

Launching a career in transfer pricing

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Where to start, what to study, what to expect

For more than 20 years, I have been teaching transfer pricing (TP) at the university level, and have offered a graduate TP seminar at Texas A&M University since 2007. More than three dozen of my former students now work in TP careers. My former students work for Big Four accounting firms, smaller accounting firms, law firms, and multinational enterprises (MNEs) with in-house TP staff. I have former students working in places as varied as Beijing, Berlin, Dallas, Houston, Los Angeles, New York, Rio de Janeiro, San Francisco and Washington DC. About 70 current and former students are networked through the LinkedIn group, Transfer Pricing Aggies. My former students are happy in their careers and passionate about transfer pricing as a career path.

Because of my university-based TP affiliation, one of the most frequent questions I receive from young people – ranging from one-on-one conversations to emails from around the world – is, “How do I get started in a transfer pricing career?” Given the rapid expansion of and interest in transfer pricing as a career option, I thought it might be useful to share some thoughts on launching a TP career. My comments build on Karl Wündisch’s excellent 2007 article on the lack of TP professionals.¹ My views have crystallised and been honed through discussions not only with former students, but also with TP professionals in the private and public sectors in several countries. I hope these comments will be useful to young people debating about transfer pricing as a career option, as well as those just starting out in the TP profession.

I. What is transfer pricing?

Transfer pricing is the number one international tax issue faced by MNEs, according to Ernst & Young surveys.² A transfer price is the price of a product that moves within the MNE, from one unit to another unit. Examples include the pricing of goods manufactured by a parent firm that are sold to a wholly owned dis-

tributor in another country, the licensing of intangible assets to a foreign subsidiary, and the valuation of engineering services provided by one affiliate to another. Transfer pricing is the process by which MNEs set and report transfer prices. MNE managers set transfer prices for both internal reasons (e.g., motivating managers, evaluating performance), and external ones (e.g., arbitraging differences in government regulations between countries). More than 50 countries now have TP regulations designed to ensure that MNEs set transfer prices that reflect arm’s length prices (i.e., prices that would be set by unrelated firms in an open market). Many of the biggest US tax court cases (e.g. GlaxoSmithKline, Xilinx) have been TP cases.³

II. Where do TP professionals work?

TP careers can be found in both the private and public sectors. The Big Four accounting firms are perhaps the single largest private-sector employer of TP specialists. Many graduates also find employment with medium-sized accounting firms, economic consulting firms and boutique TP firms. International law firms also hire TP experts, both as economists and as tax lawyers. Private industry is another employer, where large corporations often have their own in-house TP staff. In the public sector, almost all national governments have formal TP regulations for corporate income tax and customs duty payments by MNEs, and therefore employ economists and lawyers to develop and administer these regulations and to settle disputes. National statistical agencies and security agencies that focus on illegal financial activities (e.g., tax and financial statements fraud, money laundering, trade mispricing) are other large public-sector employers in areas closely related to transfer pricing.

The major TP employers break down into five categories:

1. *Big Four accounting firms plus major national/global accounting firms:* The Big Four accounting firms

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are the number one place for an individual to launch his/her TP career. The Big Four hire from a wide variety of educational backgrounds, ranging from undergraduate degrees in economics or business to PhDs in economics. Most new hires will have had no exposure to transfer pricing in their university coursework (unless they have taken one of the TP courses listed in this article). TP professionals in these firms work solely on transfer pricing and do not transition over to other parts of the firm (e.g., tax, business planning). Some professionals working in other parts of these firms (typically in tax) move into transfer pricing, and this pattern (shifting from tax to TP within the Big Four) is likely to continue as the TP groups grow in size. Smaller accounting firms are now starting to add TP staff also. Much of the work done here will be documentation and compliance.

2. *TP specialty shops and economic consulting firms:* These firms were typically started by partners from Big Four firms who decided to branch out on their own and provide specialty services. Examples include Transfer Pricing Associates and Ceteris. The firms tend to be smaller, consist primarily of senior staff with Big Four experience, and are heavy with PhDs in Economics. They typically have great depth of TP expertise. Launching a TP career here is therefore difficult, except for PhDs in Economics or in firms that are rapidly expanding.
3. *Law firms:* The biggest law firms, particularly those with an international tax focus, located in cities such as New York and Washington, DC, have historically focused on the legal/controversy side of transfer pricing. Many have senior partners that have gone in and out of senior government policy-making roles in the IRS and US Treasury. Some (e.g. Mayer Brown) also have small groups of economists that provide support to the legal/tax court cases. Law firms are also a difficult place to launch a TP career, except for students with a LLM or JD in corporate tax and strong economics or MBA training. Another exception includes law firms that are rapidly expanding their in-house TP groups (e.g. DLA Piper).
4. *Industry:* Multinational firms typically have no to very small TP departments; transfer pricing is handled by the CFO or in the tax department. (For example, Walmart is the world's largest importer but only has a TP staff of three people.) When multinationals hire TP staff, they often raid the Big Four firms that have provided them with TP services by hiring away the individual who had been managing their account. The number of TP openings with MNEs, however, continues to grow as firms realise that having an on-side TP staff member can help not only with managing TP documentation requirements, but also with integrating TP strategy into the MNE's global corporate strategy.

