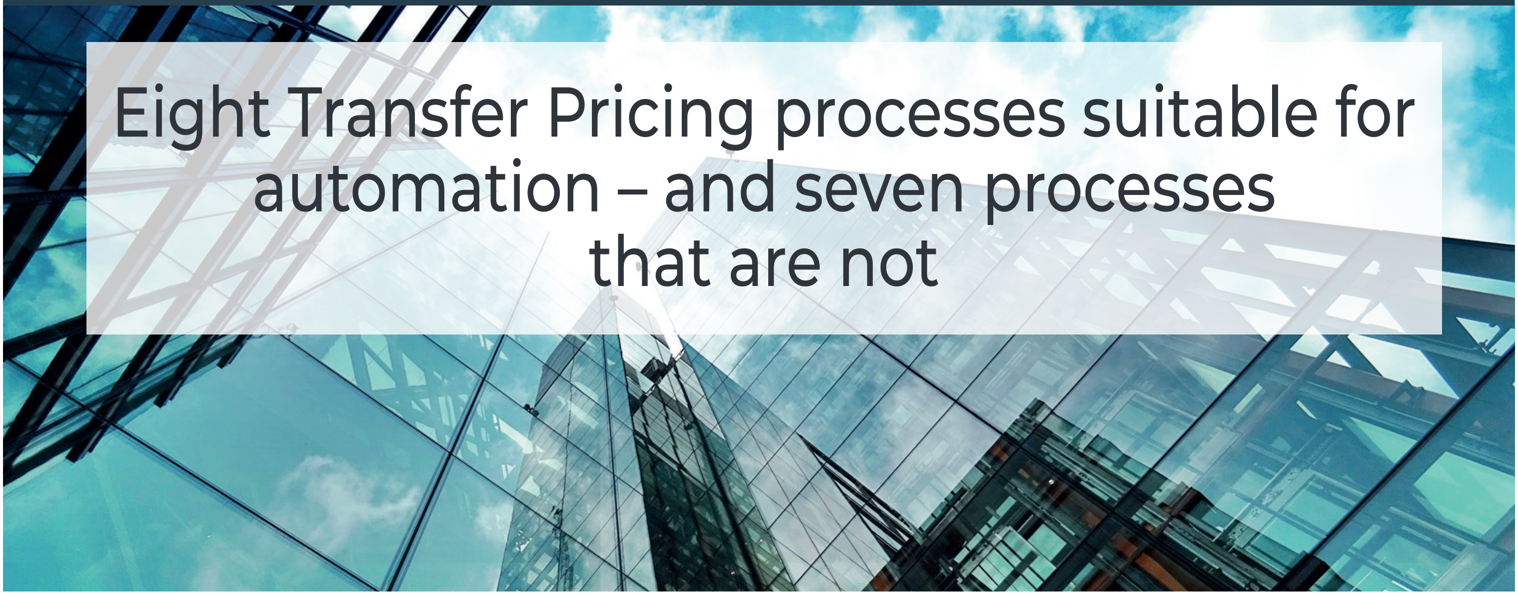
Eight Transfer Pricing processes suitable for automation – and seven processes that are not



According to a recent EY survey*, majority of Multinationals still undertake their TP calculations manually. While in-house Tax and Transfer Pricing (TP) teams are probably best described as late bloomers when it comes to technology adoption we believe this will change dramatically over the next few years as technology solutions and especially process automation gradually takes over the Finance and Tax agenda. Admitted, finance automation and robotics seem to be everybody's favourite buzz words these days, but the attention has merit and they should be on the agenda of all Multinationals seeking to streamline their internal finance processes.

According to Accenture** benefits of robotics are:

- Reduced cost by 80%.
- Reduced time to perform task by 80-90%.
- Increased quality by reducing human errors.
- Scalable solutions that into the current IT set-up.
- Runs on top of existing IT infrastructure and requires no IT transformation project.
- Keeps competences and control locally.

At Intercompany Software we believe that automation will change the role of TP Managers from largely a Data Miner to a Strategic Business Partner to senior Tax and Finance leadership as they will spend less time on routine, operational (repetitive) tasks, and spend more time on managing the TP model (tactical level) and overseeing the overall TP approach (strategic level).

