CRA Insights

CRA Charles River Associates

April 2020

Cross-border transactions:
Lessons learned from the last recession

Multinational companies account for two-thirds of international trade and a third of global GDP. These companies rely on cross-border transactions to deliver goods and services. They are currently focused on adapting operations as global supply chains are disrupted and freedom of movement restricted due to the COVID-19 pandemic. While the economic upheaval is unprecedented, lessons learned from prior downturns can help provide structure for rapid decision-making.

Business leaders who effectively coordinate with finance, tax, and legal, can unlock value at this critical time. Conversely, lack of coordination can result in unanticipated tax consequences that are a drain on precious cash resources. We identify 10 actions multinational companies can take now.

10 key actions:

1. **Finance global operations.** In a cash flow constrained environment, tax and finance functions need to work together to efficiently deploy cash to cover fixed costs or make strategic investments while avoiding tax leakage.

2. **Adjust quarterly provision.** A tax provision model that anticipates static transfer pricing policies may overstate tax liabilities for certain entities in the supply chain, understating available financial resources.

3. **Reset transfer prices.** Adjusting intercompany pricing to factor in new market information can provide liquidity to global operations and avoid the complexities of large year-end adjustments, including those related to import VAT and customs declarations.

4. **Trigger intercompany contract clauses.** Force majeure and price adjustment provisions should be invoked in impacted intercompany transactions to mimic communications and re-negotiations with third parties.

Tax Legal Finance

Immediate Ongoing

5

Utilize government support.
Governments are passing legislation to ease tax burdens and relax compliance deadlines. In the US this may include broader loss utilization and carry-back provisions, and an increased interest expense deduction.

6

Update budgets and forecasts.
Strategic decisions relating to organizational realignment or M&A require principled financial analysis, including consideration of new tax and transfer pricing paradigms.

7

Revalue prior transactions.
There may be regulatory or contractual requirements to revalue transactions with third or related parties for accounting, debt, or tax purposes based on new economic conditions.

8

Amend intercompany agreements.
Many tax authorities require contemporaneously executed contracts to support losses and one-time costs borne in their jurisdictions. Aligning substance and form by memorializing changes in the intercompany allocation of risk, responsibilities, and profits/losses will also help defend changes under audit.

9

Maintain compliance.
Penalties for incomplete or missing documentation and filings are a drain on financial resources and can trigger audits which further tie up valuable human capital.

10

Prepare for controversy.
Capture key decisions relating to business changes, who made them, when, and where, to accurately narrate the story to stakeholders and tax authorities.

CRA's transfer pricing experts have guided multinationals through prior economic downturns and their fallout and are available to respond to your questions leveraging our platform of economic, industry and controversy expertise.

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