



Transfer Pricing Practical Cases

Pharmaceutical Sector

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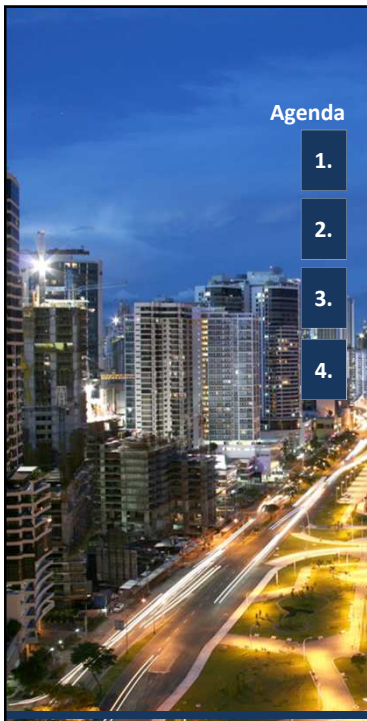
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Agenda

1.

Transfer Pricing Rules

2.

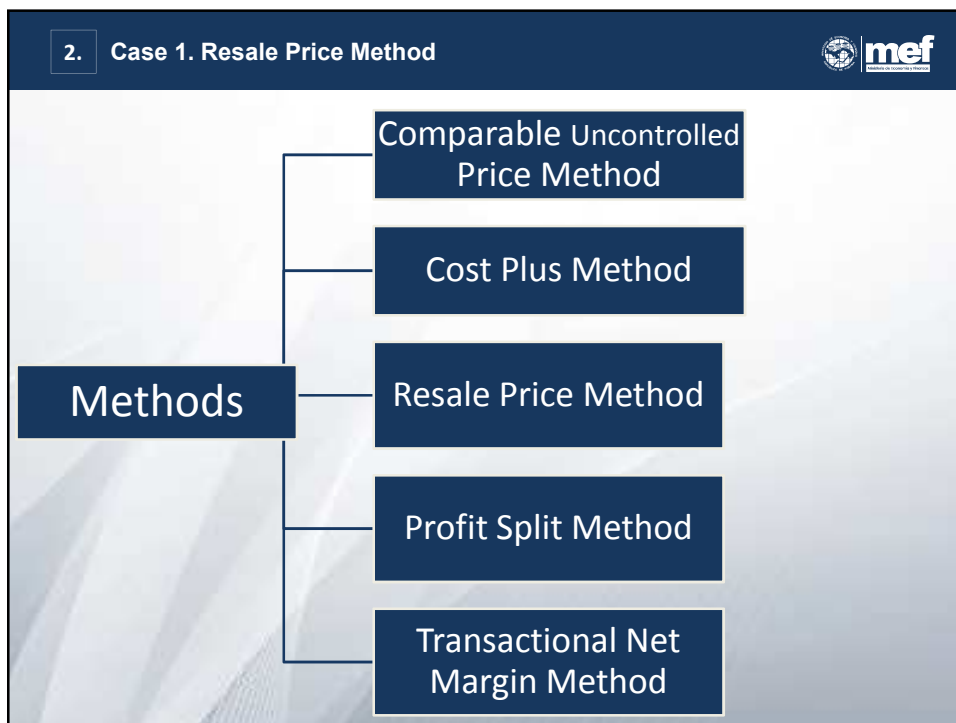
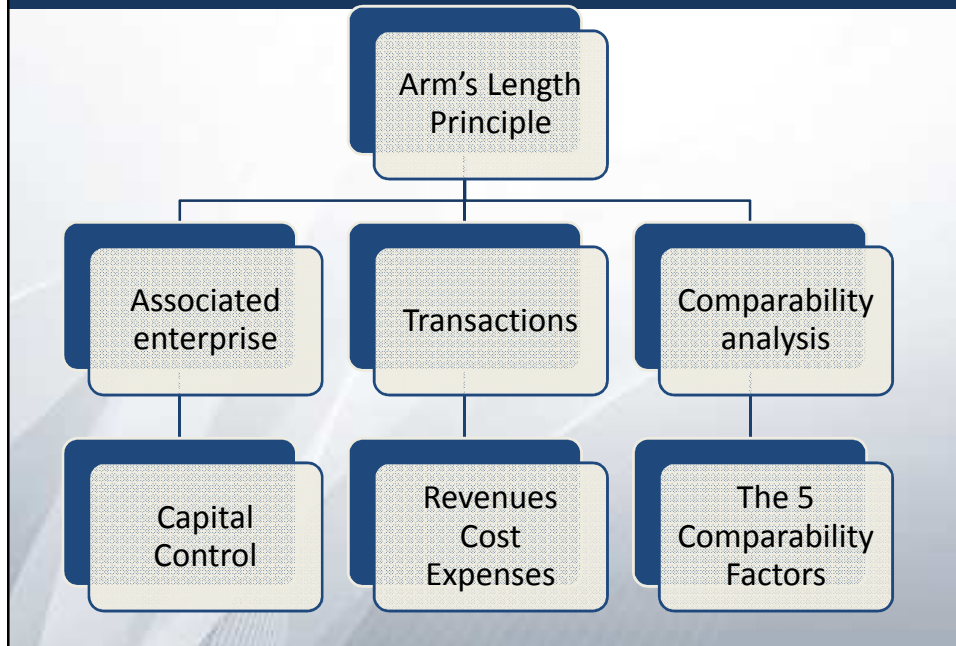
Case 1. Resale Price Method

3.