We used Accenture's check list to identify the TP processes that we believe are suitable for automation and robotics**:

- The process should be rule based and not depend on human judgement.
- The process should be initiated by a digital trigger and be supported by digital data.
- The process should be functioning and stable.
- The bigger the volume of executions of the process the better.

The following TP processes were identified suitable for automation:

1. Collect legal entity financial data - Three sets of financial data are retrieved from the ERP system(s) per legal entity and TP unit to process profit adjustments and price adjustments 1) actual period data, 2) YTD data and 3) forecast / budget data.

2. Prepare financial data for legal entities and TP units – Raw ERP data often needs to be segmented into relevant TP units within same legal entity to be able to monitor target margin vs actual margin.

3. Target vs actual margin follow-up.

4. Calculate profit adjustments (retroactive) – Based on actual period data and YTD data.

5. Calculate price adjustments (forward) – Based on forecast / budget data for the remaining year.

6. Translate profit adjustments into customs value adjustments – This solves a big headache for Multinationals with large customs exposure.

7. Collect intercompany transaction values for TP reports – Makes the annual data collection exercise much easier and faster.

8. Calculate tax provisions and uncertain tax positions under FIN 48.

We then set out to identify the TP processes that are not suitable for automation. The quick answer would be, well, all other TP processes. The most famous phrase in the OECD TP Guidelines is probably that "transfer pricing is an art, not a science". We believe that there is actually a fair bit of science to TP policy implementation, but of the sort that this is best handled by software.

As such, we believe that the following TP processes require the sensitivity and decision mandate of a human and therefore are not suitable for automation (not an exhaustive list):

1. Determine overall TP structure of the company.

2. Determine whether to use Group GAAP data or local GAAP data.

3. Determine TP methods.

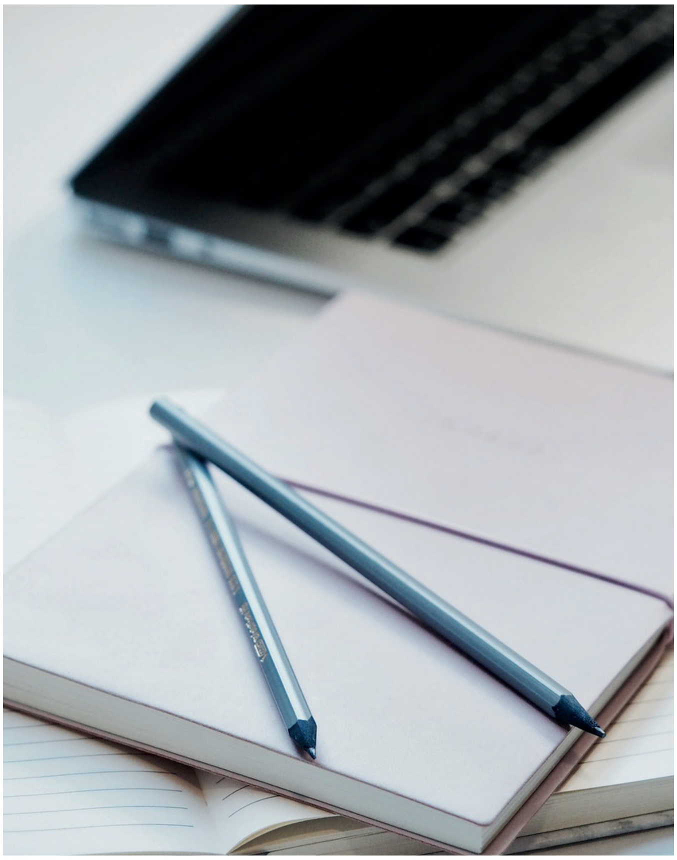
4. Determine PLIs.

5. Determine target margins.

6. Determine TP adjustment frequency.

7. Approve exceptions to TP policy.

Please contact John Dar on john@intercompany-software.com for more info



* Operationalizing global transfer pricing – EY 2017

**ROBOTIC PROCESS AUTOMATION The future of technology in financial services - Accenture Consulting 2017