



Our balanced approach to transfer pricing in Australia

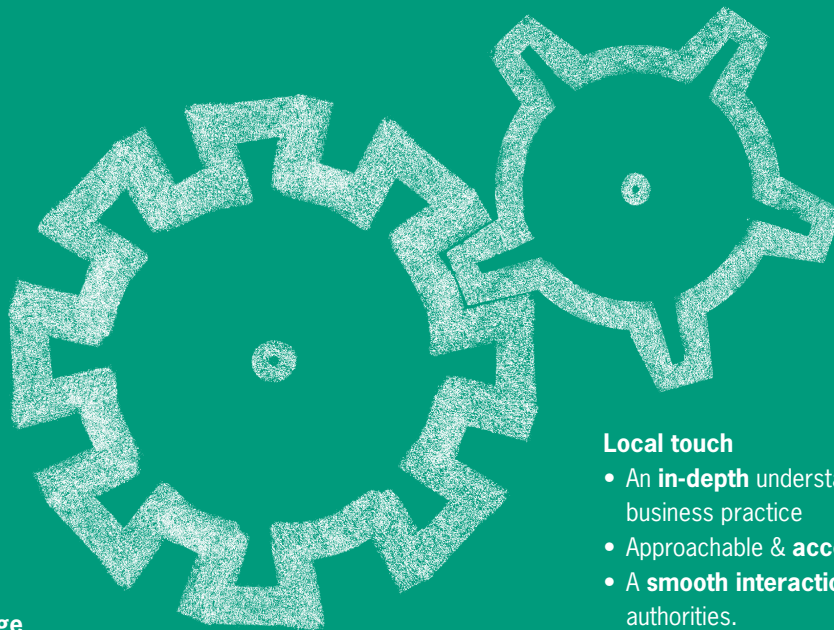
A dedicated team to support you



A solid transfer pricing team

Transfer pricing is a major tax issue for multi-national businesses. It is important for risk management, tax compliance and to minimise tax.

Transfer pricing can be highly technical, confusing and onerous. Fortunately specialist support can overcome these challenges and help your organisation navigate your transfer pricing requirements smoothly. In Australia, Grant Thornton offers a national transfer pricing capability. Our dedicated team of advisers have specialised in transfer pricing law and practice for a significant part of their careers. Such deep expertise imparts insight, guidance, support and reassurance to our clients. We can alleviate the transfer pricing burden, allowing you to focus on your core business strategy and operations.



International knowledge

- Solid transfer pricing knowledge backed by a strong **global** network
- Extensive transfer pricing **experience** brings **innovative** solutions.

Local touch

- An **in-depth** understanding of Australian business practice
- Approachable & **accessible** advisers
- A **smooth interaction** with local authorities.

Managing your transfer pricing in Australia

The transfer pricing team at Grant Thornton Australia offers a range of transfer pricing services, that can be delivered independently or in combination to achieve the most appropriate solution for your organisation. These are summarised below and detailed in the pages that follow.

Risk assessment

A transfer pricing risk assessment efficiently identifies transfer pricing risks and opportunities. Your business will be empowered to prioritise and mitigate the identified risks, helping you solve issues from the past and assist planning for the future.

Benchmarking/documentation

“Transfer Pricing Documentation” is a suite of material that details the transfer pricing policy of a company group and the arm’s length nature of trade within it. A benchmarking study is a core component of such documentation. It provides a market context for arm’s length pricing and support for profit outcomes. These documents afford clients the protection of a defensible pricing position and valuable insight into the rest of their market.

Dispute resolution

Grant Thornton can provide a one-stop solution if a situation arises requiring dispute resolution. Our assistance can be in the form of:

- defence filings
- negotiations with competent authority
- audit adjustment settlement
- post-dispute management.

This guidance helps manage the stress and burden of an ATO audit on your business.

