# 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.
  - o 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)**

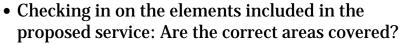
- Are there any major issues, concerns or opportunities that need to be kept in mind as the Advisory Group reviews the draft design?
- Are there any major items—issues or proposed activities—missing from the draft design?

#### **Advisory Group Discussion & Direction (2)**



- 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)**



- o Training
- o Transfer Pricing Analysis
- **O Process Improvement**
- Information Exchange
- Case Assistance
- o Case Resolution
- Litigation Support
- Optional Joint Audits

#### Advisory Group Discussion & Direction (4)

- Training (pages 6-8)
  - On the training activities focus on the right priorities?
  - o 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)
  - o 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?
    - **x** 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)
  - $\circ\,$  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?
  - 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?