



# True Alert

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## Transfer Pricing Will Likely Attract Additional Scrutiny for 2009 Tax Year

2009 will likely go down as one of the worst financial slumps in history. The economic downturn has resulted in companies realizing losses at every level of their supply chains. This in turn has far-reaching implications on the transfer pricing methods applied by many taxpayers. At the same time, tax authorities, facing increased pressure to collect additional tax revenues, will look to impose transfer pricing adjustments.

Most taxpayers have adopted a profit-based approach in setting their “arm’s-length” transfer pricing policies. During normal economic times, such an approach allows taxpayers with mature businesses to earn acceptable profits in the tax jurisdictions in which they operate. During an economic downturn, however, a multinational enterprise (“MNE”) may incur significant losses and the same transfer pricing policies may cause distortions in the operating results of individual entities. Such distortions include “limited risk” distributors with significant losses, or contract manufacturers not able to cover fixed costs.

These distortions make it more important than ever to ensure that transfer pricing documentation is updated and reflective of the economic realities. The documentation should illustrate that results are due to business and economic factors and not a result of the transfer pricing policies. It is also important to examine the operating results and determine if whether book-to-tax adjustments should be made that would reflect what arm’s-length parties would do when faced with the same economic situations.

Please contact us to discuss how we can assist in strengthening your documentation and preparing for the additional transfer pricing scrutiny that the 2009 tax filings will bring.



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