Advance Pricing Arrangement

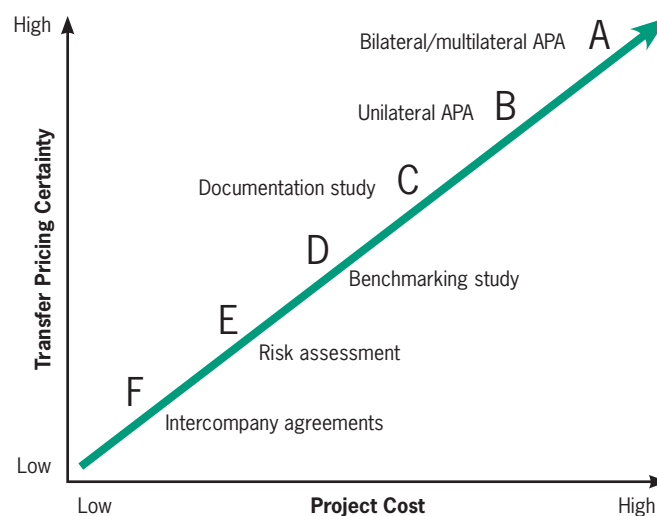
An Advance Pricing Arrangement (APA) is an up-front agreement with tax authorities on future transfer pricing actions. Taxpayers gain certainty and eliminate the possibility of transfer pricing disputes with tax authorities.

Transfer pricing planning

Transfer pricing planning helps achieve transfer pricing compliance, business process optimisation and tax efficiency, providing reassurance and the potential for tangible cost savings.

Transfer pricing training

Transfer pricing training tailored to your needs, can introduce CFOs and tax managers to transfer pricing regulations and real-world practice. Training is a good way to bring transfer pricing capabilities in-house, and can ultimately prove very cost-effective.



How does transfer pricing impact your daily business?

The ATO has issued various rulings to help companies understand its approach and expectations in relation to transfer pricing. Taxpayers are encouraged to document how their own process complies with the “arm’s length” principle that underpins responsible transfer pricing practice. Working with Grant Thornton creates opportunities for your organisation to understand compliance requirements and proactively address them.

Key Rulings include

	Tax ruling	Issued	Contents
1	TR92/11	1992	Interest free loans and quasi equity for mining companies and other businesses financing new ventures
2	TR94/14	1994	Interpretation of Division 13 ITAA36 transfer pricing law
3	TR97/20	1997	Discussion on OECD Guidelines and the ATO interpretation of accepted methodologies
4	TR98/11	1998	Discussion of the 4 step approach recommended for transfer pricing documentation and the ATO TP Record Review risk assessment process and scoring
5	TR99/1	1999	Administrative practices and safe harbours for management fees between related parties
6	TR2004/1	2004	Cost Contribution Agreements – discussion on acceptable practices

Key challenges

Compliance requirements

- **Disclosure in annual tax filing:** Taxpayers with annual aggregated related party transactions above AU\$1m are required to lodge Schedule 25A Part A as part of their annual income tax filing package. Misleading disclosure can provoke penalties.
- **Contemporaneous documentation:** Taxpayers with significant related party transactions are advised to prepare contemporaneous documentation to minimise potential penalties from future audit adjustments.

Dispute

- **Disclosure:** Details such as function and risk profiles and segmented financials may be required.
- **Standardised approach:** During transfer pricing investigations, the ATO begins with a check list risk review. This may lead to a full investigative audit.
- **Penalty:** Tax adjustments resulting from a transfer pricing adjustment are subject to interest, plus an additional penalty up to double the tax due. Contemporaneously prepared documentation can mitigate an additional penalty.

Thin capitalisation

Interest expenses related to intercompany financing in excess of the prescribed debt to equity ratio are not tax deductible. Grant Thornton can assist with a tool to help you overcome the complexity of thin capitalisation calculations.

Cost Contribution Arrangements (CCA)

A CCA is a contractual arrangement between enterprises to share the costs and/or risks of developing, producing or obtaining assets, services or rights. A CCA is considered appropriate for applying the arm’s length principle to attribute income and expenses between related entities, bestowing certainty. Grant Thornton can assist with the creation of CCAs.

Supply chain management

Taxpayers can gain greater certainty by including transfer pricing analysis as part of supply chain planning. Reviewing tax compliance implications while undertaking a change program to streamline business operations can achieve tax efficiency and pre-empt surprises.

Transfer pricing risk assessment

A risk assessment evaluates existing transfer pricing practices and identifies potential risks along with an appropriate action plan to mitigate them. This process can help you to achieve clarity and direction around your transfer pricing priorities.



Who needs a risk assessment?

- Enterprises that do not have an existing transfer pricing policy
- Enterprises that have a transfer pricing policy, but where:
 - uncertainty exists around the policy's sustainability
 - actual financial results deviate significantly from the policy
- Enterprises with several subsidiaries outside Australia or complicated intercompany transactions not driven by a clear transfer pricing strategy, plan or documentation.

