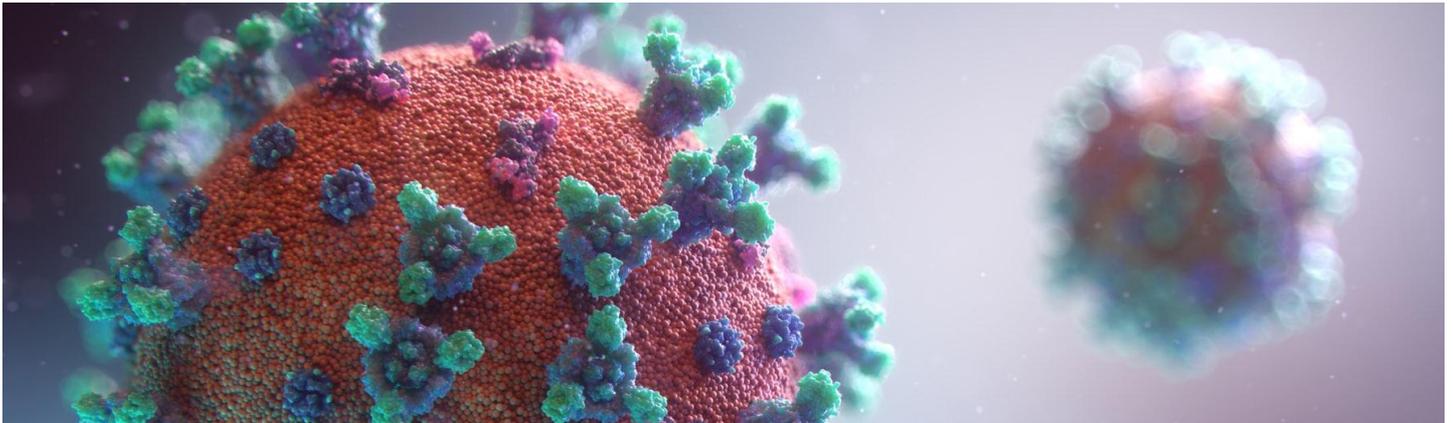




# TRANSFER PRICING



Special Edition Newsletter by Eurofiscus Transfer Pricing Consultants



## COVID-19 & TRANSFER PRICING

### Introduction

In the current COVID-19 crisis, businesses are facing difficult times. Businesses close down manufacturing sites, initially only in China but now in Italy as well. Employees are working from home and revenues are dropping. This all has an impact on transfer pricing. In this special issue of our newsletter we'll explore this impact further.

### Supply chain impact

When sales are dropping, limited risk distributors will see significantly lower revenues. This in principle should have only a limited effect on them though, due to the fact that the principal entrepreneur acting as the Group's risk taker will make the LRD's whole. It is said in the transfer pricing world that LRD's can't be reporting losses. It usually works like that, but in case of a global crisis this can be challenged. Although the LRD's risks are limited, they still bear local market risks. Limited risk doesn't mean zero risk.

### Headquarter function

A headquarter but also a shared services center provides services to group companies that will pay for these services via management charges or service charges. Due to the fact that many companies closed offices and ordered working from home for its employees, it can be expected that the service level will decrease. Business travel more or less stopped, meaning that services are stopped as well or at least diminished significantly.

### Financing impact

Intercompany financing will be impacted as well. It has a large impact on interest rates, but it can also create unexpected cash shortages which will inevitably lead to additional funding from the HQ or the group's internal financing hub. This additional funding might impact thin capitalisation.

### What to do?

- A file should be created with evidence of actions taken by HQ to "help" group companies. Map how the business is distorted by COVID-19. Home office working, travel ban, reduced service levels, gather details as to how this crisis impacted the business.
- Prepare the analysis of the impact on profitability of group companies and book (if needed) transfer pricing adjustments this quarter and possibly the coming quarters.
- Analyze the TP impact of the changes in the intercompany financing and the possible thin capitalisation consequences.
- Prepare a transfer pricing analysis substantiating why certain group companies might end up with a profitability lower than expected. Remember that current benchmark studies use financials of past years. So therefore a net operating margin at the low point of the total range can be taken, but only based on proper analysis.