MTC Arm’s-Length Adjustment Service: A Draft Design

DISCUSSION QUESTIONS AND INFORMATION
FOR THE
ARM’S-LENGTH ADJUSTMENT SERVICE
ADVISORY GROUP

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Goals of Design Drafting Process

• Produce an Effective Design that Achieves Positive Results for States

• Cover All the States’ Identified Priorities

• Operate Elements of the Service Long Enough in Charter Period for States to Evaluate
Methodology

- Listening to Collect and Understand “Building Blocks” of Information for the Design
  - Advisory Group Meetings.
  - State Experts.
  - Transfer Pricing Experts Advising Taxpayers and/or Taxing Authorities.

Strategies

- Getting First Things First
- Collaborating across Professional Fields
- Improving Compliance Processes and Practices
- Using Resources Efficiently
- Building Capacity of the States
Overview of Service Activities & Sequence

- Start Service in First Year with Core Staff: Tax Manager, Attorney and Senior Economist.
- Early Tasks: Information Exchange and RFP for Consulting Firms
- Develop Technical Pricing Audits to Improve Economic Analysis
- Begin Contract Analyses First—Move In-House over Next 3 Years.
- Training Early—Create Community of Front-Line Staff
- Support MTC Audit Program as State Option for Audit Coverage
- Develop Process Improvement, Case Assistance, Better Information Exchange—then Case Resolution and Litigation Support.
- Evaluate Along the Way with Conclusions in Year Four.

Advisory Group Discussion & Direction (1)

- Are there any major issues, concerns or opportunities that need to be kept in mind as the Advisory Group reviews the draft design?

- Are there any major items—issues or proposed activities—missing from the draft design?
Advisory Group Discussion & Direction (2)

• Charter Period (page 1)
  o Is four years the right length of time?
  o Any changes to the terms and assumptions in this section?

• Mission, Goals and Objectives for the Service (pages 2-3)
  o Do they make sense?
  o Any changes needed? If so, what and how?

• Strategies (pages 4-5)
  o Do they make sense?
  o Any changes needed? If so, what and how?

Advisory Group Discussion & Direction (3)

• Checking in on the elements included in the proposed service: Are the correct areas covered?
  o Training
  o Transfer Pricing Analysis
  o Process Improvement
  o Information Exchange
  o Case Assistance
  o Case Resolution
  o Litigation Support
  o Optional Joint Audits
Advisory Group Discussion & Direction (4)

- Training (pages 6-8)
  
  - Do the training activities focus on the right priorities?
  
  - Any changes needed in any aspect of the training as proposed?
  
  - Is creating an interstate community of “front-line” staff who assist each other a worthy priority?

Advisory Group Discussion & Direction (5)

- Transfer Pricing Analysis (pages 9-13)
  
  - Do the strategies to minimize costs & maximize quality make sense?
    
    - Securing timely information from taxpayers for quality analysis (with training, process improvements & case assistance support).
    
    - Conducting technical audits (MTC and designated state staff).
    
    - Moving from consulting firm analyses to majority staff analyses.
  
  - Should the MTC be the contracting agent for the states?
  
  - What are the thoughts on managerial and financial issues?
    
    - Costs shared by states on extent of use of service.
    
    - Budget process: a base fee adjusted later for above average, less than average or post-completion use . . . But consider reserve funds need.
    
    - One or more consulting firms?
Advisory Group Discussion & Direction (6)

• Do the process improvement support activities make sense? (page 14)
  o Information management, audit selection and issue identification, and legal process improvements.

• Does the information exchange proposal make sense? (pages 14-15)
  o Basic exchange first to support transfer pricing analysis.
  o Evaluation of enhancements mid-charter period.

• Does the case assistance proposal make sense? (page 15)
  o Individualized help at request of states.

• Is the relationship among these activities, other parts of the service and the goals of the service logical and clear?

Advisory Group Discussion & Direction (7)

• Are the case resolution element reasonable and appropriate? (page 16)

• Do the litigation support activities make sense? (page 16)
Advisory Group Discussion & Direction (8)

- Do the pieces of the service timeline fit together logically and effectively? (pages 17-19)

- Are the target numbers for transfer pricing analyses realistic and feasible (subject to budget considerations)? (pages 18-19)

- Do the roles of the proposed ALAS staff seem appropriate, well-conceived and sufficient? Should any changes be made? (pages 19-20)

- Do the suggested budget priorities make sense—i.e. if cost cutting is needed, reduce contracted pricing analyses in years two & three? (pages 20-22)

Advisory Group Discussion & Direction (9)

- Does it make sense to use the MTC Compact provisions as a guide for allocating costs of the service?
  
  o Should general services be allocated on the 10% equal shares, 90% relative corporation tax revenues basis?

  o Should transfer pricing analyses be financed on a cost basis, starting with an “equal cost” base fee at the beginning of the year and adjusting for actual usage by year end?

  o Are the other financing mechanisms for training courses, alternative dispute resolution and joint audits reasonable?
<table>
<thead>
<tr>
<th>Advisory Group Discussion &amp; Direction (10)</th>
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<tbody>
<tr>
<td>• Should this design effort produce suggested performance measures for the service? (page 24)</td>
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<tr>
<td>• Are there other design issues that need to be addressed at this point?</td>
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<tr>
<td>• What are the next steps in the service design process?</td>
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