Our approach

Grant Thornton will work with you to:

- Review and analyse:
 - any related party transactions
 - the financial performances of all related entities
 - your current transfer pricing policy (where one exists)
- Identify and assess potential transfer pricing risks
- Recommend solutions for mitigating such risks
- Explore opportunities to improve tax/transfer pricing practice.

Benefits to your company

- You form a clear overview of your current transfer pricing status
- Knowledge and insight that will equip you to mitigate or resolve transfer pricing risks
- A sturdy foundation for future transfer pricing requirements - a risk assessment creates an effective prelude to extensive group documentation or a planning study
- The cost of the assessment is agreed at the time of engagement.

Benchmarking

A benchmarking study establishes an arm's length price/profit range, by locating comparable transactions or profit outcomes of independent companies. It is a mandatory and essential element of contemporaneous documentation. Compliance obligations aside, it can provide powerful competitive market insight.

Who needs benchmarking?

- Enterprises seeking to establish a transfer pricing policy for related party transactions
- Enterprises in need of documentation to support their existing transfer pricing policy, without limiting the documentation study to a minimum level (where, for example, broad industry data is used to support a transfer pricing policy).

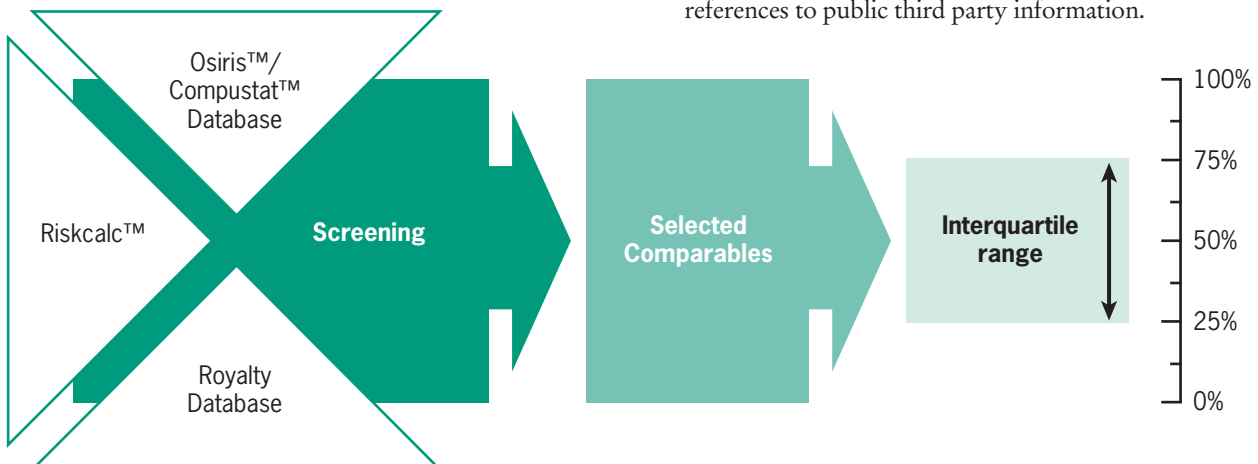
Our approach

Grant Thornton will work with you to:

- Determine the benchmarking selection criteria relevant to your product/industry
- Conduct database searches using:
 - Osiris™ and/or Compustat™ and/or ASIC databases, for a wide range of companies located throughout the world and Australia
 - RoyaltySource™ database, for over 7500 license agreements registered with US SEC
 - Riskcalc™/Reuters, to determine a notional credit rating for your group that allows certainty and process for benchmarking interest rates and guarantee fees
- Conduct a detailed comparable screening process tailored to your business characterisation and the relevant industry
- Calculate the relevant Profit Level Indicators (PLIs)
- Establish the “Arm's Length Range” (illustrated below).

Benefits to your company

- Understand your industry and market situation, along with the associated expectations of tax authorities
- Establish a comprehensive transfer pricing policy, achieving clarity for your organisation and tax authorities in a tax review
- Defend your existing transfer pricing policy with references to public third party information.



Transfer pricing documentation

Contemporaneous documentation of transfer pricing methodologies can help avoid penalties. Accordingly it is important to clearly document the related party transactions of your organisation, including an evaluation of the arm's length principle on such transactions.

