

Is a Transfer Pricing Study Necessary?

As McGuire Sponsel continues developing international tax relationships with CPAs around the country, the subject of transfer pricing inevitably arises. Transfer pricing conversations typically center on why a study is needed, how often to perform a tax study, and if McGuire Sponsel performs studies. As we are in the midst of a different filing season for the 2019 tax year, let's quickly address transfer pricing studies. Simply put, if a client's tax return includes Form 5471 or 5472 reporting its transactions with a related foreign party, it is essential to have a transfer pricing study in place on the date the client files the return.

IRS transfer pricing rules set forth in IRC Section 482 and Section 6662 require intercompany pricing between a United States company and a foreign affiliate must be based on an "arm's length" price charged in a similar transaction with an unrelated third party. To support the arm's length nature of the transaction and avoid transfer pricing penalties, a company must provide contemporaneous documentation to substantiate its transfer pricing methodology. Further, that contemporaneous documentation should be in the form of a transfer pricing opinion (or "study") benchmarking comparable transactions.

Generally, when a CPA identifies transfer pricing for tax purposes, clients shy away based on preconceived impressions that a study is an expensive, time consuming exercise only large, multinational corporations need to worry about. Transfer pricing studies do not need to be a costly, time consuming exercise ending with a 100-plus page document. In fact, the IRS gives guidance in Section 6662, providing a table of contents identifying requirements for a transfer pricing study, which generally can be satisfied within a 15-25 page deliverable.



International
Tax

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If a client completed a transfer pricing study in the past and it's time to update, the transition to McGuire Sponsel can be seamless. If a client has never obtained a transfer pricing study and needs guidance to understand the "whys," our team is here to assist. With the July 15th, September 15th, and October 15 filing deadlines are on the horizon, it's not too late to have the discussion.