SaaS Company Reduces International Taxes with Revised Transfer Pricing Method

CASE STUDY

Challenge

A growing SaaS company was leaving significant profits on the table with international sales of software because they used their traditional revenue-share transfer pricing method.

Solution

Armanino's international tax experts applied the limited-risk distribution model to better align with the company's changing international business operations.

Result

The new tax methodology yielded significant annual tax savings without causing disruptions in their operations.

Client Challenge

A software analytics company uses artificial intelligence to help businesses optimize their websites' performance to gain more sales leads and increase conversion rates. The fast-growing firm acquired international third-party distributors to sell their SaaS product to foreign markets. They applied the remuneration policy to the distributors even after acquisition, which scaled the revenue share payment so that foreign entities would remit a certain percentage of the revenues based on the sales amount.

The company realized that it was losing significant profits in high-tax jurisdictions, such as Japan, Italy and Mexico, despite the low cost to market their solutions.

The Tax Issue

Because the company continued to apply the revenue share transfer pricing policy to international third-party distributors, the amount of taxes paid in the foreign jurisdictions had increased over time and created unpredictability in terms of foreign tax liabilities, leaving profits on the table and costing the company significantly in annual taxes.

Our Solution

Armanino's international tax experts worked closely with the company's vice president of finance to model various transfer pricing alternative structures. After ongoing dialogue and research into the business operations, including the consideration of various local tax implications, Armanino's experts recommended the limited-risk distribution model. This solved the company's international tax challenge in certain jurisdictions, such as Asia, and provided earnings predictability in the foreign jurisdictions.

Given the company's small tax and accounting headcount, the limited-risk distribution model was also easier for their team to administer. The new model did not significantly disrupt business operations and it met the tax objectives of the project, making it a win for everyone in the company.

The Result

By implementing the limited-risk distribution tax methodology to their international third-party distributors, the software company now saves hundreds of thousands of dollars in taxes annually.

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