

Rödl & Partner

Intra-group services



The transfer pricing team

Rödl & Partner Czech Republic has been home to a specialist transfer pricing team for many years. Apart from preparing transfer pricing documentation, our experts also provide clients with consulting and support in drawing up all the documents necessary to defend the intra-group services before tax authorities.

Our in-house team is a member of the Transfer Pricing Work Group, which operates under the Rödl & Partner international network of consultancy bureaus, overseen by leading professionals from over 50 countries.

Intra-group services and tax risks

Most multinational corporations purchase certain services from within the group, usually under the umbrella of so-called management services. In practice, these most often include various admin packages, such as HR, IT, finance, controlling, taxes, accountancy, law, marketing, central purchasing and the like.

Service-sharing between group members is a common practice and service recipients often find this to be a very effective way to purchase certain services. Nonetheless, from a tax point of view, service sharing is not without its risks.

In related-party transactions, the problem is not necessarily just calculating the arm's length prices, but frequently also convincing the authorities that the costs spent on the services are tax-deductible. To this end, companies must be able to demonstrate that the services are real and establish the benefits of the services for their recipient.

A key risk factor is the possible duplicity of the services purchased, especially in cases when a certain type of service is purchased within the group as well as from an independent supplier or when it is supplied through in-house employees. Purchasing the same service from two group suppliers or under two similar contracts with the same group supplier may also pose a problem. Duplicity is often not the case, but companies need to be ready to provide the tax authorities with the evidence necessary to demonstrate the factual differences (various forms of IT or marketing services, for example).

Tax audits

When it comes to transactions between related parties, tax authorities more often than not focus their audit efforts on services purchased, this being easier than checking product pricing, for example, as the latter requires a certain qualified understanding of the circumstances at issue.

Czech administrative courts have established a solid set of case law on intra-group services that makes it clear that the generally active and rather strict approach of Czech tax authorities is upheld also at the level of appeal authority and at the level of courts. The Czech tax administration's interest in transfer pricing is also apparent from the 2018 Financial Administration Report, in which the Czech Ministry of Finance identifies transfer prices as the most audited practice area, while noting that one of the greatest inconsistencies on the part of tax payers lies in assessing tax deductibility and in correct intra-group service pricing.

Defense files and risk management

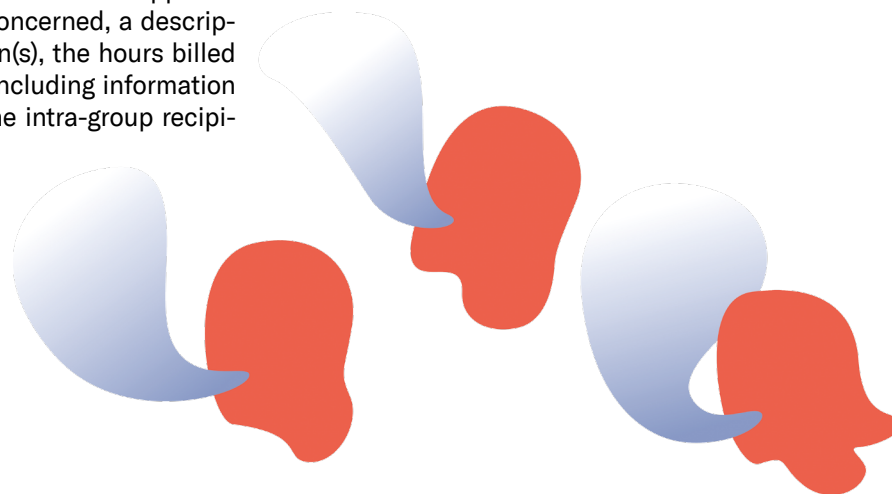
That is why we strongly recommend that you focus on this issue and cooperate with your service provider in keeping regular records documenting the services rendered. Producing the actual contract or invoice no longer suffices in demonstrating intra-group services. It is necessary to keep a comprehensive defense file comprising of e-mail communication, meeting minutes, records of telephone conversations, presentations, opinions, technical reports, detailed supporting documents giving an overview of the supplier's employees engaged in the activities concerned, a description of their activities and qualification(s), the hours billed and a calculation of the costs spent, including information on how the costs were allocated to the intra-group recipients.

Care must be taken to invoice only costs for those services that the given recipient actually made receipt of and which he benefited from rather than a proportionate share of the costs of all services provided within the group. The same applies to activities pursued to the benefit of the service provider or group headquarters.

Our transfer pricing team will gladly advise you on intra-group service risk management and support you in compiling your defense file.

Not just tax risks

Intra-group services are closely linked to criminal liability risks, especially when it comes to the directors' duty of due care in cases involving acceptance of inadequate consideration for services provided.



Your contact person



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Petr Tomeš has been with Rödl & Partner since 2012. He is a tax advisor and transfer pricing team leader and was promoted to associate partner in 2015. He is a member of the Rödl & Partner International Transfer Pricing Work Group. Before coming to Rödl & Partner, Mr. Tomeš worked for the Czech Ministry of Finance, lending his prowess to creating a transfer pricing methodology for the Czech Financial Administration. He then went on to work for the Big Four and other professional firms. He specializes in providing advice on transfer pricing, international taxation and corporate income tax. Petr is the author of many publications and a popular lecturer.

As attorneys, tax advisers, auditors, accountants and management and IT consultants, we are present with 106 own offices in 48 countries. Worldwide, our clients trust our 5,130 colleagues.

In the Czech Republic, we have been offering our services since 1991. Today, we provide our legal, tax, audit, business process outsourcing and management & business consulting services through more than 320 professionals operating in our offices in Prague and Brno.

Rödl & Partner holds the prestigious title of the Czech Law Firm of the Year in the field of tax law in years 2012 to 2020.

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