	57%
▶ Construction, assembly or installation projects	60%	29%	24%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	32%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	32%	24%	18%
Existence of marketing intangibles and beneficial vs. legal ownership tied as the most often cited issues giving rise to a tax challenge.			
▶ Existence of marketing intangibles	48%	14%	13%
▶ Beneficial vs. legal ownership	48%	15%	13%
ETR (effective tax rate) is the most important to the organization.	56%	50%	51%
Operationalizing transfer pricing			
Clear vision and strategy is the top transfer pricing issue from an operational perspective.	32%	29%	29%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	40%	37%	38%
Inconsistency of process or methods across the company was most often cited as the single issue having the greatest impact on the transfer pricing process.	52%	35%	35%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	48%	39%	41%

United Kingdom

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	United Kingdom (Parents)	EMEIA (Parents)	Global (Parents)
Importance of transfer pricing			
Western Europe was most often cited as the most important jurisdiction for transfer pricing issues.	40%	53%	35%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	58%	63%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	70%	67%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	84%	85%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	17%	27%	24%
Penalties were imposed on the adjustment.	41%	26%	24%
Interest was imposed on the adjustment.	65%	61%	60%
Adjustments resulted in double taxation since 2009.	53%	49%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	11%	22%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	13%	22%	25%
APAs have been used as a controversy management tool.	24%	28%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	14%	30%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	16%	18%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	24%	28%	27%
Provision of services was most often the basis for the assertion of a permanent establishment.	71%	58%	57%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	14%	26%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	16%	24%	18%
Existence of marketing intangibles was most often cited as an issue giving rise to a tax challenge.	20%	14%	13%
ETR (effective tax rate) is the most important to the organization.	56%	50%	51%
Operationalizing transfer pricing			
Data quality and accuracy is the top transfer pricing issue from an operational perspective.	34%	26%	25%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	48%	37%	38%
Implementation of policy was most often cited as the single issue having the greatest impact on the transfer pricing process.	52%	39%	38%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	40%	39%	41%

United States

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	United States (Parents)	Americas (Parents)	Global (Parents)
Importance of transfer pricing			
North America was most often cited as the most important jurisdiction for transfer pricing issues.	61%	58%	32%
Tax risk management was most often identified as being of the highest priority when devising transfer pricing strategy.	62%	62%	66%
General audit and controversy experience			
Transfer pricing of goods and services has been the most important area of tax controversy in the last three years.	70%	64%	64%
Transfer pricing policy was examined by a tax authority in any country since 2009.	91%	87%	82%
Examinations resulting in an adjustment (known outcomes). (Includes full and partial adjustments.)	21%	17%	24%
Penalties were imposed on the adjustment.	6%	7%	24%
Interest was imposed on the adjustment.	77%	68%	60%
Adjustments resulted in double taxation since 2009.	29%	35%	47%
(Of the percentage that answered YES to prior question) Adjustments resulted in double taxation despite the usage of MAP or arbitration.	14%	15%	23%
(Of the percentage that answered NO to prior question) Adjustments did not result in double taxation because of the use of MAP or arbitration.	32%	30%	25%
APAs have been used as a controversy management tool.	31%	25%	26%
A specific transfer pricing matter has been referred to competent authority since 2009.	30%	29%	28%
A specific transfer pricing matter has been referred to litigation since 2009.	21%	14%	15%
Trends in transfer pricing approaches, topics and enforcement			
A dispute involving the assertion of a permanent establishment and/or the allocation of profits to that permanent establishment has arisen since 2009.	42%	32%	27%
Provision of services was most often the basis for the assertion of a permanent establishment.	60%	58%	57%
Comprehensive awareness of the proposed changes to the Commentary to Article 5 of the OECD Model Tax Convention.	16%	14%	20%
Comprehensive awareness of the new Article 7 of the OECD Model Tax Convention.	14%	13%	18%
Existence of marketing intangibles was most often cited as an issue giving rise to a tax challenge.	21%	14%	13%
ETR (effective tax rate) is the most important to the organization.	61%	57%	51%
Operationalizing transfer pricing			
Data quality and accuracy is the top transfer pricing issue from an operational perspective.	36%	31%	25%
To ensure compliance with transfer pricing policies, financial results are monitored on a quarterly basis.	46%	44%	38%
Inconsistency of process or methods across the company was most often cited as the single issue having the greatest impact on the transfer pricing process.	43%	38%	35%
Systems not set up for tax and transfer pricing was cited as the largest data or technology challenge that has the biggest impact on the transfer pricing process.	42%	42%	41%

Methodology

Survey methodology

The 2013 *Global Transfer Pricing Survey*, conducted by Consensus Research, combines a set of interviews with tax directors and senior tax professionals in parent companies (global headquarters) across 26 markets, with interviews among tax directors working for multinational subsidiaries.

