



# Podcast transcript

## Managing transfer pricing processes with technology enabled solutions.

Podcast with Kirsty Rockall, Partner, KPMG in the UK and Thomas Herr, National Leader, Innovation, for the Economic & Valuation Services practice, KPMG in the US

### *Musical intro*

#### **Announcer:**

Hello and welcome to another episode of the KPMG podcast series for tax leaders. For today's episode, I spoke to Kirsty Rockall, a Partner, KPMG in the UK and Thomas Herr, National Leader, Innovation, for the Economic & Valuation Services practice at KPMG in the US. Kirsty advises businesses on all aspects of the UK transfer pricing legislation, including devising, documenting, and implementing transfer pricing strategies and Thomas leads and supports innovation efforts across KPMG's transfer pricing and valuation service lines.

Kirsty and Thomas, thanks for joining us today.

As you know for the KPMG Future of Tax program we are exploring the themes of geopolitics, digitalization and changing business models. Today I thought we could talk about these themes in relation to transfer pricing and the changes you see new technologies are bringing.

### **Perhaps we should start by discussing what can tax departments can do to increase the use of technologies to manage their transfer pricing processes?**

#### **Thomas:**

One of the really important things to understand about technology is that its success really depends on the clarity of the underlying processes. We humans are very good at dealing with noise, imprecision, and unforeseen events. Computers, not so much. And notwithstanding the promise of AI and similar technologies, we are still far, far away from computers becoming really smart, but they are really good at doing fixed processes really fast over and over again, and so what we find is that throwing technology at a problem isn't enough. It has to be coupled with a process review, and often a process redesign. For example, a lot of companies struggle with transfer pricing data acquisition and analysis. Typically, that's because the type of data required for transfer pricing isn't really of interest outside of the tax department. Now there are all sorts of technologies out there that make it easier to pull data out of databases and analyze that data, but oftentimes, the key pieces of information just aren't available in the first place. So right now, we're solving that

through manual processes of gathering information, through email, or other types of actions along those lines. So what we really want to do to successfully deploy technology is think about that process and think about ways some of those aspects of that process could be automated, or some of that data could be gathered in a more proactive manner through some of the existing systems, whether it's ERP systems or their like. So really looking at and understanding the process before we start throwing technology out there has proven to be an important success factor in deploying technology.

#### **Announcer:**

### **And Kirsty how are you seeing tax authorities use technologies to scrutinize transfer pricing?**

#### **Kirsty:**

So tax authorities are increasingly using technology to adopt a forensic approach to testing the evidence upon which transfer pricing policies and documentation have been relied. Most countries now have mandatory contemporaneous documentation requirements, which we all understand. But tax authorities are actually questioning the veracity of these reports, and they're seeking to evidence transfer pricing policies through other means, and these means are increasingly digital, and they introduce new requirements and risks upon our clients. So to stay ahead, our clients need our help in technology, documentation, and processes in order to enable them how they actually think about transfer pricing, in particular, the compliance aspect of things. So we need to help them reduce the burden of producing transfer pricing documentation and implementing and testing their policies. So what's really so different in today's environment? Well, as I mentioned, there's a lot more focus by tax authorities on the integrity, data, and governance of transfer pricing, including references, for example, to things like risk registers, policies, and real time communication. There's a greater emphasis, for instance, on businesses' obligations, and in particular, behaviors, which we're seeing a lot of in the UK. We're also moving to a future state where tax sensitive financial data is extracted directly from a business' core financial systems by tax authorities with minimal manual adjustments.

**Announcer:**

## Okay so what do businesses need to do in today's new environment?

**Kirsty:**

They need to have a well-trodden documentation process that's aligned to local country requirements, they really do need to have readily available and scalable technical specialists. They need to have technology enabled solutions which will enable them to improve their own user experience, but also enable them to provide control and visibility, particularly over financial data movements and access to that data. They really need to understand and obtain insight from that data as well as driving efficiencies through that data, which gives them back time to actually spend on more value add activities.

**Announcer:**

## So Thomas what about the US perspective?

**Thomas:**

Yeah, so the trends obviously in the US are very similar. One thing to note is that the IRS over the last number of years has been starved of their budget. In addition, they have many very experienced IRS agents retiring, and so they've announced publicly that one way they're going to address that issue going forward is through the increased use of technology, really to use technology to become more efficient, become better at selecting and identifying their targets for their audits to avoid long and costly audits that really yield little. As well as be able to better replace and maintain the human knowledge factor that is being lost through many of these retirements. It's clear that, as Kirsty said, companies are providing more and more information, if we think about the CbyC report alone, over 7,000 companies providing detailed financial information in a very structured format that previously has not been available. It would be very surprising if the IRS and other tax authorities don't spend a lot of time and money on mining that very valuable data, so we'll have to see how that develops, but clearly, clearly the trend will be for more and more investment in very sophisticated technologies.

