


Impact of COVID-19 on Transfer Pricing

April 2020





The outbreak of COVID-19 has become one of the largest threats to the global economy and financial markets in history.

In this context, the change in economic conditions has resulted in significant consequences for the transfer pricing (TP) policies adopted by multinational groups, which are forced to promptly adapt their business models.

This basis appears to be even more relevant in a globalized world where recessionary circumstances affecting a single country or a single market, spiral to generate an unforeseen amount of consequences at a global level.

Multinational groups – as they operate in different jurisdictions, geographical areas and markets – are confronted with the need of developing effective business planning in order to minimize the economic impact of the pandemic, as well as to ensure the normal operation of their business.

Impact on transfer pricing policies

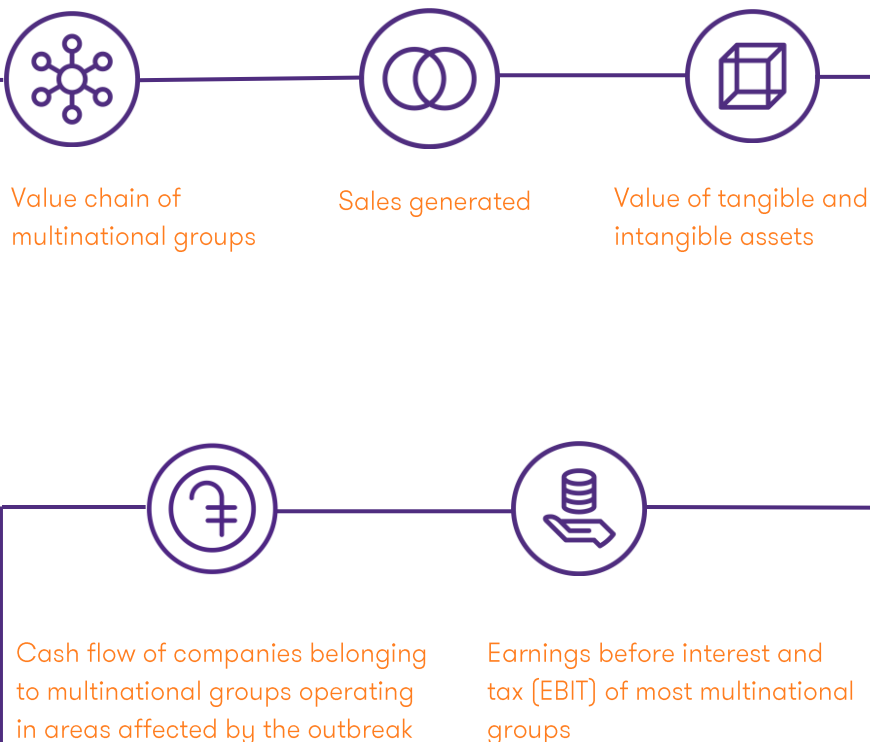
The initial spread of the outbreak occurred in China, an important production hub for a considerable amount of multinational groups across the world. Now many countries with a share in world trade are closed due to a pandemic. Considering the prominence of closed countries on the global economy, the size of the coronavirus disruptions is expected to lead to a detrimental effect on the:

During this period, multinational groups should consider examining specific aspects of their business in order to minimize the negative effects of the crisis to the lowest extent possible.

Groups should look to adopt reasonable arrangements to align TP policies between related parties in the context of a global pandemic, as well as look to conduct targeted TP adjustments to align the functions of the firms with the present economic environment.

On the other hand, the development of the documentation needs to cope with potential controls set by tax authorities (i.e. the preparation of supporting documentation needed to justify the reasonable allocation of profits to subsidiaries during the pandemic).

Lastly, there should be a review of the policies adopted with regard to intercompany financing for companies in a multinational group that operate in the most affected areas (also considering the guidelines published by the OECD TP guidance on financial transactions).



Business strategy

From an economic and financial point of view, it is especially important that business decisions taken in regard to TP policies are documented accordingly and that multinational groups are well prepared to implement all the necessary changes to the business strategy of the companies. In particular, multinational groups should assess whether it is necessary to carry out a review of the pricing strategies, the location of subsidiaries, cost structures, and intercompany contracts, as well as conducting a business restructuring to manage tax and TP policies.

During a period of crisis, multinational companies are faced with a number of issues that affect their activities and strategies, including transfer pricing policies. As a consequence, those companies should carefully assess the potential impact of the crisis on the value chain and consider revising their transfer pricing policies in order to adapt them to the changing economic scenario.



At the ready to help you

Our tax professionals are on standby to help you across a range of tax issues/opportunities in local and international tax. We also have dedicated Human Capital specialists to provide insights related to compensation and benefits.

Living our global values of collaboration, leadership, excellence, respect, responsibility and agility

Our approach is to provide practical, right-sized tax solutions to help companies in the ways that matter most.

