

Transfer Pricing Policy

Version Control

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10. Accessibility checked: Yes/no	Use the Accessibility Checker in the Word Toolbar, or see Accessibility guide
11. Does this policy apply to LSTM Group (LSTM and subsidiaries?) Yes / no	If yes, consult Group Legal and IP Advisor
12. All policies will be added to the LSTM website unless an exception is provided here	If there's an exception, provide a contact email address for the LSTM website
13. If this policy has been reviewed, has this resulted in a minor or major changes?	Major/minor (delete as appropriate)

Always view the current version of the document via the Knowledge Exchange Policy Hub.

Modifications from previous version of document

Version	Date of issue	Details of modification
1.0	22.02.2021	New Policy

Contents

- 1 Introduction and Context
- 2 Equality and Diversity
- 3 Safeguarding
- 4 Roles and Responsibilities
- 5 Determining occurrences of transfer pricing
- 6 Transfer pricing agreements between LSTM Group companies

1. Introduction and Context

- 1.1 LSTM's considerable activity in many countries around the world means that LSTM must be aware of when and how those activities may trigger obligations regarding local taxes.
- 1.2 Transfer pricing regulations exist in most countries.
- 1.3 Transfer pricing exists when there is a transaction between related parties (commonly among group companies/subsidiaries).

Commonly transfer pricing occurs when the related parties are in different countries.

- 1.4 The transfer price is the price which is paid for goods or services transferred from one unit of an organization to another of its other units. The transfer price should be at market rates, so commonly there is a mark-up or uplift above cost for these transactions.
- 1.5 Typically the purpose of transfer pricing is
 - a) Generating separate profit for each of the divisions and enabling performance evaluation of each division separately.
 - b) Generating profits/losses in different tax jurisdictions.

For cross border transfers it may be necessary to prove to the relevant tax authorities that the mark up merely covers any legitimate administration or similar costs, and does not include an excessive "profit" element. The transaction must be proved to be at arms length.

- 1.6 This policy has the following scope
 - Any transactions between LSTM group companies both within the UK and across international borders, excluding the following
 - a) Transfer of grant funding to sub partners, where another LSTM group company is the sub partner.
 - b) Service level agreements where the SLA reflects a negotiated agreed annual cost for a range of services provided, and which can be considered to be at arms length.
- 1.7 The most common form of transfer pricing at LSTM will be where one group company charges another group company for specific costs/services provided and where an administration charge/mark up is added to cover the costs of those services. In these circumstances the administration charge/mark up must be demonstrated to be at arms length and to not be a method for transferring taxable profits between tax jurisdictions.

1.8 This policy outlines the LSTM position in all aspects of managing overseas tax obligations:

- Minimising financial and reputational risk resulting from failure to comply with overseas tax regulations
- Maintaining and communicating clear policies and processes regarding foreign tax obligations, including processes to identify when risks exist, estimating the potential exposure and managing the risk and compliance in the relevant countries;
- Maintaining efficient and consistent compliance whilst legally minimising the amount of worldwide tax paid by LSTM and its worldwide subsidiaries;
- Working with PIs to manage any overseas tax costs identified;
- Ensuring compliance with relevant UK and overseas legislation and best practice, including compliance with:
 - The Criminal Finance Act 2017 (CFA 2017)
 - The Money Laundering Regulations 2017 (MLR 2017), updated January 2020
 - HMRC regulations including SAO compliance
 - LSTM's tax strategy

2. Equality and Diversity

LSTM is committed to promoting equality of opportunity, combatting unlawful discrimination, and promoting good community relations. We will not tolerate any form of unlawful discrimination or behaviour that undermines this commitment and is contrary to our equality policy.

3. Safeguarding

In line with our Safeguarding policy and procedures, LSTM's processes reflect our organisational commitment to keeping children and vulnerable adults safe.

4. Roles and Responsibilities

LSTM's Senior Accountable Officer for tax is the Director of Strategic Operations, who is responsible for making the related annual SAO declarations to the UK HMRC.

The Director of Strategic Operations delegates day to day management of overseas tax management to the Director of Finance.

This policy is in line with LSTM's tax strategy which is published on the LSTM website. Under the tax strategy :

- The Finance Director is responsible for advising LSTM, in the light of guidance issued by the appropriate bodies and relevant legislation as it applies, on all taxation issues.
- The Finance Director will issue instructions and guidance to Departments on compliance with statutory requirements including those concerning VAT, PAYE, national insurance, corporation tax, overseas taxes, and import duty.

5. Determining occurrences of transfer pricing

5.1 Finance Operations processes all intercompany transactions within the LSTM group, both the accounting entries and actual cash settlement of intercompany obligations.

- 5.2 Finance Operations staff are aware of the circumstances detailed in section 1.6 where intercompany transactions fall outside of the transfer pricing regulations due to their nature. Any other intercompany transactions where transfer pricing is therefore deemed to be relevant will be highlighted by the Senior Financial Accountant and Head of Finance Operations, who will review the circumstances of the transaction. If there is a mark up this will be analysed to determine the most appropriate rate for recovery of fixed costs.

6. Transfer pricing agreements between LSTM Group companies

- 6.1 LSTM Finance will document procedures for the annual review of transfer pricing which will involve the annual review of transactions between group companies and confirmation and documentation of those relationships where
- LSTM believes the transactions fall outside the transfer pricing scope
 - LSTM believes it is not inherently clear that an arms length relationship exists (intercompany transactions other than those detailed in section 1.6 above), and the methodology for calculating an appropriate transfer price.
- 6.2 Where it is determined that a transaction by its nature must establish an arm's length arrangement is occurring between 2 LSTM Group companies, the calculation and reasoning supporting the agreed mark up will be summarised in a document to be signed by both parties.

Equality Impact Assessment (EIA) template

(Please refer to the [EIA guidance document](#))

Equality Impact Assessment: Section 1 (to be completed for all Policies)

Title of policy/process:	<i>Transfer Pricing Policy</i>
Policy owner job title:	<i>Head of Finance Operations</i>
Date of EIA:	<i>16.02.2021</i>
Policy relevant to: Staff / students / visitors etc:	<i>Board of Trustees, Finance & Investment Committee, Finance Staff</i>
Summary of any consultation with stakeholders (e.g. date and type of consultation):	<i>N/A</i>
This policy has been checked for accessibility on: (date)	<i>N/A</i>
I confirm that this policy does not impact people, and therefore does not require an EIA	

