

# TRANSFER PRICING ISSUES FOR TAX-EXEMPT ORGANIZATIONS

experience **direction** // Correctly reporting unrelated business income (UBI) is an ongoing concern for tax-exempt organizations. The IRS has focused more on how these entities conduct business with their for-profit affiliates, making the rules surrounding UBI calculations even more worrisome. **BKD can help.** Our transfer pricing team can help you navigate these complex business relationships and comply with IRS requirements.



## TRANSFER PRICING

Tax-exempt organizations often rely on related taxable entities for additional revenue, which results in transactions subject to more IRS regulations. Therefore, tax-exempt organizations must ensure they conduct related-party dealings in accordance with the arm's-length standard, *i.e.*, as if the parties were unrelated. U.S. transfer pricing regulations are the accepted means of determining fair market value of the sale of goods, provision of services, licensing of intangible property and financing between a tax-exempt entity and its taxable affiliates. In addition, transfer pricing regulations can be used to determine a tax-exempt entity's UBI liability.

## SOLUTIONS

Not complying with transfer pricing rules can result in a loss of tax-exempt status, reputational risk and tax assessments, interest and penalties. BKD's transfer pricing team has extensive experience working with tax-exempt organizations on transfer pricing and UBI issues. Our services range from planning and documentation to dispute resolution and valuation.

## WHY BKD?

BKD's transfer pricing team comprises economists and M.B.A. degree holders who work in conjunction with our tax-exempt team to offer comprehensive solutions to your organization's pricing arrangement and UBI needs. We've assisted a variety of tax-exempt organizations, including:

- Higher education institutions
- Health care organizations
- Trade and membership associations
- Foundations
- Political action groups
- Faith-based insurance companies

In addition, you'll experience a high level of partner and manager involvement as we provide solutions and deliver **The BKD Experience** of unmatched client service.

1:6 PARTNER:STAFF



With a partner-to-staff ratio lower than the average for national firms, you'll have access to partners and **experience personal communication.**

## TRANSFER PRICING CASE STUDY

In connection with a legal entity restructuring, a large tax-exempt hospital with multiple for-profit subsidiaries engaged BKD's transfer pricing team to help them develop and document arm's-length pricing between its exempt and taxable entities.

The hospital had lost its tax-exempt status and wanted its pricing and restructuring to withstand scrutiny in a tax audit. BKD worked with the organization to allocate

costs related to the parent organization's management and administrative services while developing arm's-length prices for laboratory services provided by its for-profit subsidiary.

As a result, the hospital reduced its tax liability and developed documentation to support its intragroup transfer pricing arrangements.

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