

Pros and cons of centralised and decentralised transfer pricing documentation (1) 1/48/24



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Transfer pricing (TP) documentation is necessary for companies doing business with related foreign companies to demonstrate that prices applied in their transactions are arm's length. The preparation of TP files can be either centralised or decentralised. Each approach has its advantages and disadvantages, and the choice between them depends on the structure and specific needs of the group. In this series of articles, we will look at the pros and cons of the two approaches, which you need to consider when it comes to selecting the best approach to preparing your TP documentation.

Centralised TP documentation

A centralised approach means that TP documentation for each company in a multinational group is usually prepared by a dedicated team working within the parent company. This team is responsible for gathering data, performing analyses and preparing annual TP documentation. They are also responsible for ensuring the TP documentation meets all TP requirements in every country the group companies operate in, whether they use their in-house resources or hire consultants.

Centralised documentation has several advantages.

A single approach

Centralised preparation ensures a standardised approach is taken to prepare TP documentation consistently for all group companies. A single approach helps maintain alignment between the functional analysis and the benchmarking study, which is crucial when it comes to defending the multinational group's position during a tax audit. This is particularly important because the national tax authorities are increasingly sharing their information on related-party transactions and the intragroup role of each company.

Cost savings

Preparing TP documentation centrally can offer economies of scale from using standardised processes and tools. If the central team hires an independent consultant to prepare TP documentation, the group may negotiate better prices than it would be possible if each company had its own TP file prepared separately.

Expertise and control

The central team can employ experienced tax and TP experts who specialise in analysing intragroup transactions and keep abreast of the latest requirements and best practice. This makes it possible to better control and monitor the process of preparing TP documentation to ensure all the companies approach their transactional analysis in a uniform manner.

Centralised documentation has some disadvantages too.

Local requirements and practices

Centralised teams may lack expertise in local market conditions, TP requirements and practices, which is necessary to prepare TP documentation that meets local statutory requirements. This risk can adversely affect companies operating in countries with specific TP requirements, as they can be penalised for non-compliant TP documentation.

Flexibility

A centralised approach may be less flexible in responding to local changes and specific needs. This lack of flexibility may delay the preparation of a TP file or pose a risk that it will be out of line with the latest requirements of the local market. And the central team can take a single approach to preparing TP documentation for all group companies. Yet in smaller markets such as Latvia, the facts and circumstances of related-party transactions are different from other group companies, which may lead to significant errors in both the functional analysis and the benchmarking study.

To understand and prevent common errors in TP files prepared centrally for Latvian companies, we encourage you to read our article that summarises common breaches.

In our next article, we will introduce our MindLink subscribers to the advantages and disadvantages of decentralised TP documentation.