Since the start of the survey, interviews have been carried out by telephone, and the questionnaire has evolved with each wave. Changes in the questionnaire have reflected the rapid evolution of international business and corresponding shifts in government regulation.

In total, 878 interviews were completed (637 with parent companies and 241 with subsidiaries). Responses were gathered from Argentina, Australia, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, Russia, South Africa, South Korea, Spain, Sweden, Switzerland, the United Kingdom and the United States.

Table 1: Countries surveyed in parent study

1997	1999	2001	2003	2005	2007	2010	2013
	Argentina	Argentina	Argentina	Argentina	Argentina	Argentina	Argentina
Australia	Australia	Australia	Australia	Australia	Australia	Australia	Australia
		Belgium	Belgium	Belgium	Belgium	Belgium	Belgium
	Brazil	Brazil	Brazil	Brazil	Brazil	Brazil	Brazil
Canada	Canada	Canada	Canada	Canada	Canada	Canada	Canada
					China	China	China
	Denmark	Denmark	Denmark	Denmark	Denmark	Denmark	Denmark
	Finland	Finland	Finland	Finland	Finland	Finland	Finland
France	France	France	France	France	France	France	France
Germany	Germany	Germany	Germany	Germany	Germany	Germany	Germany
					India	India	India
		Ireland	Ireland	Ireland	Ireland	Ireland	Ireland
Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy
Japan	Japan	Japan	Japan	Japan	Japan	Japan	Japan
	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico
Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands
		New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand
	Norway	Norway	Norway	Norway	Norway	Norway	Norway
							Russia
						South Africa	South Africa
South Korea	South Korea	South Korea	South Korea	South Korea	South Korea	South Korea	South Korea
	Spain	Spain	Spain	Spain	Spain	Spain	Spain
Sweden	Sweden	Sweden	Sweden	Sweden	Sweden	Sweden	Sweden
Switzerland	Switzerland	Switzerland	Switzerland	Switzerland	Switzerland	Switzerland	Switzerland
UK	UK	UK	UK	UK	UK	UK	UK
US	US	US	US	US	US	US	US



Table 2: Countries surveyed in subsidiary (inbound) study

1997	1999	2001	2003	2005	2007	2010	2013
		Argentina	Argentina	Argentina	Argentina	Argentina	
		Australia	Australia	Australia	Australia	Australia	Australia
							Belgium
							Brazil
	Canada	Canada	Canada	Canada	Canada	Canada	Canada
					China	China	China
							Denmark
							Finland
France	France	France	France	France	France	France	France
Germany	Germany	Germany	Germany	Germany	Germany	Germany	Germany
					India	India	India
		Italy	Italy	Italy	Italy	Italy	Italy
			Japan	Japan	Japan	Japan	Japan
	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	
Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands
		New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	
							Norway
							Russia
						South Africa	South Africa
						South Korea	South Korea
							Spain
							Sweden
							Switzerland
UK	UK	UK	UK	UK	UK	UK	UK
US	US	US	US	US	US	US	US
		Venezuela					

Additional resources

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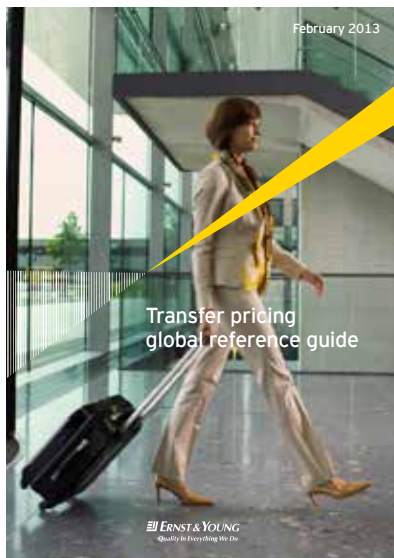


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Key insights



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