Case 2. Transactional Net Margin Methods

4.

Questions



Transfer Pricing Obligations

- Transactional Statement–Form 930
- Transfer Pricing Study
- TP Group Policy Documentation

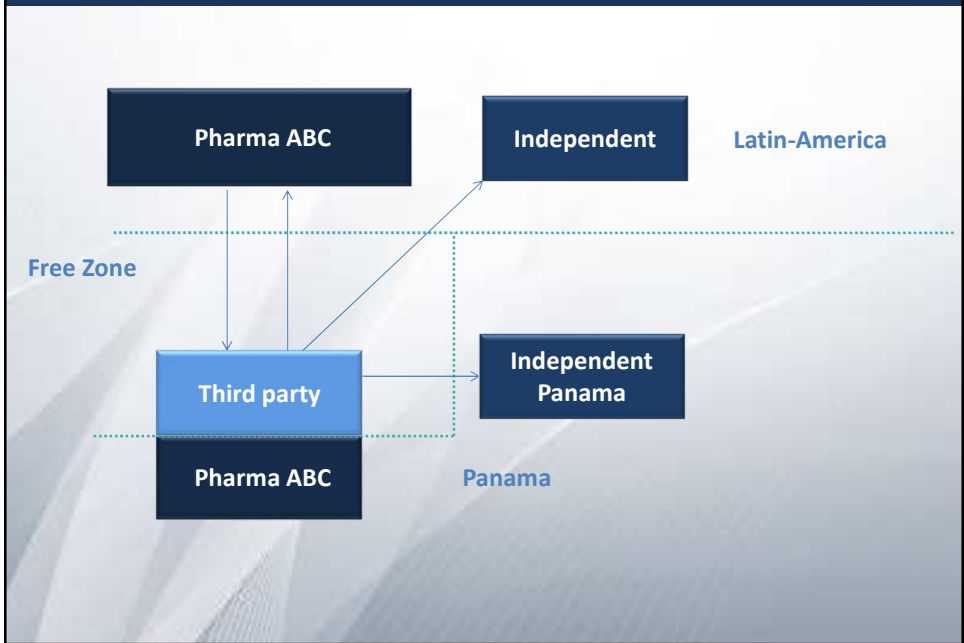
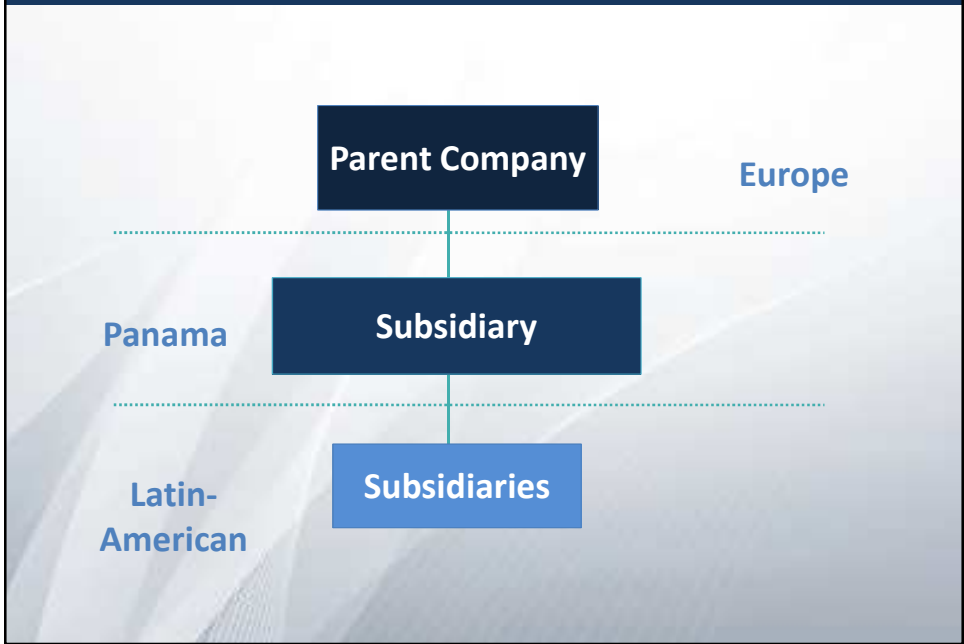
Case: Pharmaceutical Product Distributor

Facts:

- Goods purchases to related parties.
- Goods sold to related parties.

Fact:

- TNMM (used by the tax payer).