Who needs transfer pricing documentation?

- Any company or enterprise that is required to complete Schedule 25A as part of their annual obligations
- Enterprises who would like to manage transfer pricing risks, where:
 - losses are recurring
 - profits are marginal or fluctuating
 - profit is lower than the industry norm
 - profit is lower than that of the rest of the related group
 - transactions exist with related parties in tax havens.

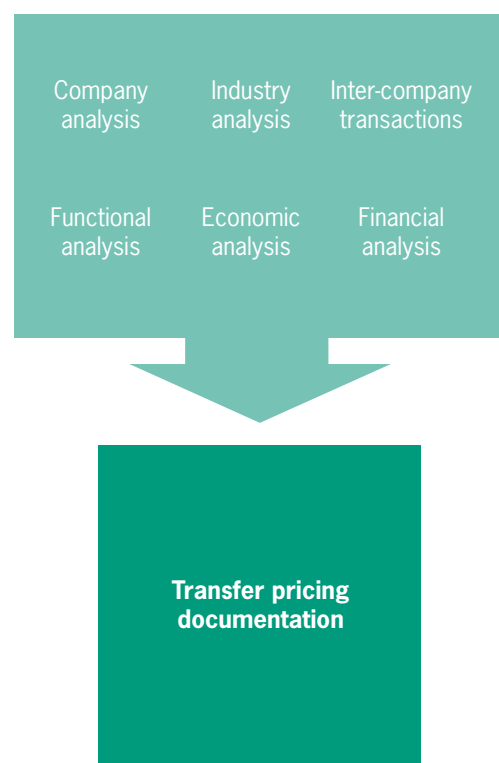
Our approach

Grant Thornton will work with you to:

- Provide a documentation package to analyse and support your arm's length position and assist with annual updating
- Provide recommendations for future improvements, where appropriate, after review of existing documentation.

Benefits to your company

- Relief and support for an otherwise onerous and demanding undertaking
- Reduce risk of transfer pricing audit activity
- Minimise exposure to, and help defend your organisation against, adjustments and potentially substantial penalties.



Dispute resolution

Dispute resolution supports companies subjected to transfer pricing audits. This is achieved by preparing defence packages and negotiating with the tax authorities, instilling confidence and removing any confusion around your transfer pricing position.

Who needs dispute resolution?

- Enterprises subjected to transfer pricing audits in Australia or other countries of operation, where an adjustment is anticipated and ongoing litigation is avoidable.

Our approach

Grant Thornton will work with you to:

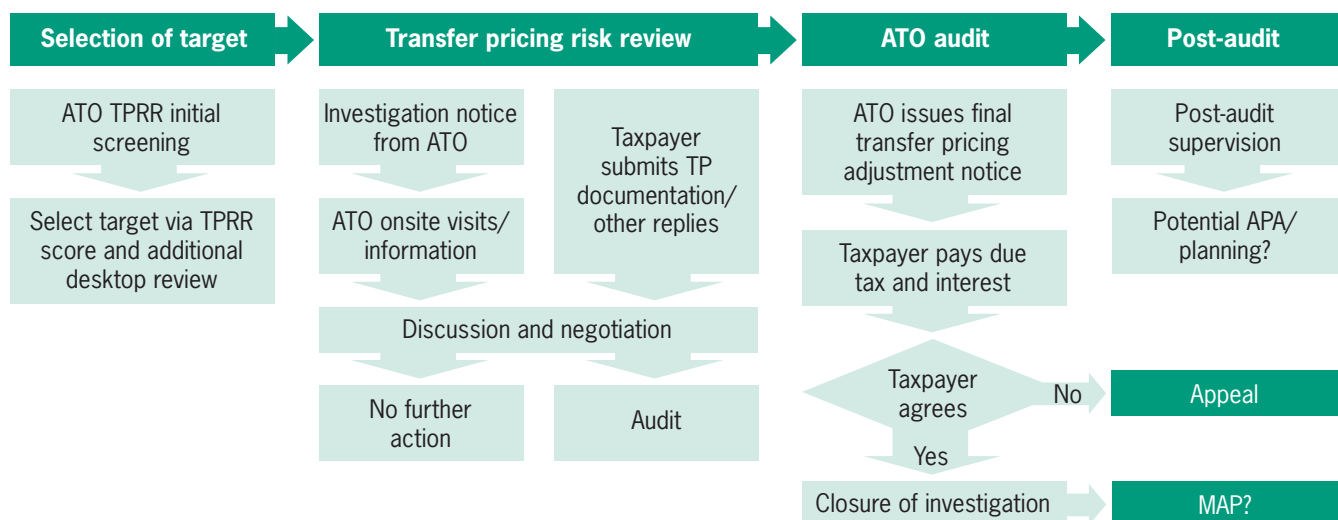
- Formulate an effective defence strategy based on your anticipated outcome

