



Here Come the Transfer Pricing Auditors...

... and Here's What To Do About It.

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This is a brief update on important transfer pricing developments that we thought would be of interest to you.

IRS Deputy Commissioner for Service and Enforcement Steven T. Miller is the latest IRS official to signal substantial increases in transfer pricing audit activities for multinational companies of all sizes.



Looking for assistance? Not sure where to start?

Productive Pricing has substantial audit defense experience from our 12+ years of "Big-4" U.S. and overseas experience.

With just a high-level review of readily available company information, we can offer practical insights for managing transfer pricing risk.

See why our clients find us to be a better value in transfer pricing services.

Key Takeaways

1. The IRS is redeploying hundreds of auditors from the large corporate sector to focus on international issues. Most notably, the new IRS transfer pricing practice has been given substantial hiring authority for outside economists and attorneys to audit transfer pricing issues.
2. The IRS is shifting resources to middle-market companies as audit activity has not been as 'robust' as they would like it to be.
3. While audits of big-name companies with complex tax structures make the most news, we anticipate that the IRS will build expertise through audits of more straightforward tangible property, royalties and service charge transactions.

IRS Enforcement Strategy

IRS Deputy Commissioner Steven T. Miller presented the IRS' near-term enforcement strategy in the corporate sector at the March 2012 Tax Executive Institute mid-year conference.

Deputy Commissioner Miller's observations follow speeches from IRS Commissioner Douglas Shulman and new Transfer Pricing Director Samuel Maruca on the IRS' renewed interest in transfer pricing.

Transfer pricing is widely considered the most contentious tax

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issue for multinationals globally and a high return-on-investment activity for the 70+ countries that enforce transfer pricing regulations.

Miller noted that transfer pricing is the number one Uncertain Tax Position ("UTP") disclosed by companies required to file Schedule UTP to date (more than \$100 million in assets).

Deputy Commissioner Miller's remarks may be found here:

<http://www.irs.gov/newsroom/article/0,,id=255996,00.html>

When the IRS Knocks, Who is Coming for a Visit?

Companies facing an audit may notice a substantial shift in the makeup of their IRS audit team as evidenced by recent changes in revenue agent numbers.

As recently as 2001, the IRS had only 13 dedicated international revenue agents. The IRS now has 856 dedicated international revenue agents, with more to follow.

IRS Revenue Agents	2001		2010	2011
Domestic	3,762		Not disclosed	2,867
International	13		259	856

Miller noted that most of the growth in international is quite recent - and this growth will continue through a new employee buyout program and external hiring of an additional 300 people for the international practice.

Middle-market companies with international transactions, in particular, may be surprised by a transfer pricing audit, but Miller said the IRS believes many mid-market companies have the same compliance issues as larger companies, if not more.

What Can You Do before the IRS Asks Transfer Pricing Questions?

The IRS is required to request a contemporaneous transfer pricing documentation report as part of every tax audit. The IRS will now have far more resources to review intercompany transactions in detail.

We find that many companies are less than successful in preparing a clear explanation and analysis of their business, pricing and transfer pricing results with their documentation.

In our experience, a thorough transfer pricing documentation report can make the difference between a multiple-year audit, tax adjustments and penalties or no action at all.

- Remember that the IRS transfer pricing auditor will likely have limited knowledge of your company, industry and operating results before reviewing your transfer pricing documentation
- If you "put yourself in the auditor's shoes", would a transfer pricing auditor understand how your company operates, the intercompany pricing structure and why the resulting profits or pricing were correct?
- Transfer pricing documentation is your company's best opportunity to present a defense of intercompany pricing results - and should be updated on an annual basis.

To summarize, top IRS management has warned the corporate tax community of a renewed commitment to transfer pricing enforcement. All companies with international operations should anticipate additional transfer pricing scrutiny from IRS auditors.

For companies outside of the large corporate sector, transfer pricing will no longer be an afterthought in the audit process.

What is Productive Pricing and How Can They Help?

Productive Pricing is a full-service transfer pricing consultancy that assists multinational companies in managing transfer pricing issues. We also complement services of accounting firms and law firms with our practical transfer pricing expertise.

Our services include transfer pricing documentation, transfer pricing benchmarking, audit defense, Advance Pricing Agreements, transfer pricing planning and tax provision services.

Our company offers the experience and expertise of a Big-4 accounting firm with personalized service.

Productive Pricing is led by Alex Martin, who has over 14 years of full-time transfer pricing experience, including 12-plus years at PricewaterhouseCoopers where he was an economist and director. Chelsea Duncan is a manager with Productive Pricing with five-years of transfer pricing experience.



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