

COVID-19: Aligning transfer pricing strategy and business models to the new normal

In light of the ongoing COVID-19 crisis, multinationals are readjusting their supply chains and business models to meet the ever-changing demands of the new 'now'. Changing business environment characterised by demand and supply disruptions, health and safety concerns, evolving government regulations and varying business forecasts may alter pricing policy for organisations. As a result, it is important that transfer pricing is at the top of the board's agenda.

Here's how you can HALT and assess your business models and transfer pricing approach

While the current situation is slowly unfolding, it is crucial that stakeholders HALT and assess their business models and transfer pricing approaches and accordingly plan their responses from both short-term as well as long-term perspectives.

It is important that revisions to transfer pricing approaches are seen more from the perspective of aligning overall strategic response of the business towards a changed scenario.



Impact analysis

- Many businesses are already doing an impact analysis and if you are not among them, it's time.
- The analysis is to be done at an industry level and at an individual business level.
- How your industry is impacted due to the current COVID-19 crisis and how companies are responding to the situation in terms of their business strategy, operational and financial approaches etc. is clearly vital for the success of your own business plan.



Realign transfer pricing models

- The basic theme behind realignment of transfer pricing framework should be to match the related transfer pricing policies with current realities of the business and markets.
- Revised approaches to supply chains including new procurement models, market strategies, logistics, service delivery approaches etc. will necessitate corresponding adjustments to transfer pricing models.

Few potential use cases that can be considered

While a complete review of overall transfer pricing framework of the MNCs is necessary as there is short-to-medium and potentially long-term disruption of the traditional supply

chains, markets and business strategies, there are some aspects that require adjustments even at an individual company level from FY 2019-20.



Adjustments for closed or temporarily halted operations

- Transfer price for closed down or temporarily halted operations should be revised to reflect current fact pattern under uncontrolled scenario.



Factor in new allocation of workforce

- Impact of workers performing functions in new places that affect taxing rights allocated to group entities in global supply chain to be factored in transfer pricing models.



Adjustments for idle capacity

- Transfer pricing policies should be amended to account for idle capacities (or shortage of capacities) created due to the extraordinary COVID-19 situation.



Review targeted transfer pricing models

- Targeted transfer pricing models (like distributor models) to be reviewed to avoid mismatch with profits/losses.



Revisit advance pricing agreements

- Impact of COVID-19 crisis on industry in general and business in particular to form part of Advance Pricing Agreements (APAs) including the need to revisit already concluded APAs.



Consider impact on treasury

- Transfer pricing impact on treasury matters should be considered including working capital positions, investments and financial arrangements.

As transfer pricing policies are directly linked to business value chains and market forces, rethinking transfer pricing frameworks of MNCs is inevitable and a top priority.

We at **Grant Thornton in India**, along with our network firms, are keeping a close watch on current scenario. We are ready to partner with your business in aligning its global transfer pricing policies to strengthen your strategic and operational responses to the new market order in a globally coordinated manner.



[Click here to download the recently released Grant Thornton Halt-Plan-Refresh Guide on revisiting business priorities and plans](#)



For more insights on the COVID-19 crisis, scan this barcode to see continuous updates on our website