



## **PSP** Case Study

# Transfer Pricing Services

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### **ABOUT US**

On the basis of our successful history spanning over 40 years, Peters, Schönberger & Partner is one of the most highly regarded mid-sized firms in Germany. As tax consultants, auditors and lawyers, we assist you when you make important decisions and help you put them into effect. Our clients include Mittelstand companies, family enterprises, wealthy private persons and private equity firms that seek interdisciplinary and customised advice.

We operate wherever our clients need us, as we are aware that personal advice does not end at the border. This is why we have been a central member of DFK International since 1990. In addition, we cultivate personal contacts to many excellent advisers abroad. These relationships have grown over the years and enable us to give you prompt and efficient advice on complex international issues. Our experience enables us to combine professional knowhow with profound economic expertise, always seeking the best solution for your success in Germany. We also help our foreign clients to surmount language, cultural and other business challenges.



## **Starting Point**

Transfer pricing involves the pricing of goods, services and intangible property in cross-border transactions between related parties. With the increasing complexity of multi-national inter-company transactions and the increasing sophistication of tax authorities worldwide, transfer pricing is a critical tax issue for all multi-national companies. Tax authorities see transfer pricing as an attractive source of revenues, and take more and more an aggressive approach in challenging transfer pricing methods and results.

## **Client Profile**

Our client is a mid-sized German based company (GmbH) which operates in the machine construction business and has important customers and business relations in China. In order to improve the Chinese business and to get closer to Chinese customers and the Chinese market, the German company plans to set up a manufacturing entity in China. In this context, the German head office asked Peters, Schönberger & Partner for a reliable transfer pricing system.

## **The Project and Challenges**

PSP as an advisor is facing the task of developing a transfer pricing system which meets our client's commercial objectives by establishing an optimal transfer pricing system for intragroup supplies of goods and services and at the same time is able to withstand scrutiny in a tax audit. If the transfer pricing system is questioned in a transfer pricing audit, PSP will support our client in defending its transfer prices.



## **Project Results and Project Benefits**

First, PSP's expert advisors conduct a thorough analysis of our client's existing transfer pricing policies to assess areas of risk and opportunities. Thereby, our objective is to maximize planning opportunities while minimizing audit and adjustment risks and avoiding penalties. A first essential step to be taken by PSP's advisors is carrying out a function and risk analysis and identifying significant intangible assets which are used within the transactions under review. After completion of a function and risk analysis, it is necessary to determine adequate transfer pricing methods and prepare proper documentation which is essential to defend our client against potential audit adjustments and to protect our client against potential penalty assessments.

In the case at hand, after the analysis of two different possible business models, PSP advised the client to establish a Chinese Toll Manufacturer which operates as a service provider for the German company. Thus, the German company acts as a principal and provides the Chinese manufacturer with the necessary raw materials, consumables and supplies as well as the production facilities. The marketing function for the Chinese market will still be carried out by the German principal, which remains the contract partner of the Chinese customers. The Chinese Toll Manufacturer will only provide internal manufacturing services to the German principal. As the Toll Manufacturer is classified as a routine service provider, the toll manufacturing services should be compensated by remuneration based on the cost-plus-method both from a Chinese and German perspective.

## **Client Reference**

"Thanks to the support of PSP's experts such as reviewing and analyzing our company's facts, circumstances and putting in place the pricing of goods and services, we have managed to optimize our transfer pricing systems and implemented an internal contractual structure. The preparation of the function and risk analysis was the first step in developing effective documentation to support our transfer pricing methods and valuations. This enables us to defend ourselves against potential audit adjustments and protects us against penalty assessments. Our company now meets the statutory documentation obligations adequately. We are now prepared for an upcoming tax audit."



## Our Services

In addition to the review and optimization of our client's transfer pricing systems, we support our client's interests in tax audits and we defend the transfer pricing documentation and the transfer prices and the price ranges our client has selected. Also, we provide assistance in setting up transfer pricing documentation according to German or European regulations. We prepare worldwide database analysis (benchmark analysis) for all sectors to determine your company's profitability and earnings ranges. With regard to transferring functions abroad, PSP provides support in arranging tax-efficient cross-border business restructuring, advises on setting up new foreign companies and optimizing internal payments. PSP also assists in implementing advance pricing agreements (APA) to create legal and planning certainty in Germany and abroad and assists in mutual agreement procedures between German and foreign tax authorities for the avoidance of double taxation. Our specialists will be happy to join forces with you and develop solutions for your company by establishing an optimal transfer pricing system for your intra-group supplies and services and implement them quickly.



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