

Transfer pricing - resale price method

Transfer pricing study for the related party transactions between a US parent and its UK subsidiary



We prepared a transfer pricing study for the related party transactions between a US parent and its UK subsidiary.

Both the US and UK entities are part of a global group providing electrical equipment.

Through discussions with key personnel from both entities we undertook a review of both the US and the UK entities' functions and risks. The UK subsidiary acts as a distributor and sells the products manufactured by the parent. These discussions were documented as part of the group overview and functional analysis sections of the transfer pricing report.

After analysing the functions and understanding the internal data available, the next stage of the study was to determine the appropriate transfer pricing methodology. The most appropriate method to use was the resale price method which considered an arm's length discount off an established third party price. A review of independent, third party distributor agreements and product pricing documents was carried out and the prices, discounts offered, profit margins made and the terms of the agreements were all examined to ensure that the transactions with third parties were comparable to those between the UK subsidiary and its parent.



Through discussions with key personnel from both entities we undertook a review of both the US and the UK entities' functions and risks.

This evaluation provided benchmarking support to show that the discounts and in turn the overall profit margins made by the UK entity in relation to the related party transaction were at an appropriate arm's length rate.



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