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Understanding Multinational Tax Challenges

Grant Thornton

Transfer Pricing in the Nordic and Baltic Countries

What is transfer pricing?

Transfer pricing has for many years been the No 1 most important tax issue for Multinational Enterprises (MNE:s) as well as for local tax authorities. Transfer pricing refers to the pricing of intra-group transactions and includes all cross-border pricing arrangements between associated entities within a MNE. This could be everything from the provision of low value-adding intra-group services to more complex transactions such as transfers of Intellectual Property Rights, intra-group loan arrangements and development projects based on cost sharing. In some countries, these rules apply also on domestic transactions.

The MNE must be able to prove that the transfer prices applied within the group are in line with the *Arm's Length Principle*. To support the arm's length nature of the transfer pricing policy, the MNE must also present transfer pricing documentation that explains and supports the pricing policy applied.

Why transfer pricing is important

The ever-increasing complexity of international business and the high level of intra-group, cross-border trade makes transfer pricing a target for fiscal scrutiny. More complex transfer pricing documentation requirements and an increased demand for tax transparency entails that the need for a suitable transfer pricing strategy and execution is more important than ever before.

Accurate pricing policies and documentation of an MNE:s intercompany transactions in compliance with local legislation is of great importance when managing tax risk. Documenting intercompany transactions is the first line of defense when transfer pricing practices are challenged but a carefully developed transfer pricing policy could also serve as an important tool to help reducing the effective tax rate.

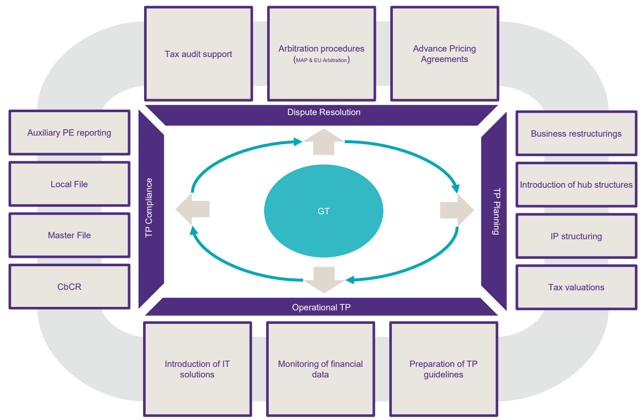
For the past years, tax avoidance and tax base erosion has been on the top of the political agenda under the BEPS project (Base Erosion and Profit Shifting). To prevent MNE:s from engaging in aggressive tax planning and from using gaps and mismatches in tax rules, the G20 countries engaged the OECD to draw up the lines for an "Inclusive Framework on BEPS" within the OECD. The framework includes, among other things, transfer pricing guidance to assure that transfer pricing outcomes are in line with value creation, new guidance with respect to the treatment of intangibles and revised guidance on transfer pricing documentation.

What Grant Thornton can offer you

To strengthen our ambition to help our local client's potential for growth and to take advantage of our combined competence in a geographical area of great importance to our customers, we at Grant Thornton have formed a transfer pricing team dedicated to serve the Nordic and Baltic region.

Grant Thornton can help you throughout the entire Transfer Pricing Product Cycle with transfer pricing planning, IP structuring (development structures, license agreements, transfer of assets, valuations), cross-border expansions (including permanent establishments), global restructurings, tax audits, tax litigation and Mutual Agreement Procedures, intercompany agreements, transfer pricing documentation (Master File, Local File, Country-by-Country Reports) and benchmarking studies.

Our transfer pricing team, comprised of experienced lawyers and economists, is part of Grant Thornton International's global network of transfer pricing specialists.



Picture: Transfer Pricing Product Cycle