

The Importance of a Transfer Pricing Policy to Food Manufacturers

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\$132.9 billion. That was the [record-setting value](#) [1] of foods, feeds and beverages exported by the U.S. in 2012. What does it mean? It means food manufacturing is more global than ever before, making a [transfer pricing](#) [2] policy more important for food manufacturers today than in years gone past.

According to the results of Habif, Arogeti & Wynne, LLP's 2013 survey "Transfer Pricing: Not Just A Compliance Headache," only 12.6 percent of food manufacturing respondents considered transfer pricing an issue on which their company spent a significant amount of time. This may be because the majority, 62.5 percent, of respondents indicated that transfer pricing is not one of the top five business issues their company worries about.

A transfer pricing policy is an important tax-saving and profit-allocation vehicle that could save food manufacturers valuable tax dollars every year on profits made overseas, while eliminating the risks of penalties, backed taxes and legal fees associated with a transfer pricing dispute. A transfer pricing policy can be used as a tax planning vehicle to save companies hundreds of thousands of dollars each year. It allows companies to allocate profit among related worldwide companies in a way that is most financially beneficial to its bottom line.

Transfer pricing is a topic that should be of grave concern to food manufacturers with operations overseas, or for those food manufacturers considering overseas expansion, yet only 33.3 percent of respondents considered a written transfer pricing policy relevant to their company. It is a best practice that companies establish a transfer pricing policy before ever breaking ground globally.

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None of the food manufacturing respondents to HA&W's transfer pricing survey had a written transfer pricing policy in place for all material inter-company transactions. This indicates that food manufacturers, as a whole, are unaware of the significance of transfer pricing to the success of their international operations and are missing out on an opportunity to minimize their worldwide tax burden.

It is interesting to note that 50 percent of food manufacturing respondents are aware of an increased crackdown on businesses' transfer pricing practices, a number that exceeds the percentage of overall respondents who are aware. This awareness doesn't seem to make a difference with regard to who is spending time on transfer pricing. The same percentage of overall respondents to the survey and food manufacturer respondents indicated that transfer pricing was an issue on which their company spends a significant amount of time. So awareness doesn't translate into action.

Action is needed. Small to mid-tier manufacturers across verticals incorrectly assume that because they're small their transfer pricing policy won't be audited. This isn't the case. According to [Financier Worldwide](#) [3], "not only are large companies falling under the watchful eye of regulators, mid-sized multinationals are also being audited with greater frequency." And disputes can be costly. Food manufacturing respondents who have undergone a transfer pricing dispute indicated that the dispute cost them over \$250,000, money that could be saved by proactively setting up your transfer pricing policy.

For example, a U.S. food manufacturer recently underwent a transfer pricing audit for the sale of products to its subsidiary in Canada. The IRS found that the company's transfer pricing scheme was incorrect, leaving the company to face penalties from the U.S. of 20 percent of the amount of the tax adjustment required by the IRS. In addition, the company received an increased adjustment of income in the U.S., but was not allowed a downward adjustment of income in the other jurisdiction, meaning that, in the end, the company paid extra taxes as a result of its incorrect transfer price.

Transfer pricing is a complex business issue that keeps the c-suite of *Fortune* 500 companies up at night. So shouldn't you be paying more attention? With proper planning and implementation, you too can minimize your risks and maximize your tax savings with a transfer pricing policy.

Want to know more about how a transfer pricing policy can minimize your worldwide tax burden? Contact Robert Verzi, International Tax Partner, at robert.verzi@hawcpa.com [4] or 404-898-8486, or Adam Beckerman, Partner-in-Charge of the Manufacturing & Distribution Group, at adam.beckerman@hawcpa.com [5] or 404-898-7542.

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