

Adapting transfer pricing policies to cope with COVID-19

Federico Vincenti and Carola Valente of Valente Associati GEB Partners/Crowe Valente discuss how multinational groups should evolve to reflect the changing economic environment.



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The outbreak of COVID-19 has become one of the largest threats to the global economy and financial markets in history.

In this context, the change in economic conditions has resulted in significant consequences for the transfer pricing (TP) policies adopted by multinational groups, which are forced to promptly adapt their business models.

This rationale appears to be even more relevant in a globalised world where recessionary circumstances affecting a single country or a single market, spiral to generate an unforeseen amount of consequences at a global level.

Hence, multinational groups – as they operate in different jurisdictions, geographical areas and markets – are confronted with the need of developing effective business planning in order to minimise the economic impact of the pandemic, as well as to ensure the normal operation of their business.

Impact on transfer pricing policies

The initial spread of the outbreak occurred in China, an important production hub for a considerable amount of multinational groups across the world. Considering the prominence of China on the global economy, the size of the coronavirus disruptions are expected to lead to a detrimental effect on:

- On the value chain of multinational groups;
- On the sales generated;
- On the value of tangible and intangible assets;
- On the earnings before interest and tax (EBIT) of most multinational groups;
- On the cash flow of companies belonging to multinational groups operating in areas affected by the outbreak.

During this period, multinational groups should consider examining specific aspects of their business in order to minimise the negative effects of the crisis to the lowest extent possible.

Groups should look to adopt reasonable arrangements to align TP policies between related parties in the context of a global pandemic, as well as look to conduct targeted TP adjustments to align the functions of the firms with the present economic environment.

On the other hand, the development of the documentation needs to cope with potential controls set by tax authorities (i.e. the preparation of supporting documentation needed to justify the reasonable allocation of profits to subsidiaries during the pandemic).

Lastly, there should be a review of the policies adopted with regard to intercompany financing for companies in a multinational group that operate in the most affected areas (also considering the guidelines published by the OECD TP guidance on financial transactions).

Business strategy

From an economic and financial point of view, it is especially important that business decisions taken in regard to TP policies are documented accordingly and that multinational groups are well prepared to implement all the necessary changes to the business strategy of the companies. In particular, multinational groups should assess whether it is necessary to carry out a review of the pricing strategies, the location of subsidiaries, cost structures and intercompany contracts, as well as conducting a business restructuring to manage tax and TP policies.

During a period of crisis, multinational companies are faced with a number of issues that affect their activities and strategies, including transfer pricing policies. As a consequence, those companies should carefully assess the potential impact of the crisis on the value chain and consider revising their transfer pricing policies in order to adapt them to the changing economic scenario.

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