- Meet with the ATO audit team to understand the progress and direction of the audit
- Defend your transfer pricing position with a written package of transfer pricing defence documents to counter the ATO's position paper
- Quantify the potential transfer pricing adjustment after the position paper has been produced and discussed
- Minimise the final transfer pricing adjustment through technical arguments and negotiation with tax authorities on your behalf.

Benefits to your company

- Receive full guidance and reassurance throughout the audit process
- Solve the case in an efficient and cooperative manner, maintaining a good relationship with tax authorities
- Minimise any transfer pricing adjustment and penalty, working within the law and the administrative process
- Avoid double taxation (activate corresponding adjustment or mutual agreement procedure).

Transfer pricing audit process



Advance pricing arrangement

An Advance Pricing Arrangement (APA) is a contract mutually signed by the taxpayer and the competent tax authorities. It incorporates the transfer pricing principles and methods adopted for related party transactions over a fixed future period of time. APAs offer certainty and a reduction in ongoing compliance costs. They can be unilateral, bilateral or multilateral.

Who needs an APA?

- Enterprises wanting transfer pricing certainty
- Enterprises seeking a solution for high-risk intercompany transactions
- Enterprises with a stable business model to formulate the key assumptions of an APA.

Our approach

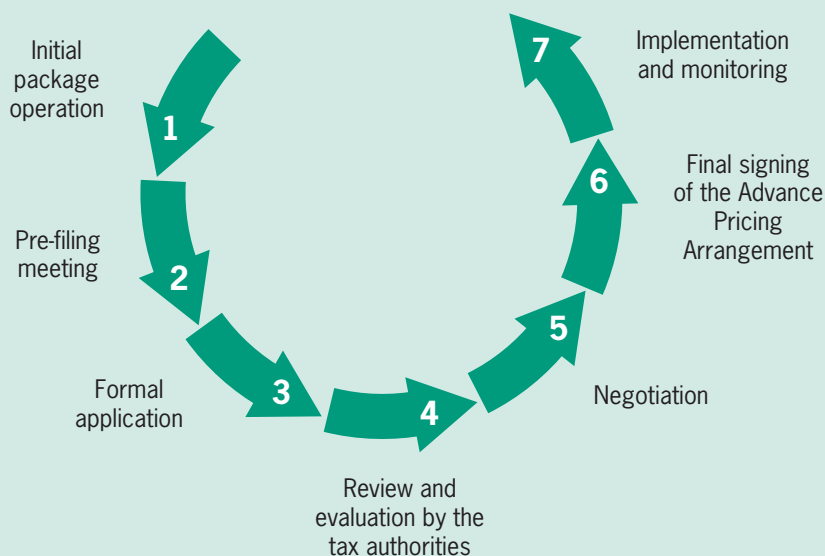
Grant Thornton will work with you to:

- Establish solid transfer pricing principles and studies to support your APA application
- Prepare the application package for the APA process
- Negotiate the APA with the tax authorities

- Monitor the APA implementation and prepare a post-APA monitoring package in line with the signed agreement.

Benefits to your company

- Gain certainty of the adopted transfer pricing policy for future years
- Help resolve historical transfer pricing issues/disputes
- Standardise and minimise annual transfer pricing documentation requirements, delivering administrative cost savings
- Eliminate time-consuming tax investigation and controversy procedures
- Avoid double taxation (bilateral/multilateral APA).



Transfer pricing planning

Transfer pricing planning gives all-round consideration to business viability, legal feasibility, transfer pricing compliance as well as direct/indirect tax implications. It allows you to be confident that your transfer pricing policy and practices integrate well with your broader operational and tax considerations.

Who needs transfer pricing planning?

- Enterprises with complicated international supply chain models seeking to optimise business operations and tax structures
- Enterprises shifting to a new business model.

