



## TP Governance and Operations

*Achieving Intended TP Outcomes  
Through Effective Execution*

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### KEY TAKEAWAYS

- Be aware of the common operational TP challenges.
- Understand the key components of good TP governance.
- Investing in technology is not an end-all-be-all solution to achieving TP governance.
- Good quality data for TP purposes needs to be accessible, timely, and segregated.

“**T**ax transparency”, “fair share of tax”, “real-time data sharing”, “automation and digitalisation”

– these are some of the buzzwords highlighting global tax trends in recent years, and they are changing the way companies manage their taxes.

“Amid the heightened scrutiny by tax authorities and greater collaboration among tax authorities in tax audits, coupled with growing public interest towards tax governance by a broader range of stakeholders, companies are under pressure to proactively evaluate their readiness to meet rising compliance requirements for tax and transfer pricing,” highlighted Liao Jie Hong, Partner focusing on Transfer Pricing, Digital Tax and Transformation at PwC Singapore, in a recent webinar by the [Singapore Chartered Tax Professionals](#); the webinar was also helmed by Liu Yuhui, his fellow Transfer Pricing Partner, and Ashwin Sharma, Digital Tax Senior Manager from the firm.

In order to ensure taxes are appropriately accounted for in the evolving tax and business landscape, companies need to put in place a robust governance system with proper standards, processes and controls.

### ***Transfer Pricing (TP) Governance***

A TP governance framework helps safeguard the level of certainty on TP related financial statements and tax positions. It is about embedding TP policies into business processes to achieve the intended above-the-line TP outcome in the financial statements.

Generally, a good TP governance framework consists of the following building blocks:

- **Tax Governance Statement**

At the heart of a TP governance framework is the tax governance statement. It sets the overall tone of the company towards tax compliance, relationship with revenue authorities, governance for tax risk management, and role of tax in relation to other stakeholders.

- **Tax Risk Management and Governance Policy**

The tax risk management and governance policy sets out the key aspects in managing tax risks, such as stating:

- The company's approach in managing tax risks;
- What the risk assessment and control activities are;
- The approach in managing information and communications with third parties;
- The roles and responsibilities of each key personnel in the organisation (from the Board to senior management, finance department and operations personnel);
- The reporting structure on the types of tax risk that are reported and the frequency of such reports.

- **TP Policies and Instruction Manuals**

With the tax governance statement and tax risk management and governance policy in place to set the overarching posture, TP policies – typically segmented according to each category of related party transactions, such as services or tangible goods transactions – that the company partakes in are defined.

To avoid ambiguity, the TP policies should be translated into simple-to-understand “operational language” with instruction manuals and granular definitions. For example, if the TP policy requires “cost plus five” for a particular related party transaction, it should specify the cost components which are included or otherwise in the cost base, and from which cost centres they should be pulled.

## **Common Challenges with TP Operations**

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In practice, many multinational enterprises (MNEs) encounter challenges in operationalising TP and translating their TP policies into transfer pricing and tax outcomes that form part of the financial statements and statutory returns. Some of the common challenges include:

- **Processes and Responsibilities**

The end-to-end processes (from defining and setting of pricing in the financial system through to the steps that are undertaken to book the intercompany transactions in the financial systems, and subsequently the accounts and tax returns) should be mapped out with the internal process owners. Apart from documentation of transfer price setting and monitoring, the communication with tax authorities, and overall audit management process should also be clearly mapped out.

Inputs and outputs for each step are then identified, with controls built in at the critical points. These may include setting delegation of authority levels, triggers and threshold for review and approval. To improve accountability, clearly defined responsibilities should be assigned to all relevant personnel involved in the process.

- **Monitoring and Pulse Check**

The last building block is measuring how well the processes are executed from time to time – it can be through exception reports or a yearly exercise to perform sampling testing of the strength of the controls and to fix any lapses in controls.

- **Lack of Quality Data for Price Setting and Cost Allocation**

Traditionally, many MNEs invested in enterprise resource planning (ERP) systems to manage their businesses, but tax and TP functions were often not part of the consideration when these ERP systems were set up.

As the importance of tax and TP governance grows, MNEs often find their ERP systems ineffective in managing the tax and TP processes (for example, the ERP systems may not be set up to provide functional or product-level data needed for TP adjustments). Accordingly, the MNEs turn to offline manual processes or external tools to set and monitor their intercompany prices, or to allocate costs.

From a control perspective, this is not ideal as disparate data from multiple systems or sources increases complexity and time taken for data collection, organisation and reconciliation, while manual processes can potentially reduce data accuracy and data traceability.

## *Harnessing Technology*

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As TP transactions are met with rising levels of scrutiny from the tax authorities, companies can turn to technology to optimise their TP operations. The aim is to do more with less, while reducing TP risks. Operational optimisation and automation can be performed both within and outside of the company's ERP environment (such as using excel modelling).

Technology can, for example, be harnessed to better collect, extract and segment data for real-time reporting, provide secure storage to enhance data integrity and transparency, automate repeatable processes for efficiency while reducing human errors, and create a harmonised database for all users within the company.

### **MORE THAN INVESTING IN THE LATEST TP SOFTWARE**

Having said that, it should be noted that while technology has a part to play in helping companies enhance their TP operations, the successful execution of TP policies will require much more than investing in the latest TP software.

- **Lack of Timely Control Over TP Risks**

Absence of well-defined responsibilities and escalation process may result in missed opportunities to identify and prevent the aggravation of potential TP risks by the tax teams.

In practice, many operational TP issues are caused by processes and people, and introducing even the best technological solution in isolation will not magically resolve the issues. Instead, companies should look to implement an end-to-end operational TP strategy involving trained and informed personnel, good data, well-documented processes and responsibility segregation, and supported by fit-for-purpose technology.

If TP governance sounds daunting and overwhelming, it does not have to be. In fact, companies looking to improve their TP governance do not need to put in all the processes and controls at one go to solve every single operational TP issue.

A good practical way to start is to first identify the most critical TP issues of the organisation and trace the root cause; this could be the inability to generate segmented data from the system, or unclear roles and responsibilities. Once the company has a clear idea of the gaps, it can then prioritise the low-hanging fruits (that is, the high-impact issues that can be solved with relatively little effort) and resolve them – one at a time.

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