5. *Government:* All national tax authorities and customs valuation departments now have small groups of TP specialists; typically, the individuals are "home grown" inside the tax authority rather than imported from outside. Tax authorities hire students in accounting with a tax specialisation and assign them to audit private firms. TP issues are part of the tax audit package and over time individuals develop a TP expertise. Individuals can also be hired with a masters or PhD in Economics to serve as the economist on a tax team or in head office. The most senior TP positions are at head office and in the Advance Pricing Agreement (APA) groups at the national level. Salaries are generally much lower than in the private sector, however, so there is a persistent brain drain as individuals trained inside a national tax authority leave and take that expertise to the Big Four. Occasionally, there is a reverse brain drain when a Big Four or tax law firm partner assumes a senior role in a national tax agency for a limited window (two to five years) and then goes back out to the private sector.

III. The typical career path

I think of transfer pricing as a bit like the metaphor of the elephant where each of the individuals who looked at the elephant saw different things – a trunk or leg or eyes or the tail. The right price can depend on which part of the "elephant" you are looking at. Because pricing is such an integral part of what multinationals do, determining the right price for related party transactions requires an understanding of the "whole elephant", not only economics, but also of management, finance, accounting, law, international business, strategy and tax.

While undergraduate students are occasionally hired for TP careers, the typical student has a masters or PhD degree. The most common degrees are: Masters or PhD in Economics, Masters in International Affairs specialising in International Economics, MBA, and Masters in a business discipline (e.g., Accounting, Finance, Information Systems, International Business, Management or Marketing). Students interested becoming a TP professional can therefore enter this career path from many different points including:

1. masters or PhD in economics with a focus on microeconomics, taxation, industrial organisation or international trade;
2. masters in international affairs, particularly students studying international trade and finance;
3. accounting students with a PPA or masters in accounting, especially those interested in corporate taxation, auditing, forensic accounting or managerial accounting,
4. MBA students interested in strategic transfer pricing, and
5. law students interested in corporate or international taxation.

Starting salaries for students graduating with a master's degree are in the \$60,000-\$85,000 range, de-

pending on the degree programme (e.g., an MBA pays more than a Masters in International Affairs) and whether the student has prior work experience. A PhD in Economics will start in the \$100,000+ range. Transfer pricing is one of the rare fields where students who are non-US citizens can be hired for fulltime jobs in the United States because of the excess demand for TP professionals.

TP professionals typically work in teams with a team leader. Team members have different functions (the economist, the accountant, the tax professional, and so on). Because most new hires have no background in transfer pricing, the first thing firms do (e.g. the Big Four) is to send their junior hires for in-house TP training. Then, for the first year or two, most new hires will work as the junior person on one or more TP teams, where they will select, recommend and update existing lists of comparable firms and transactions for a particular client firm or firms. Individuals use spreadsheets and databases like Compustat and Bureau Van Dijk's Orbis/Osiris to pull and screen comparables. Updating MNE's annual contemporaneous documentation reports is a large component of the work typically done by new TP hires at the Big Four firms. New hires typically will also accompany their team on trips to client firms, where the newbies take notes at the meetings.

Opportunities for advancement depend on how fast the new hire learns and whether the career ultimately appeals to the individual. Responsibilities grow over time as the individual moves from the junior person on a TP team to leading their own teams. The normal career path, with a Big Four consulting firm for example, would start as a consultant/associate. After two years, the individual would be promoted to senior consultant/associate, and after another two or three years promoted to manager, then to senior manager, and eventually to partner in the firm. Many TP professionals will move back and forth between firms or into government for a few years and then back to another firm. International assignments are also common. Salaries and bonuses climb rapidly as one progresses up the career ladder, particularly due to the poaching that goes on between firms once one reaches mid-career levels where demand exceeds supply.

Working for one of the Big Four and learning their routines is also a great stepping stone to other careers including moving to the other side of the table. For example, working for a Big Four firm in Houston, where the client base is heavily oil and gas, provides junior TP professionals with exceptional learning opportunities in the oil and gas industry, which can facilitate a move into an oil and gas career (possibly as a hire by one's client firm).

