Transfer Pricing Documentation

Are you documenting all your intercompany transactions? If your transactions with a foreign affiliate exceed $10 million, your U.S. company is in danger of an IRS transfer pricing adjustment and a penalty. There are currently more transfer pricing adjustments at stake in the U.S. Tax Court than all other tax issues combined.

Suppose, for example, that ForCo sells widgets to USSub, a distribution company in the United States. USSub has the use of ForCo's unique distribution software. If USSub has difficulty collecting from customers, USSub has the use of ForCo's collection staff.

Such a simple scenario for conducting business in the United States results in three intercompany transactions, all of which USSub must price at arm's length and prepare ro defend for a potential IRS audit.

1. The sale of widgets is the transfer of tangible property;
2. The provision of the software is a transfer of intangible property for which ForCo should receive a royalty; and
3. The collection staff performs services for which ForCo should receive a fee.

Reinhart's Tax and International practices have planned, documented, defended and litigated many transfer pricing issues. Please call if we can assist you in any way.

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