Transfer pricing and valuation synergies realized during acquisition assistance

At the time of an acquisition, companies typically require a broad set of services to support complex business and tax strategies, operational changes, financial and tax planning, and compliance procedures. To serve this need, KPMG LLP brings together transfer pricing and valuation services professionals that possess deep analytical competencies and maintain an in-depth, current knowledge of transfer pricing regulations and valuation concepts.

The Economic and Valuation Services (EVS) group is the only practice among the Big Four that combines transfer pricing and valuation services within one integrated team to assist clients in making informed, forward-thinking decisions to create long-lasting value and, ultimately, to help them succeed in the ever-changing global marketplace. We look beyond the immediate compliance task to deliver value-added advice to help our clients mitigate risks, avoid penalties, and efficiently manage costs.

Transfer pricing and valuation considerations that arise in the context of an acquisition are prominent, complex matters that can prove to be quite challenging. Forming a joint transfer pricing and valuation team can help companies, especially large multinational enterprises, navigate through the nuances and intricacies of today's highly regulated, global business environment. With the adoption of the Base Erosion and Profit Shifting (BEPS) initiative, there is an even greater focus on the arm's-length nature of the inputs and projections used in a valuation.

In light of the complexities associated with transfer pricing and valuation considerations in an acquisition, as well as the potential risks faced by regulatory and fiscal authorities around the world, it is essential to have a team comprising transfer pricing and valuation professionals who work in conjunction with one another throughout all phases of the acquisition process.

Transfer pricing and valuation considerations in an acquisition context

In an acquisition context, transfer pricing considerations typically arise in due diligence fact finding, transaction planning/structuring, IP migration and cost sharing, and value chain management. Valuation analyses in an acquisition context, typically performed for financial reporting and tax purposes, include pretransaction pricing of the target, allocation of the purchase price to the acquired businesses and underlying assets, and posttransaction valuations for legal entity reorganizations.

Transfer pricing and financial statement valuations rely upon the same theoretical concepts, but differ in application. When done in concert and with forethought, they can complement and support each other.

Issues to consider

Valuation analyses and transfer pricing studies are prepared for different purposes. Fair value is designed to provide a reliable and replicable measure of the value of an intangible asset or business entity at a specific point in time for financial reporting purposes. Transfer pricing analyses are designed to provide an accurate measure of taxable income in a specific year.

Relying on fair value analyses without ensuring that they comply with transfer pricing rules raises an unnecessary risk of penalties up to 40 percent for the failure to follow the specific methods and definitions set forth in U.S. IRC section 482. Valuations that are prepared for financial statement purposes, in which investors have confidence, can clearly strengthen a transfer pricing analysis.

In providing the aforementioned transfer pricing and valuation services, there is frequently an overlap in the responsibilities undertaken as well as in the underlying inputs and assumptions utilized in performing the analyses. The following are some common instances in which transfer pricing and valuation assistance may coincide throughout the acquisition process:

— **Pretransaction assistance** – Perform due diligence and scoping process, and when performing predeal analyses to assess the potential value of intangible assets and, subsequently, anticipated amortizable expenses, perform due diligence in assessing potential transfer pricing issues

— **Transaction planning/structuring** – Collectively review the company's existing operational and intellectual property structure to help ensure tax-efficient planning.

— **Posttransaction services** – Assess potential implications of related-party transactions when performing purchase price allocations (PPA), IP migration, loan analyses, and legal entity valuations performed for tax planning subsequent to an acquisition.

The potential benefits of a joint transfer pricing and valuation engagement team

Some of the potential benefits of using a joint transfer pricing and valuation team include, but are not limited to, the following:

— Enhanced ability to support tax positions upon audit – In some instances, companies may use intangible values derived from financial reporting analyses for transfer pricing purposes, a practice in which the IRS and other tax authorities have expressed skepticism. This can present problems during a tax audit if there are fair value analyses based on assumptions that are inconsistent with those used for local transfer pricing purposes. Our EVS professionals understand the similarities and differences between analyses for financial statement reporting and transfer pricing purposes, and they can help ensure the assumptions and approaches used in fair value analyses are consistent with those used for tax purposes and differences are explained and documented appropriately.

— Cost and time efficiencies – The joint team approach allows for consistent coordination between transfer pricing and valuation analyses, which helps to eliminate redundant work and ensure resources are being utilized efficiently. For instance, data requests are streamlined and efficient, fact-finding and due diligence meetings are conducted jointly, and both disciplines rely on the consistent information for projections and comparable companies.

— Streamlined entity valuation – The transfer pricing team can analyze the transfer pricing policy in the entity-level financials. The valuation team would then apply fact-specific valuation methodologies, using the financials analyzed by the transfer pricing team, to help determine the fair market values of the entities.

— Integrated intangible asset valuation – The valuation team can apply appropriate methodologies in accordance with financial statement reporting requirements. The transfer pricing team can leverage the methodologies and determine whether modifications are needed to comply with local transfer pricing requirements. This joint team approach can help ensure the use of supportable methodologies and key assumptions around issues such as useful lives, royalty rates, and discount rates for both valuation and transfer pricing.

Why KPMG?

The professionals are fluent in domestic and multinational regulations and have a strong reputation for independence and integrity in the global community. KPMG professionals maintain a global network of transfer pricing and valuation professionals who can apply forward-thinking insight to a company's specific business strategy.

Transfer pricing and valuation professionals have teamed up on numerous engagements related to mergers, acquisitions, divestitures, restructures and reorganizations, tax planning and compliance issues, and much more. We recognize the synergies that can be realized through the combination and efficient coordination of transfer pricing and valuation work streams. We have extensive experience working with regulatory authorities, which can help provide companies with a better understanding of how these regulatory authorities could potentially view positions on transfer pricing and valuation issues.

Contact us

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