IV. Preparing for a career in TP

Because TP professionals work as a team, where the members have different skills and roles, the best way to prepare for a TP career is to focus on one of the spe-

cialties plus have sufficient knowledge of the other areas so you can "crossover" (talk to) the other team members.

The best courses to prepare for a TP career are the following:

- Transfer pricing: if you can find a course on transfer pricing, this is obviously the best background preparation.
- Financial statements: at least one course in Accounting, preferably Financial Statements Analysis (so you can read financial statements), is a must. More generally, courses in accounting are very useful, such as Cost or Managerial or International Accounting.
- International business: a course on multinational enterprises, focusing on their strategies and structure, is an important building block. These courses are taught in business schools, typically in the MBA programme, but may also be available to non-MBA students. The course titles are along the lines of multinational enterprises, foreign direct investment, international business strategy, or global strategic management.
- A course or courses on government regulations and institutions affecting international business. Topics that are important here include international trade, international finance and foreign direct investment. These classes can be found not only in business schools (e.g., international business, international finance, international management) but also in economics departments (e.g. international trade, international finance).
- A course on taxation that covers international and/or corporate income taxation. Typically, this course is found in a business or law school or an economics department.
- An applied course or courses in statistics and/or econometrics. Any courses that offer practical training in EXCEL are particularly useful since much of the work on selecting comparables is done using spreadsheet software programmes.
- Specialised, topic-based courses are also useful if you want to specialise in a particular TP area or be located in a particular city. For example, a course on the oil and gas industry would be useful for a TP career in Houston or Calgary since both places are home locations for oil and gas MNEs. A course on valuing intangible assets or the marketing of intangibles would be important in Silicon Valley. Agribusiness courses would be useful for Chicago since many agribusiness MNEs are headquartered there. A course in international finance, focusing on valuing derivatives, would be useful for TP in New York. In other words, TP practices in different cities specialise in the MNEs that are around them so if you want to work in a particular location, some industry expertise in the firms in that location is helpful in obtaining a TP position in that city.
- Courses that enable you to practice "soft skills" – grammar and writing, public speaking and PPT presentations, team work and project management.

V. Where can you study TP?

Places where a student can take TP courses in the United States are listed below. I exclude all short (one to four day) courses and all courses where transfer pricing is only part of the materials (e.g., a tax class that also covers transfer pricing). Please note this may not be a complete list.

A. University accredited courses

(Note: semester-long courses are three-credit courses):

Georgetown Law School offers two semester-long, graduate TP seminars: www.law.georgetown.edu/curriculum/tab_courses.cfm?Status=Course&CourseNumber=743.

Golden Gate University offers a for-credit distance learning TP course: www.ggu.edu/courses/syllabus.do?id=29654.

Leiden University's Masters of International Tax Law programme offers a graduate TP seminar: www.itc-leiden.nl/

MasterofAdvancedStudiesinInternationalTaxLa/CourseInformation/tabid/247/language/en-US/Default.aspx

Texas A&M University offers a semester-long graduate TP seminar: www.voxprof.com/eden/eden-transfer-pricing.html

University of California San Diego, in the Jefferson Law School, offers two online graduate distance learning courses: www.tjssl.edu/courses/itx-670

University of Minnesota's Masters of Business Taxation programme offers a two-credit course on transfer pricing: www.carlsonschool.umn.edu/cms/page8010.aspx

University of Texas at Dallas offers a semester-long seminar on transfer pricing to masters and PhD students in Economics: www.utdallas.edu/~seldon/.

B. Non-university courses

Chartered Institute of Taxation (COIT) is now offering a TP exam as part of the Advanced Diploma in International Tax (ADIT), and the COIT website lists places where one can study TP as prep for the exam: www.tax.org.uk/adit/Current+Students/Course+Providers.

European American Tax Institute: www.e-ati.com/home/courses/transfer-pricing.php

International Management Forum Distance Learning Course on Transfer Pricing: www.imfacademy.com/areasofexpertise/tax/Transfer_Pricing.php

International Bureau of Fiscal Documentation (IBFD) offers five-day intensive courses on transfer pricing aimed at government officials in tax departments and agencies: www.ibfd.org/Courses/Principles-Transfer-Pricing-1

Transfer Pricing Associates Distance Learning Course on Transfer Pricing:

www.tpa-global.com/index.php?option=com_content&view=article&id=116&Itemid=327&lang=en

VII. Launching a career: practical tips for success

I summarise below some of the key practical career advice I have garnered through discussions on LinkedIn TP groups and by talking with TP professionals over the past several years:

