



MULTISTATE TAX COMMISSION

ALAS Advisory Group Meeting

Atlanta, Georgia

Chainbridge Software, LLC

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Chainbridge

Overview

- Our transfer pricing work
- Menu of products and services
- Responses to the MTC's questions

Our transfer pricing work

- Alabama
- Louisiana
- New Jersey
- District of Columbia
- Kentucky
- Connecticut

Applying IRC § 482 at the state level

- Most states have some legal authority to apply IRC § 482 – very few have none
- Maintain strict standards regarding the safeguarding of confidential taxpayer information
- Apply the federal regulations guiding the application of IRC § 482 explicitly
- “Different animal” than applying IRC § 482 at the federal/international level

Menu of products and services

- General consulting
- IRC § 482 training
- Audit selection
- Executive Summary Analyses
- Economist Report generation
- Software delivery and training
(ComplianceLinks)
- Audit support services

General consulting services

- Review transfer pricing studies
- Review APAs and assist states in developing their own APAs
- Provide general guidance for dealing with taxpayers
- Provide analyses to support (or not) add-backs and forced combinations
- Provide litigation support and expert witness reports and services

State level IRC § 482 training services

- In-person or on-line
- Simple translation of the federal regulations
- How are transfer prices reflected on state tax returns?
- Transfer pricing in the US states and the District of Columbia
- Relevant state statutes and regulations
- Applicable case law

Audit Selection – our patented Preliminary Analysis service

- State provides corporate income tax data for all corporate taxpayers
- Output – preliminary 482 tax adjustments
 - ✓ Total statewide tax adjustments and industry breakdown
 - ✓ Tax adjustments by taxpayer
 - ✓ Ranked list of taxpayers for State auditors' review
- State staff can review ranked list and select audit candidates

Executive Summary Analyses

- State selects candidates
- We provide “templates” for data entry
- Develop Preliminary Analysis (important note: no functional analysis performed as required under the federal regulations)
- Deliver an Executive Summary-type document that provides results

Economist Report generation

- Customized Functional Analysis Assumption Questionnaire (FAAQ) generation and Information Document Request (IDR)
- Taxpayer response to the FAAQ taken into account and if necessary, prepare responses
- If an income allocation is warranted, generate Economist Report (ER) and Income and Tax Adjustment (ITA) document
 - ✓ Functional analysis
 - ✓ Comparables analysis
 - ✓ Taxpayer analysis
 - ✓ Income allocations and example tax adjustment computations

Software delivery and training -- ComplianceLinks

- Preliminary Analysis generation
- FAQ generation
- Economist Report generation
- Transfer pricing audit management system
- Product demonstration
- Implementation challenges

Audit support services

- Support audits from inception through completion
- Attend informal taxpayer conferences
- Prepare responses to taxpayer inquiries/responses
- Support litigation from discovery through trial

Response to MTC questions – 1 of 8

What are the greatest challenges that states might face in improving tax compliance related to intercompany transactions that distort the reporting of income to their states?

- Training audit staff
- Selecting good candidates
- Selecting good consultants
- Possible litigation

Response to MTC questions – 2 of 8

What are some of the best ways for states to meet those challenges?

Hire experienced, objective consultants and good attorneys

Response to MTC questions – 3 of 8

What type of services is your firm prepared to provide states to assist with transfer pricing tax compliance and in what manner might those services be provided?

We believe that we have provided a response to this question through the body of this presentation

Response to MTC questions – 4 of 8

Given the fact-intensive nature of transfer pricing work, how might states best integrate expertise in economics and statistical analysis with their audit and legal staffs in the tax administrative process?

We adapt our products and services so that they “fit” into existing state administrative and legal processes for conducting audits.

Response to MTC questions – 5 of 8

What objections will states face from taxpayers as they increase their compliance work? Which of those objections is a legitimate concern? How can states best respond to those criticisms?

- Concern about taxpayer confidentiality – we take this very seriously
- Concern about validity of “Chainbridge” methods – there are no “Chainbridge” methods – we use the methodology outlined in the regulations guiding the application of IRC § 482
- “Bounty hunter” argument

Response to MTC questions – 6 of 8

What lessons can the project states learn from other taxing authorities with regard to transfer pricing enforcement?

- IRC § 482
- Combined filing
- Addback provisions

Response to MTC questions – 7 of 8

What remedies are most effective in correcting income manipulation associated with intercompany transactions?

- Income allocations using IRC § 482
- Forced combinations in single entity states

Response to MTC questions – 8 of 8

What other issues are important for states to consider in designing the project MTC Arm's-Length Adjustment Service?

- Conflicts of interest
- Lack of experience “testing” prices versus “setting” prices
- Lack of state tax experience in general
- Disingenuous offers of assistance

Thank you and please feel free to contact
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