

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



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

**DAN BUCKS
PROJECT FACILITATOR
OCTOBER 7, 2014**

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)**
 - Is four years the right length of time?
 - Any changes to the terms and assumptions in this section?

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

- **Strategies (pages 4-5)**
 - Do they make sense?
 - 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?**
 - Training
 - Transfer Pricing Analysis
 - Process Improvement
 - Information Exchange
 - Case Assistance
 - Case Resolution
 - Litigation Support
 - 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)**
 - Information management, audit selection and issue identification, and legal process improvements.
- **Does the information exchange proposal make sense? (pages 14-15)**
 - Basic exchange first to support transfer pricing analysis.
 - Evaluation of enhancements mid-charter period.
- **Does the case assistance proposal make sense? (page 15)**
 - 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?
 - Should general services be allocated on the 10% equal shares, 90% relative corporation tax revenues basis?
 - 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?
 - Are the other financing mechanisms for training courses, alternative dispute resolution and joint audits reasonable?

Advisory Group Discussion & Direction (10)



- **Should this design effort produce suggested performance measures for the service? (page 24)**
- **Are there other design issues that need to be addressed at this point?**
- **What are the next steps in the service design process?**