

EXECUTIVE SUMMARY

This project report is dedicated to reducing and resolving transfer pricing tax disputes arising from transfer pricing cases at Inland Revenue Department (IRD). In a tax planning strategy, associated companies use transfer pricing to shift profits between their associates and minimise the overall tax effect. Consequently, transfer pricing taxation becomes a prominent area that makes excellent attention by the corporate world, tax administration, and many other heads. It has a significant impact on a country's tax revenue. Meanwhile, IRD has a high potential for raising additional tax revenues on local TP due to the different tax incentives and tax rates prevailing on various investment projects and other business industries. As a result, raising groups of companies is high in the local context. In the process of auditing transfer pricing cases, the TPU has been experiencing tax disputes in terms of estimated assessments leading to appeals and litigations in determining the Arm's Length Price (ALP). Therefore, the implementation of this project aims to reduce TP tax disputes arising in transfer pricing cases due to disagreements arising on comparables used for setting ALPs and thereby protect the tax revenue from artificial arrangements made by associated enterprises with the view of tax evasion and profit shifting.

The author executed the SWOT analysis in identifying the gravity of the problem and its current positioning at the TPU. Found the inputs for the SWOT analysis from qualitative and quantitative data collected through primary interviews with critical personals and secondary data through published and unpublished sources. On this underpinning, the crucial problem of this study was distinguished as an overall 44% per annum of the existing total tax dispute to an average rate of 83% in terms of estimated assessments leading to appeals on used transfer pricing comparables for deciding ALPs. On average, 92% of the gap was identified in local transfer pricing taxation. The root causes of the problem of a higher percentage of dispute taxes at TPU were identified through the Cause and Effect Diagram analysis with the support of data collected from secondary and primary data. The writer identified three leading causes or areas that affected the problem: Database Management, Audit Procedure, and People Management.

Reviewing the theoretical background of the problem provides a deep understanding of ways to resolve the issue. Based on the strengths of identified theories and findings of scholars, analysed the root causes of the key problem and their effects in deeply manner.

Thereby, the writer recognised the situation's gravity, developed possible solutions, and formulated recommendations.

It initiated the solution development process to identify the project objectives to accomplish the project. The writer was able to set SMART objectives to succeed in the project. Thus, the main task was to reduce transfer pricing dispute taxes by 52%, from 58% to 6%. Then, each project component was set to contribute to achieving the overall project objective by accomplishing each project's sub-objectives. The contribution of each sub-objective as PC1: is to reduce TP dispute taxes arising on used comparables by 80%, from 83% to 7%. Then, PC 2: to increase the productivity of TP auditing by 14%, from 51% to 80%. Finally, PC 3: reduce the average time for completing a TP audit by 25% by contributing about 6% to mitigate overall TP dispute taxes. The resource allocation for each project component provides a clear picture of how each activity is linked to each component's performance and contributes to achieving project objectives.

In the view of evaluating the economic feasibility of this project, it has used the Benefit-Cost Analysis (BCA). According to the BCA, this project would be viable as the estimated benefits were more significant than the estimated costs. The outputs and outcomes analysis also clearly showed how to set objectives to achieve overall project outputs and outcomes and how each solution developed to contribute to them. Therefore, the outputs and outcomes analysis confirm the project's viability.

Finding through literature survey and root causes identified through fishbone analysis were used to frame recommendations to implement the solutions developed under each project component. Thus, the writer strongly recommends immediately establishing a local comparable database, establishing group audit practice, establishing a Technical Review Committee, Dispute Resolution Panel, Safe Harbor Rules, application of competency-based training, the establishment of the knowledge-sharing platform, and establishing of KPI-based evaluation system. That would effectively have influenced reducing and resolving TP disputes at TPU and thereby increased tax collection of IRD.