



2006-2018 Assurance, service & functionality for our GTP clients
Global Transfer Pricing Business Solutions with passion - 13 years anniversary

GTP® Model on the Application of

Profit Level Indicators for Transfer Pricing Management

Interquartile Ranges as Benchmarks for Arm's Length Transfer Pricing & Documentation

1 Database-driven Arm's Length Analysis & Transfer Pricing Management

The management and documentation of transfer pricing of multinational groups require information on third-party comparables and arm's length analysis. In practice, such information is integrated by means of ranges of profit level indicators based on simple statistical analysis of comparables. This document shall indicate the structure and the production of GTP® Benchmarks and how they can be deployed for modern transfer pricing management in multinational groups.

GTP® Benchmarks have numerous practical areas of application within transfer pricing and beyond:

- *Ex post* arm's length analysis as integral part of the overall transfer pricing documentation
- *Ex ante* information for budgeting processes of related-party transactions within the multinational group
- Profit level indicators as information on markup, stored as repository to be deployed for individual decision-making based on predefined calculation models
- *Ad hoc* information on markets & industries to be used for strategic and operative business decisions

2 GTP® Benchmarks

Referring to the GTP® Model on transfer pricing management, several benchmark service packages delivering "Interquartile Arm's Length Ranges" are available:

- **GTP® RANGE:** Interquartile ranges on gross margin and operating margin derived from company data within a given industry and/or function pattern. Screening processes are standardized by the GTP® Model. Such ranges refer profitability levels with regard to a dedicated function and risk pattern. Data are company-specific.

- **GTP® REPORT:** Interquartile ranges on gross margin and Operating Margin of comparable companies derived from individual screening processes. The sample identified refers to the specific tested-party situation of the multinational group. A dedicated report is delivered.
- **GTP® ASSESSMENT:** Interquartile ranges of gross margin and operating margin derived from comparable companies; such ranges will be exposed to the tested-party data and qualitative arm's length arguments will be composed by means of qualitative interviews to establish the arm's length documentation package.
- **GTP® DOCUMENTATION:** based on the package GTP® ASSESSMENT with the add-on of a factual case documentation package on the legal entity (so-called „Countryfile“ report of the tested party entity).

3 How the interquartile ranges are generated?

Various selection steps (screening steps) are necessary to develop the interquartile ranges on profit level indicators:

- 1) Selection of data from the GTP Benchmark platform which is used as data source to draw company datasets. GTP has licensed various databases such as BvD Orbis from Bureau van Dijk. GTP is in possession of more than 150 million company data sets worldwide.
- 2) Selection of comparable companies from such database on the basis of a dedicated GTP® specific screening process:
 - a. Time series data availability of company financials
 - b. Selection of companies types based on criteria such as independency, region, industry, functions



- c. GTP-like combination of screening steps using statistical procedures
- 3) Calculation of the interquartile range of profit margins selected (e.g. EBIT, Gross Margin GM, NetCost Plus Markup NC+). The multi-year averages of such interquartile ranges can be computed in different ways and GTP seeks to understand the differences in such average results given the dataset raw data.
- 4) Further qualitative selection steps within the sample identified in order to exclude companies which are deemed not comparable. In some countries, this screening step corresponds with the legal requirement of “constraining the sample” if there is no full-scale comparability. The result of such constraining is an increase in the reliability of the analysis results due to higher comparability.

The GTP® Benchmark process regularly results a sample size of comparables with a sufficient number of companies to be later excluded individually, as for example in cases if one or the other company is deemed little comparable with the tested party fact pattern. The exclusion of such company may modify the final interquartile range in a limited scope, however the advantage of the GTP® Model is that such exclusion will not shock the overall analysis results, for example by shifting the interquartile range in a different percentage level of profitability.

The GTP experts believe that an additional internet screen of the comparables identified by performing the quantitative and qualitative screening process does not produce additional insight into the reliability and comparability of the dataset. The reasons of this thinking can be found in two arguments:

- (a) the multi-year time gap between the entry of the dataset into the database and the actual description of the company in the current internet presence, and
- (b) in the question of why should the dataset generated by doing such internet screen be different regarding the

profitability information calculated by interquartile statistics from a dataset without such internet screen.

Upon request, GTP will execute the internet search on an individual case-by-case basis.

The dataset file delivered by GTP allows the recalculation of such modified sample and the recipient of GTP® Benchmarks is able to do the recalculation without further input of the GTP Team.

4 Reporting of GTP® Benchmarks

The GTP® Benchmark results are usually delivered in the package of the GTP® REPORT. Such benchmark report consists of four sections, at least:

- **Cover:** the cover sheet with master data on the analysis
- **Summary:** Overview of the key elements of the benchmark analysis report
- **Screening:** The documentation of the selection and screening steps (quantitative & qualitative)
- **Final Sample:** The list of the companies in the final sample and their profitability figures
- **Interquartile Ranges:** The presentation of the interquartile statistics (25%-percentile, median, 75%-percentile, mean) on profitability rates such as EBIT, GM, NC+.
- **Legend:** presentation of the most relevant definitions and terms.

The Report is designed in such a document shape that it might be provided directly to the tax authorities in the course of a tax filing or transfer pricing tax audit. In addition, the client also receives for internal use further data on analysis steps and descriptive information. The report is accompanied by the original dataset as downloaded from the source database.