



Podcast transcript

A transfer pricing perspective on the Future of Tax

Podcast with Komal Dhall, Head of Global Transfer Pricing Services, KPMG in the US

Musical intro

Announcer:

Hello and welcome to another episode of the KPMG podcast series for Tax Leaders. In today's episode I'm joined by Komal Dhall, Head of Global Transfer Pricing Services for KPMG International and Principal in the New York office at KPMG in the US. Komal, thanks for joining me today.

I'd like to start our conversation by getting your perspective on what you think is the most significant change happening right now in transfer pricing?

Komal:

It's hard to be in transfer pricing and not talk about digitization, it's impacting us in so many ways. Let me start with the first piece and I'll start with this sequentially because I think from a digitization perspective we were given a few gifts from BEPS so far. So the first gift was certainly Action 13 and with Action 13 what do I mean by that? I mean the country-by-country reporting and the additional reporting for Masterfile and Local file for transfer pricing purposes. I thought this was significant because it did a couple of things: it created an extraordinary compliance burden; that compliance burden is really a function of a couple of things. Action 13 motivated consistency and coherence and those two things really led to centralization at most head offices. So if you take a process that's really been undertaken around the world and is now being undertaken in one place it's an incredible compliance burden and I think to add to that there was a fragmented approach to implementation which meant just because you were trying to get things right all around the world you couldn't just do it in one way because every country was implementing at a different speed, at different times and with different rules. So frankly what was supposed to be standardization really wasn't there but the burden was really on the tax payer. Now I bring that up because digitization means a couple of different things right, certainly digitization is around what we can do digitally or through automation to make the compliance burden less heavy. So there has been a lot of investment I think in the compliance space and things like compliance transformation.

A lot of clients have talked to me about what's the best approach to deal with this compliance burden, is it an outsourcing approach, is it co-sourcing or should they be doing it in house and building an offshore team. So you can imagine that there are a couple of outputs to this approach in digitization and that is certain processes have now become standardized.

There is existing country-by-country reporting data that is already in a digital format and that is consistent so we have that data to leverage, we can do data analytics on country-by-country reporting. This is a mass amount of data, we can do tremendous things with this data now whether it's a work flow solution, whether its visualization of the data, whether it's anticipating how a tax authority is going to evaluate country risk assessment so I think Action 13 really propelled us into a journey around automation and that's been a significant development for us.

Announcer:

So staying on the theme of digitization and as we have heard in previous podcasts the taxation of the digital economy is a topic that's top of mind for many tax leaders. How significant is this topic in the world of transfer pricing?

Komal:

This is significant specifically for transfer pricing because the arm's length principal's at risk and if you listen to Pascal Saint-Amans articulate this it's yes the arm's length is precious to us but there's something almost, there's something much more pressing here and that is around achieving some level of consensus, instantiation of the G20 and the Ministers of Finance. Now I think this is a conversation many are willing to have because there is a price to pay here and that price really is uncertainty. So any trade off around compromises that might be required for the arm's length principal in return will get something like simplicity and more certainty and that's what I think tax payers are willing to compromise to move to a place that provides more assurance.

Announcer:

You mentioned earlier some of the ways of the ways KPMG is incorporating digitization into transfer pricing processes. Do you see the businesses you work with doing the same and are they capitalizing on the opportunities that digitization offers them?

Komal:

I think it's really interesting to engage with clients on what their own automation journey is. In mid-2018 we pulled a group of clients together and we got their feedback and I can tell you they were really scratching their heads about how to incorporate automation within the transfer pricing function. The most significant area of pain that they identified was really on the preparation of segmented financial data not just for today but reconciling them with the past at the level of detail that tax authorities were asking for. Interestingly, fast forward 6 months and we are with another group of clients and I can't tell you how quickly the conversation changed to we're trying, we're adopting Alteryx and we're doing things much more fast, much more quickly to we really want to embed this into our ERP system and we're digging deep and we're trying to automate everything, to somebody else talking about compliance and documentation and how they wanted to do that differently and what challenges they were running into with the regulatory requirements being so varied around the world. And this is just six months in and the number one thing that this group was asking of each other is really to learn tips and tricks about what's working, what's easy to adopt, what quick wins can they have now and how can they look into a future that's going to be different, that they recognize is going to be different and the challenge right now is the how.

Announcer:

Komal beyond digitization can I ask what have been the big changes in the world of transfer pricing since you began your career and perhaps you can tell us what you expect to see change in the future?

Komal:

It's really interesting when I speak to the various countries around the world. I think there is a motivation certainly in the European region around I'll call it transparency and transparency means two things: transparent to the public vs. transparency with the tax authorities, right so I think there's definitely a demand by the tax authorities to be able to access information to balance out the asymmetry of information that they felt was there and I think what we'll see the European region do is ask for more real time data. You see that with the UK and their digitization of tax agenda where they are really looking to bring statutory accounting, tax and legal entity reporting to the fore. So I can image a world where the traditional transfer pricing reports that we have created for years which are many pages thick, will, could be condensed into a set of tables that really tick the box for tax authorities where they can digest the information quickly, where it's in a

uniform format and you know if we see some of the digital proposals come to the fore there's going to be a potentially, you know, a fraction of this which includes some apportionate. Now that's a drastically different world, transfer pricing has always been about qualitative information, the quality assessment of who is doing what, what are they doing? How is that generating value? Now what you see with the US through their recently introduced Functional Cost Diagnostic Model is they're responding to the other tax authorities as well and they're saying they are putting forward a particular point of view which takes into account the costs that go into a particular business, the costs of development of IP and they're promoting a residual profit split model type approach using cost as an allocation key. Where of course what we see in the other markets is they're using their user participation or marketing intangibles as how **they look at it**

Announcer:

Komal, for my final question if you could offer one piece of advice to tax leaders in terms of how they need to manage their transfer pricing responsibilities in today's global digital world what advice would you give them?

Komal:

I think every tax leader has to be looking at the portfolio of work that their teams are doing, they've got to do a couple of things: they've got to ask themselves what's really contributing value to their teams. We, you know there's benchmarking around this to see if your, if teams are expending time on routine tasks that may be better done elsewhere that might be the right answer so their teams can focus on the value adding areas there are going to be new things to do and it's really got to be balancing out that transition and looking ahead and realizing the qualitative aspects of defending which is really where we are going to be pretty soon, defending their transfer pricing model is critical and important. But I'll add one other thing as I mentioned around digitization, it's changing fast right, so we've got to equip our teams, we've got to remember that things are going to be changing at a pace where new technologies, new affordable technologies are going to be coming to the fore. So what we continue to hear is change management, is actually one of the biggest challenges tax leaders face so I've heard of companies introducing KPI's for example about introducing one or two new things new that you do differently every quarter and making it a mandatory part of people's goals. These are the little ways that we can create incremental change and take the workforce into the future, take the balance and portfolio of work that's going to be done in the future and align the resources against it.

Announcer:

Komal on behalf of myself and the listeners, thank-you for your insights and thanks for taking the time to join us today. Join us next time when we'll take a look at another trending topic within geopolitics, digitization or changing business models and please feel free to email us with any suggestions for future topics that you would like to hear more about at tax@kpmg.com. Thanks for listening.

Musical exit

