

The background of the top section of the page is a photograph of several smooth, dark grey or black stones stacked on top of each other. The stones are arranged in a way that creates a sense of depth and balance. The lighting is soft, highlighting the textures of the stones.

Case study

Taxation advice and consulting

An initial risk assessment had been undertaken and had evolved into a full-blown audit...

Transfer pricing and GST audit defence

Nick Gangemi, National Tax Director, BDO Kendalls

Highlights

A client was an importer-distributor of goods manufactured in Europe and Asia, and was ultimately owned by a US company group. There were a number of international transactions with related companies in a variety of locations overseas locations. The transactions varied from services to use of intangible property to the importing of its inventory. It purchased inventory from both related and unrelated suppliers. The client was not always the purchaser of the services or goods; in many instances, it supplied technical and administrative services to foreign related parties.

The Challenge

The client was subject to a transfer pricing audit, focussing on the entire operations. An initial risk assessment had been undertaken and had evolved into a full-blown audit. The client's transfer pricing documentation had been prepared in-house and the Tax Office considered that it was not sufficient. Halfway through the audit, the Tax Office brought in their GST team to review the GST implications in relation to the importing and exporting of services and intellectual property. All GST calculations and compliance activities had been completed by the client's own tax staff.

How we helped

BDO Kendalls was primarily involved in the audit defence, assisting the client to comply with the Tax Office's requests and advising on

BDO Kendalls provided assistance in preparing a comparable analysis to defend the client's transfer pricing position

the documentation that should be supplied. BDO Kendalls provided assistance in preparing a comparable analysis to defend the client's transfer pricing position. A settlement was reached that was one-tenth what had been originally proposed, and all penalties were remitted.

BDO Kendalls GST experts had several meetings with the Tax Office's GST team, discussing the various points of law in relation to these transactions. The GST experts reviewed all GST calculations prior to sending the Tax Office, finding that the client had actually under-claimed its input tax credits. The end result was that the client received extra input tax credits.

Client thoughts

The client was very happy with the results and engaged BDO Kendalls to complete future documentation packages and to undertake future GST "health checks".

For the future

The client needs to ensure that its prices are adjusted in accordance with the agreed settlement. The client needs to ensure that its transfer documentation remains current. It has engaged BDO Kendalls to complete its documentation package and to conduct comparability analyses every three years. It has also intends to conduct a GST health check.

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