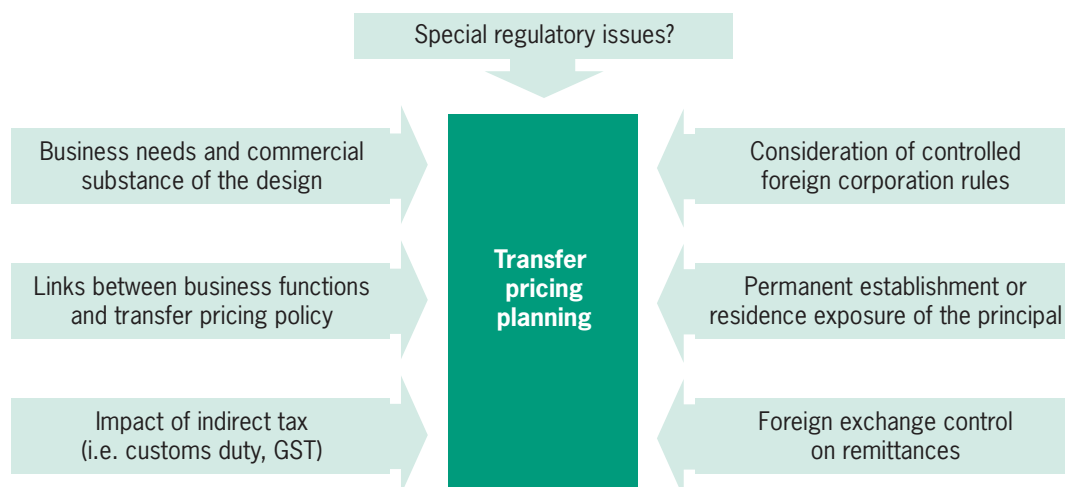
Our approach

Grant Thornton will work with you to:

- Establish an appropriate strategy that integrates operational and tax considerations
- Consider the commercial substance of your various options
- Recommend an appropriate transfer pricing policy across your supply chain or comment on the “substance” of certain entities based on the targeted profit allocation policy.

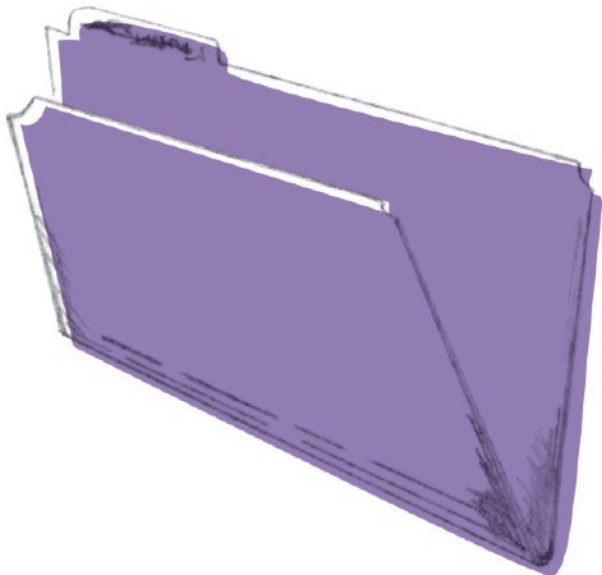
Benefits to your company

- Alignment of tax and operational models
- Achieve tax efficiency
- Meet local tax and transfer pricing compliance requirements.



Transfer pricing training

Transfer pricing training aims to teach non-specialists basic transfer pricing concepts and daily implementation principles, instilling new skills and confidence for organisations operating internationally. Training can be general, or a deep exploration of a specific topic of importance to your business.



Who needs transfer pricing training?

- Enterprises with a desire for greater transfer pricing knowledge, from either an Australian or international perspective
- Enterprises planning to develop their own in-house transfer pricing capability.

Our approach

Training options offered by Grant Thornton include:

- Attending one of our periodic general transfer pricing training sessions, open to participants at any level
- Transfer pricing training tailored to your specific audience and requirements, incorporating:
 - a risk assessment or strategic discussion sessions
 - a lengthy question and answer session for more interaction between the course attendants and our transfer pricing specialists.

Benefits to your company

- Achieve familiarity and thus confidence with transfer pricing issues in a short time period
- Bring your in-house transfer pricing team up to speed with the latest regulatory and practical developments, ensuring your organisation can proactively meet evolving compliance obligations
- A cost-effective way to obtain professional guidance.

If you want to know more, please contact us...

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