

# Companies in motion

## Kevane Grant Thornton P.R. to Offer Transfer-Pricing Services

BY MARIO BELAVAL DÍAZ

Kevane Grant Thornton in Puerto Rico recently became fully authorized by Grant Thornton International to provide clients transfer-pricing services independently from other member firms. Transfer pricing refers to the price ascribed to transactions between entities in two different jurisdictions, such as when a parent company in one country sells goods or services to a subsidiary in another country. Understanding that transfer pricing is the No. 1 international tax area of concern to multinationals, tax authorities are reviewing transfer pricing to tackle profit shifts that could be detrimental to the tax revenue of their countries or jurisdictions.

“The aim of a transfer-price study is to determine a market price,” said Isabel Hernández, partner at the firm and head of the company’s new division that will handle transfer-pricing services. “If a government entity, like the Internal Revenue Service, questions those prices, clients have the necessary documentation to validate their prices between related businesses.”

To receive authorization to provide transfer-pricing

services, the firm began what it calls the Puerto Rico Transfer-Pricing Strategy, a five-year process through which Kevane Grant Thornton professionals from Puerto Rico participated in seminars, workshops and formal trainings that immersed them in the areas related to transfer pricing. As part of this training, members of the Puerto Rico Kevane Grant Thornton team were embedded in other Kevane Grant Thornton offices on the U.S. mainland and regions, such as Argentina and Houston, sometimes living and working at those offices for months at a time.

“It has benefits such as more agility in the process of carrying out the study and emitting the report and cost-effectiveness,” Hernández said. “Of course, we are able to customize these studies for our clients’ needs.”

The nature of several tax additions implemented in Puerto Rico during the past few years, such as the 51% disallowance of inter-company charges, the alternative minimum tax (AMT) on such expenses and the AMT on inventory purchases from related parties, have come to be called an “easy way out of transfer pricing.” As a result, the firm was able to timely prepare for the eventual

conclusion of this “easy way out,” which it considers was only a temporary measure, before establishing an efficient and long-lasting official transfer-pricing framework for Puerto Rico.

“It is time to formalize a transfer-pricing policy for the island, time to eliminate all these half-measures that end up penalizing those taxpayers who are properly reporting their transfer prices in the same way as those who are not,” Hernández said.

Transfer pricing is particularly relevant for companies operating or that plan to operate under the incentives of Act 20 of 2012, especially in the planning phase. Act 20 promotes the export of services through incentives that include a 100% tax exemption on earnings and profit distributions on income generated from export services; a 4% flat income-tax rate on income generated from export services or a 3% tax when more than 90% of a service provider’s gross income is from export services; and a 100% property-tax exemption for the initial five years of operation for certain export services.

Most Act 20 companies conduct business that was already operating in another jurisdiction. In many cases, the Act 20 company is created in Puerto Rico but part of the business remains in the original jurisdiction, giving rise to cross-border transactions, transactions that should be validated by a transfer-pricing study. ■



Isabel Hernández,  
Tax Partner

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