- Over the past three years, many individuals have been trying to break into TP careers and found it difficult due to the financial crisis, especially in the USA. However, more than 30 countries have TP regulations so there are jobs, particularly if one is willing to look outside the USA.
- TP professionals come from various backgrounds. About half have economics degrees; the rest come from various backgrounds. Within economics, there is a preference for microeconomics (e.g., industrial organisation) over macroeconomics (e.g., money and banking) but it's not a deal breaker. In the microeconomics area, some proficiency in transaction-level pricing or valuation is well received.
- If the student has done research on an industry that is a large client of a particular TP firm, this is attractive to recruiters (e.g., writing a master's thesis on the auto industry makes an individual an attractive hire in Detroit, oil and gas research is attractive in Houston, etc.).
- Students should come out of school with a solid understanding of:
 - The substance of the TP concept: future TP professionals need to gain a solid understanding of the underlying facts that have led to TP being the big attraction in taxation nowadays before deciding to pursue a career in TP.
 - How transfer pricing is actually practiced: as regards "best practical prep", a student should acquire a thorough knowledge of the OECD TP Guidelines and a solid understanding of the various TP methods and how these apply in the different industries. Reading the Big Four's transfer pricing surveys is a good place to start.
 - International taxation, since this is a key competency for a TP professional, particularly in the private sector. The combination of international tax and TP experience is a virtual must in industry so students should study both transfer pricing and international tax.
 - Successful problem solving strategies, especially those that apply similar approaches to those used in TP practice (e.g. spreadsheet analysis, benefit-cost analysis, valuation techniques).
- In addition, students should:
 - Have excellent communication ability and demonstrated leadership skills.
 - The ability to think laterally and creatively.
 - At the interview stage, students should be able to provide solid examples of why the candidate's interests will be fulfilled by becoming a TP professional.
- In order to break into the TP field, there are a variety of alternatives:

- The obvious candidates are the Big Four, one of the smaller accounting firms or a boutique TP firm, but there are other alternatives.
- Students should not restrict their searches to the Big Four. However, a Big Four job is one of the best places, if not the best place, to launch a TP career for most young people because of the breadth of TP training that Big Four firms can offer.
- Starting with an internship is key to launching a TP career, even if one has to take an unpaid summer internship the experience is worth it. Internships are fast becoming the number one way to get hired by the private sector. Nearly 40 percent of this year's entry-level positions were filled by former interns, according to a survey by the National Association of Colleges and Employers reported by Joe Light.⁴
- Working with a national tax administration (e.g., the IRS) or with its legal counsel (e.g., Department of Justice) is good experience if it includes exposure to TP.
- Most MNEs are looking to strengthen their tax departments with TP experts these days, so there should be always a fair amount of options in the corporate sector to have an internship that provides some exposure to TP issues.

VII. Conclusion

Whether and how to launch a career in a new area, particularly when there is not much available as university-based training, is a very difficult decision for young people. My advice to individuals looking at transfer pricing as a career option is: "Go for it!" If you like puzzles or numbers and find solving them fun ("What's the right price for X?" "Why is it better done this way than other ways?"), think transfer pricing as a career option. If you're interested in how MNEs

work, or you want to stretch in a different direction from the typical Wall Street career path, think transfer pricing. If you're interested in government policy making where regulating (e.g., IRS) or working with MNEs (e.g., US Embassies) is part of your job description, think transfer pricing. Transfer pricing is also a useful option to have in one's "back pocket" should other options not work out. Launching a career in transfer pricing is not rocket science; the problem is that the path is not well understood. I hope that this article has demystified some of the steps and will encourage more young people to move onto this rewarding career path.

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NOTES

¹ Wündisch, Karl, "Rampant Globalisation – Yet a Dearth Of Professionals to Lead the Way in Transfer Pricing?", *Transfer Pricing International Journal*, Vol. 8, No. 8, August, 2007.

² Big Four transfer pricing surveys/reports:

- www.pwc.com/en_GX/gx/international-transfer-pricing/assets/itp-2011.pdf
- www.deloitte.com/assets/Dcom-Global/LocalAssets/Documents/Tax/dttl_tax_strategymatrix_2011_180211.pdf
- www.ey.com/GL/en/Services/Tax_Services?preview&selection=tab-ss2
- www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/global-transfer-pricing-review-2011.pdf

³ For a general review of transfer pricing literature and regulations, see Eden, Lorraine. 2009. "Taxes, Transfer Pricing and the Multinational Enterprise". In Alan Rugman (editor). *Oxford Handbook of International Business*, 2nd Edition. Oxford University Press.

⁴ Light, Joe, "Interns Get a Head Start in Competition for Jobs" *Wall Street Journal*, May 16, 2011, B9.

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