

Coronavirus and transfer pricing



We are seeing unprecedented measures. In a number of sectors, production or sales have been reduced or discontinued. Companies and entire multinational groups are expected to make lower profits or to realize losses in 2020. The question then arises as to who in a group should bear the losses.

Specifically, in the Czech Republic, a number of companies can be characterized exclusively as contract manufacturers or limited risk distributors with a guaranteed small but stable profit (based on cost plus or resale minus). In good times, another member of the group takes the residual profit, arguing that it bears all the market risks. On the other hand, in bad times - which we may be witnessing now - the group should bear the loss and the limited risk producer or distributor should retain a small but guaranteed profit.

However, from the experience of the crisis ten years ago, we know that many multinational groups will fight the scenario in which a small Czech manufacturer or distributor will be profitable and pay tax, even though the group generates a loss overall.

But nothing is black and white, least of all transfer prices. A series of questions will arise. Is the drop in production caused by the outflow of customers? Or by the impossibility of delivering the product to the customer? Or would a customer want and have the means to purchase products, but the manufacturer lack labor force to produce them? Or are suppliers lacking raw materials? Lastly, it will be important to determine who should perform individual functions according to the transfer pricing documentation, who made which decisions and who bears the individual impacts.

It may happen that the contract manufacturer operating on guaranteed cost plus will bear the losses if they result from a lack of workers quarantined at home.

These questions are likely to come up over time. Now, it is mainly necessary to address health-related issues and the basic running of the enterprise. However, it could be useful in your free time to think about and document who made decisions and why.



Libor Frýzek

libor.fryzek@cz.ey.com
+420 731 627 004



Lucie Karpíšková

lucie.karpiskova@cz.ey.com
+420 731 627 067