Tax payer TNMM analysis

Comparable	Adjusted Operating Margin
Prestige Brands Holdings	30.5%
Mckesson Corp.	1.9%
Cardinal Health Inc.	1.7%
Amerisourcebergen Corp.	1.5%
Tax Payer OM	2.6%
Percentile 75	9.0%
Median	1.8%
Percentile 25	1.6%

“Use of internal comparable”

Financial Statement Extract 2014			
Concept	Independent	Related	Adjusted Related
Income	94,150,338.00	80,449,397.00	104,321,243.93
Cost	59,090,841.00	66,038,846.00	66,038,846.00
Other Cost	2,200,246.20	1,874,283.80	1,874,283.80
Gross Profit	32,859,250.80	12,536,267.20	36,392,883.30
Gross Margin	35%	16%	35%
Transfer Pricing Adjustment			23,871,846.93

Conclusions:

- TNMM rejection.
- Used of internal comparable.
- Application of the resale price method.

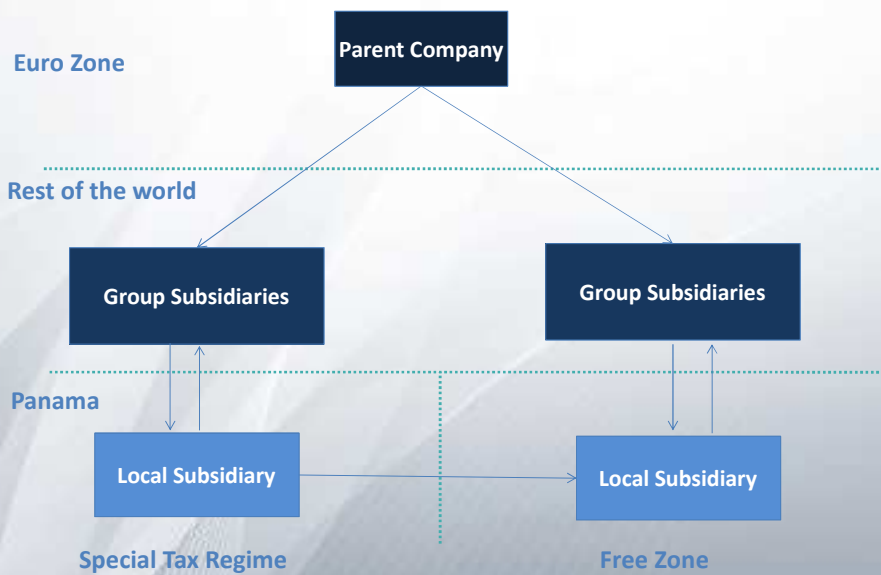
Case: Pharmaceutical Product Manufacturing

Facts:

- Raw material purchase to a related party for local manufacturing.
- Goods sold to related parties.

Fact:

- Use of the Transactional Net Margin Method.



Tax Payer comparable set

Gross Margin on Total Cost				
Comparable	Average	2012	2011	2010
American Pacific Corp	9.2 %	17.1%	7.3%	3.9%
Atrium Innovation Inc	24.4 %	21.5%	25.0%	27.6%
Balchen Corp	24.0 %	23.9%	23.9%	24.2%
Fitlife Brands Inc	-1.9 %	11.6%	3.9%	-27.6%
Hawkins Inc	11.9 %	11.5%	11.4%	12.9%
Heska Corp	2.7 %	3.1%	4.4%	0.5%
Integrated Ted Biopharma Inc	1.0 %	3.4%	-1.4%	1.3%
Natural Alternatives	5.9%	3.6%	9.3%	4.3%
Natures Sunshine Prods Inc	8.0%	10.2%	10.5%	3.3%
RBC Life Sciences Inc	0.1%	-3.5%	-0.2%	3.9%
Reliv International Inc	3.0%	2.6%	2.4%	4.1%

Rejected comparable (different functions, assets and risks):

- Integrated Bio Pharma, Inc.
- FitLife Brands, Inc.
- Derma Sciences, Inc.
- RBC Life Sciences, Inc.
- Nature's Sunshine, Inc.

Extraordinary Adjustment

Financial Statement Extract	
Revenues	19.624.144
Cost of goods sold	22.606.038
Extraordinary adjustment (cost)	6.852.077
Gross Profit	3.870.183
Operating expenses	4.586.011
Net Profit	-715.828
MOTC	-3.52%

Arm's Length Range

MOTC	
Comparable	Average
American Pacific Corp	11.40 %
Atrium Innovation Inc	20.24 %
Balchen Corp	23.97 %
Hawkins Inc	11.9 %
Heska Corp	2.7 %
Natural Alternatives	5.9%
Reliv International Inc	3.0%
Tax payer MOTC	-27.83%
First Quartile	4.71%
Median	10.27%
Third Quartile	15.97%
TP Adjustment	38.7%

Conclusions

- Comparable rejection because of losses resulting from irregular situations.
- Comparable rejection because of different functions, assets and risks.
- Non-acceptance of the extraordinary adjustment propose by the tax payer.
- Turndown the use of multiple years financial information.

Questions ?



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*¡THANKS FOR
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