**Kirsty:**

In fact, there was a rumor over here in the UK that the IRS used to have the motto of "We have what it takes to take what you have," which I think encapsulates what you just said perfectly.

**Announcer:**

## You mentioned that businesses need to have readily available and scalable technical specialists. Can you expand on how the tax functions should be thinking about developing their people?

**Kirsty:**

Developing people is actually a very difficult question, and there's two ways that you can approach it, and I look at it about driving people towards a very much more of a technology enabled function, and they can either trust you, so if you think about it, you sit in a chauffeur driven car, and as head of the tax function,

they trust you to take them on that journey. Or alternatively, you get a bunch of people that don't really know where they're going, they don't know what journey they want to be on, and it's like driving cattle. So you have to wait until you get a big herd of them together, and you have to sort of push them on that journey themselves. So for me, one of those first questions that a tax function needs to do is they need to get rid of that awful sentence which is, "I'm not really a tech person". They need to wipe that out of their tax function's vocabulary, and they need to enable their tax function to have conversations with their finance teams, with their business, and also be able to then work along deep technology specialists, either with in-house or external providers to enable them to act as sort of a catalyst to modernizing their tax function and taking on board all of the points that we've highlighted in our podcast today.

**Announcer:**

## And Thomas would you add anything?

**Thomas:**

One of the nice things about technologies nowadays is that even more advanced technologies are becoming more available for average users. Something we call sort of the democratization of technology and programming. So you don't need to have a computer degree, you don't need to know programming to be able to deploy certain robotic process automation technologies, visualization technologies, or advanced data analytics technologies as long as you have a certain sense of curiosity and willingness to learn. These technologies are open to everyone, and we've had this experience with some of our clients where we went in and implemented, for example, Altrix or Power BI based solutions, and our clients identify people in their tax department to get trained up on the technology, and they really get very enthusiastic about them, because it's the opportunity for them to learn new skills, for them to do something a little different, and we're seeing a lot of success just in giving people those types of tools that allow them then to do things that weren't necessarily expected or planned for or thought about. And so just finding a way to give your people access to these tools, access to some training around that is a great way to get started in many cases.

**Announcer:**

## What are some technologies you're particularly excited about right now?

**Thomas:**

Two technologies I'm particularly excited about are natural language processing and machine learning. So natural language processing is the ability of a computer to read and understand text and text element and classify text elements, and machine learning is the capability of machines and computers to identify rules and patterns and draw conclusions out of that. And the reason why I'm excited about that is because, as transfer pricing professionals, we spend a lot of time reading documents, and we spend a lot of time poring through text, and sometimes that can be quite boring. For example, when we're reviewing comparable data or comparable information, when we're reviewing agreements, when we're putting together analyses around various text based documents, so it's an important and necessary

part of our work, but it can be quite tedious, especially if you're reviewing dozens or even hundreds of different documents of a similar nature. So this type of technology can really sort of help us automate the "boring" part, and we're going to see that technology diffuse more and more into tools that are readily accessible for everyday users. There's still a lot of the deployment of that type of technology that requires a lot of expert help, but as with many other technologies as well, we will see those being used more and more broadly and being accessible and easily deployed by tax departments more and more broadly, so I think we will start seeing tools that will enable tax departments, for example, to quickly scan all their intercompany agreements to identify gaps or areas where there's information missing, for example. At KPMG, we started to deploy these technologies. We are just releasing an upgrade to our internal benchmarking tool that will use these technologies to help us improve and expand our capabilities to do comparable searches by scanning business description text and classifying companies by their business description and other relevant information to help us make sure that we deliver the best results for our clients that we can.

**Announcer:**

### **Kristy, for you how is technology changing the approach to transfer pricing documentation?**

**Kirsty:**

Let's start with actually what we mean by documentation, because actually, that word documentation can mean lots of different things to different people. Documentation to a transfer pricing professional might mean from the start of designing the policy and the process, gathering the information, and then writing it up into potentially master file or local file reports which meets compliance requirements in various jurisdictions through to the implementation of that documentation and of that policy. The automation of documentation really actually focuses on that compliance part, so on the information gathering and of the annual generation of the master file and of those local file reports, and that is extremely automated at the moment. But what we must, must not forget is, don't focus on the technology that automates that process to the detriment of actually understanding what those transfer pricing policies are, whether those transfer pricing policies are still fit for purpose, given this really fast changing environment that we're in, and that we still need us as humans to analyze and understand what our business is and what those finance processes actually are. Technology can't do everything. Not yet, anyway.

**Announcer:**

Kristy and Thomas, thanks for joining me today it's been fascinating talking with you and to get a better understanding and a bit more insight into how new technologies are shaping the lives of tax professionals.

**Thomas:**

Thanks for having me.

**Thomas:**

Likewise, thank you very much.

**Announcer:**

Join us again next time and please email us with any questions you have related to any of our podcasts, or with suggestions for future topics. You can reach us at [tax@kpmg.com](mailto:tax@kpmg.com). Thanks for listening!

*Musical exit*

