

# U.S. Transfer Pricing Planning & Documentation

*Contemporaneous documentation requirements under current U.S. Transfer Pricing rules are being strongly enforced by the Internal Revenue Service.*

*In the event of an IRS examination, U.S. subsidiaries of multinational groups must be prepared in order to reduce the likelihood of double taxation and avoid the potential assessment of penalties.*

*A Transfer Pricing Study will help an organization meet the documentation process required under recent financial reporting standards.*

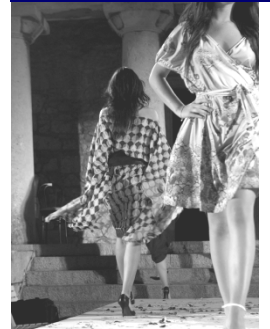
On November 27, 2007, the U.S. Treasury Department released a report on earnings stripping, transfer pricing, and U.S. income tax treaties. One of the report's main conclusions is that existing transfer pricing rules and compliance efforts must be continually monitored to ensure their effectiveness.

The cash-strapped U.S. federal government has been and will be especially aggressive on tax compliance in the near future. The 2011 U.S. budget deficit is expected to be at least \$1.56 trillion, the largest shortfall since World War II. The Obama Administration is implementing its multi-year plan to enforce compliance with transfer pricing rules. As part of this plan, the IRS transfer pricing practice has been recently reorganized to increase efficiency and effectiveness in the conduct of examinations. The IRS estimates that every additional dollar invested in enforcement yields about four dollars in added tax revenues. In particular, additional revenue will be generated from an increase in examinations of cross-border transactions. During 2011, Funaro & Co., P.C. has witnessed a significant increase in transfer pricing examinations of its foreign-owned clients.

Under Internal Revenue Code ("IRC") Section ("§") 482, U.S. taxpayers are required to prepare a Transfer Pricing Study (the "Study") supporting the arm's length character of the cross-border transfer prices in connection with transactions with related parties. The purpose of the Study is to comply with the Regulations and to avoid the potential assessment of penalties under IRC § 6662 by the Internal Revenue Service ("IRS").

To avoid these penalties, Taxpayer must have carried out, in a reasonable manner, a process of self-compliance, including creating and maintaining contemporaneous documentation consisting of "principal" and "background" documents which need to be in existence when the tax return is filed and must be provided to the IRS within 30 days of a formal request. If, for a taxable year, the reasonable self-compliance process has not been accomplished, the taxpayer is subject to a 20% or 40% penalty applied to the tax deficiency resulting from the transfer pricing adjustment.

Financial Accounting Standards Board Interpretation No. 48 - *Accounting for Uncertainty in Income Taxes* ("FIN 48"), provides expanded guidance on the proper recognition and measurement of contingent income tax liabilities. The complex nature of transfer pricing issues creates the need to assess the adequacy of financial statements tax contingency reserves. A thorough Transfer Pricing Study will help an organization meet its financial reporting goals by providing adequate support to its material transfer pricing positions.



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## TRANSFER PRICING SERVICES

Funaro & Co.'s Transfer Pricing Team provides transfer pricing planning, documentation and dispute resolution services, including:

**ASSESSMENT OF POTENTIAL ADJUSTMENTS AND PENALTY RISKS:** to fully comprehend the exposure to transfer pricing adjustments, assist firms in minimizing potential penalties and implementing FIN 48 reporting standards.

**TRANSFER PRICING POLICY:** our multi-skilled consulting team can help you plan your global transfer pricing strategy and optimize results by allocating assets, functions and risks in the appropriate jurisdictions.

**BENCHMARKING ANALYSES:** to determine the target profit margins based on proposed scenarios utilizing data from proprietary databases.

**VALUATION OF INTANGIBLES:** to determine the value of intangible property transferred among related parties.

**CONTEMPORANEOUS DOCUMENTATION STUDIES:** to comply with the Treasury Regulations, reduce the likelihood of a transfer pricing adjustment and avoid the potential assessment of penalties as a result of IRS examinations.

**DISPUTE RESOLUTION:** representation of taxpayers during transfer pricing examinations, negotiation of Advance Pricing Agreements and submission of Competent Authority assistance requests to reduce the risk of double taxation.

For more information please contact:

Luigi Perin, Partner  
[luigi.perin@funaro.com](mailto:luigi.perin@funaro.com)

Alessandro-Adelchi Rossi, Principal  
[adelchi.rossi@funaro.com](mailto:adelchi.rossi@funaro.com)

Mindy Piatoff, Special Counsel  
[mindy.piatoff@funaro.com](mailto:mindy.piatoff@funaro.com)

William H. Green, Director  
[bill.green@funaro.com](mailto:bill.green@funaro.com)

## ABOUT FUNARO & CO.

Funaro & Co. is a leading medium-sized audit and tax advisory firm. Founded in 1947 to service the unique needs of Italian companies with operations in the U.S, our firm has grown steadily over the years and the scope of our services has grown with us.

For over 60 years, Funaro & Co.'s unmatched U.S./E.U. cross-border experience has kept us solidly in a position of leadership in our profession. With more than 80 employees and offices in New York and Milan, the size of our firm is small enough to provide an unusual degree of personal service, yet large enough to provide every type of professional support required by its clientele.

For additional information about our firm, please visit our website at [www.funaro.com](http://www.funaro.com).