

12TH ANNUAL NABE

TRANSFER PRICING SYMPOSIUM

JULY 19-21, 2022

FOUR SEASONS HOTEL | WASHINGTON, DC



Team 2: TP Analytics / Mantegani Tax PLLC

Management Skin in the Game

Barbara Mantegani

Mikhail Bulchandani

Management Skin in the Game TP - Overview

Key Facts:

- Pied Publisher Inc*
- US parent MNC
- Global Publisher of over 1,000+ Niche Publications
- Decentralized mindset with a collection of separate entrepreneurial “business units” that operate in 15+ countries around the world

*No Association Pied Piper of SV fame

Intercompany Transactions:

- Centralized Services
- Domestic and Cross-Border Licenses

Management Skin in the Game TP – Setting Prices

- Management is highly interested in “transfer prices” - management has a seat at the table and can ultimately decide to transact (or not) with related parties.
- Management is ultimately evaluated and incentivized on post transfer price-based outcomes.

Centralized Services:

- Per Unit, Usage Based Pricing (e.g., call center / call pricing)
- Annual Price setting exercise informed by “realistic alternatives” (i.e., third party SW, services)
- Ability to “opt-out” of centralized services

Content Licenses:

- Management negotiated royalties
- Informed by internal and external data set of past licenses
- 3rd party arrangement serve as a guide but are not binding on management negotiations.

Management Skin in the Game TP – Evaluating Outcomes

- **Broad Industry Benchmarks**
 - Profit Margin Analysis (Internal and External).
 - P&L by business unit and jurisdiction
- **Explaining Outliers & Evaluating Outcomes**
 - Explanation of “startup losses” / and “outsized returns” that are outside the “ranges” based on facts and circumstances

Example

- Putting losses in perspective
- BU P&Ls

US\$ M, Except Otherwise Noted	Full P&L	Segment P&L		
		BU#1	BU#2	Startup
Revenue	254	182	72	0
Operating Expenses	322	163	68	91
Operating Profit	-68	19	3.96	(91)
ROS	-27%	10.4%	5.5%	NMF
Interquartile Range of ROS Margins	%			
Upper Quartile	15%			
Median	7%			
Lower Quartile	2%			

Management Skin in the Game TP – Legal Perspective

Documenting Adverse Interests

What is “control”?

- Ownership Threshold Examples
 - Does 50-50 share ownership always mean no control?
 - What about joint ventures?
- US Legal Perspective
- Foreign Legal Perspective

How can management present its structure consistent with the arm’s length standard?

- Robust recordkeeping from Day One
- Coordination between Operations and Tax
- Robust transfer pricing documentation
- Taxpayer “tells its story” by framing the narrative

Management Skin in the Game TP – Conclusion