- Bring a calm and deliberate approach to discussing key considerations
- Help you filter out the noise and create actionable plans
- Bring a calm and deliberate approach to discussing key considerations
- Help you filter out the noise and create actionable plans
- Respond at the speed of your needs
- Think holistically across four areas of risk
 - Liquidity & cash flow management
 - Supply & demand
 - External factors
 - People & labor

Armen Galstyan

Partner



+374 (10) 545 148 (12)



armen.galstyan@am.gt.com

Gevorg Nersisyan

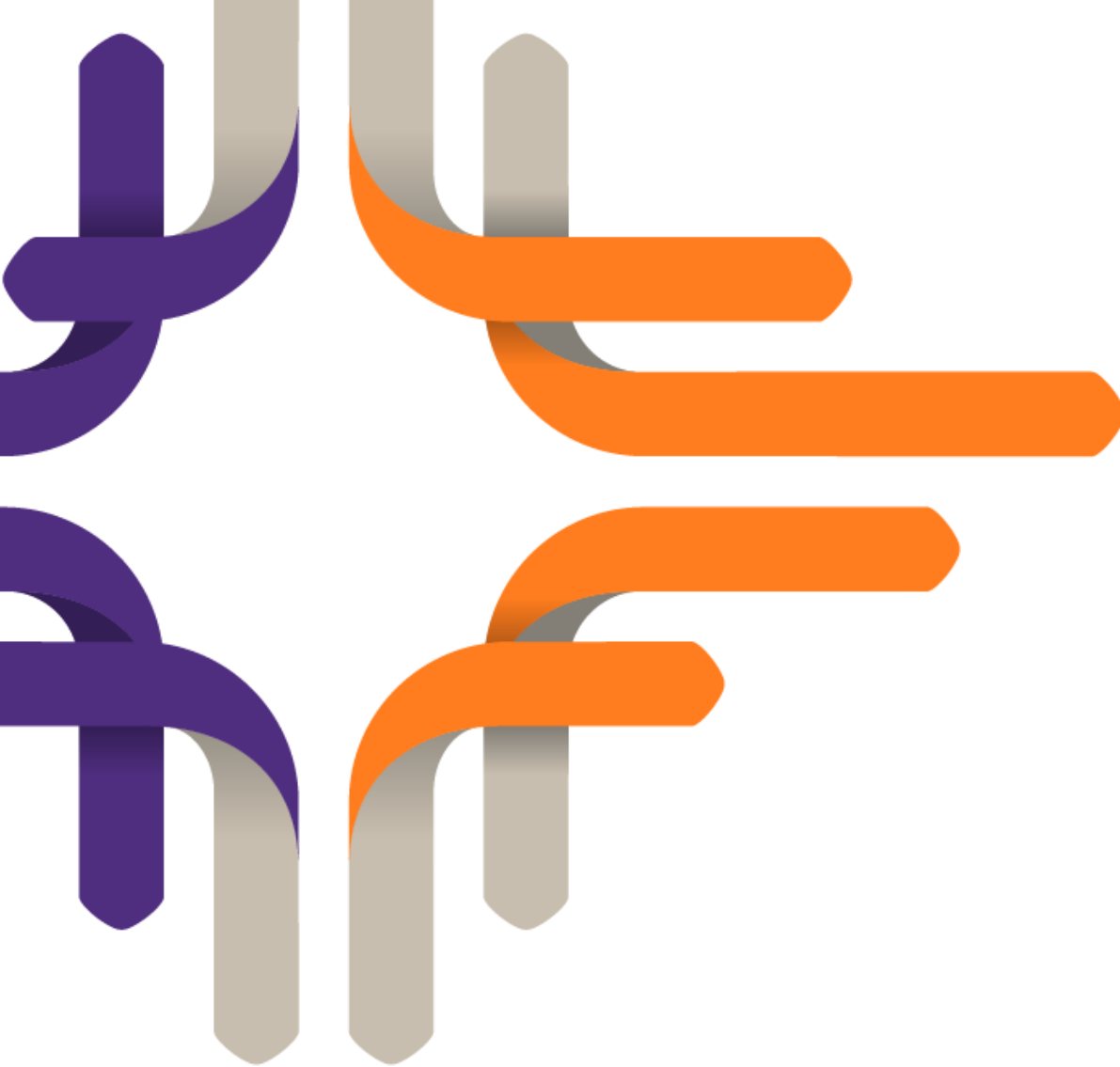
Senior Manager, Tax



+374 (93) 55 82 29



gevorg.nersisyan@am.gt.com



Grant Thornton

An instinct for growth™

© 2020 Grant Thornton Armenia. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Armenia is a member firm of Grant Thornton International Ltd (GTIL). Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.