KPMG Meijburg & Co
Tax & Legal

Private Equity Transfer Pricing

Transfer Pricing Considerations for Businesses Operating in the Private Equity Industry

May 2025

Private equity structures have become a hot topic for tax authorities worldwide, scrutinizing aggressive structures used historically by private equity houses.

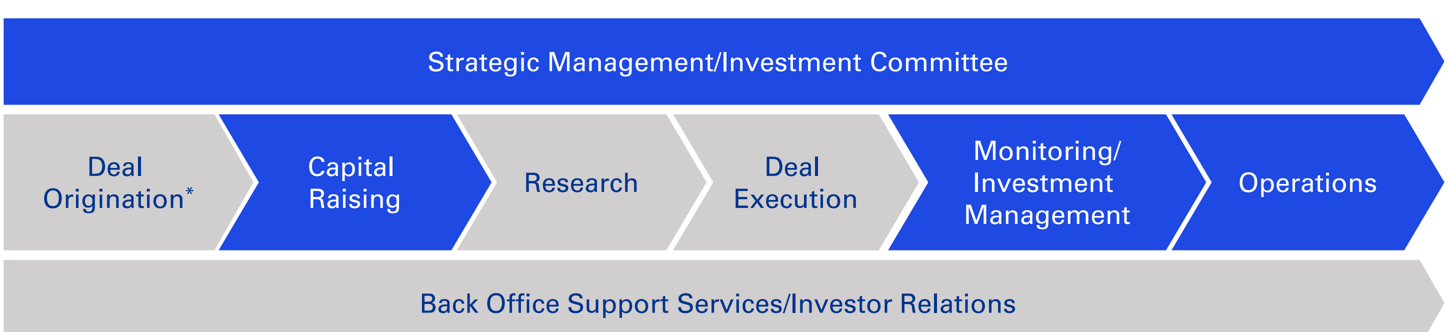
Tax authorities have have been focusing on the private equity industry in an attempt to curb these practices by aligning the legal form with economic substance, while ensuring that structures and associated transfer pricing ("TP") follow international best practice.

The Private Equity Value Chain

The private equity value chain is similar to most other alternative asset management structures, although there are some slight differences with more focus on post-deal activities such as monitoring and operations.

The typical private equity value chain is shown below.

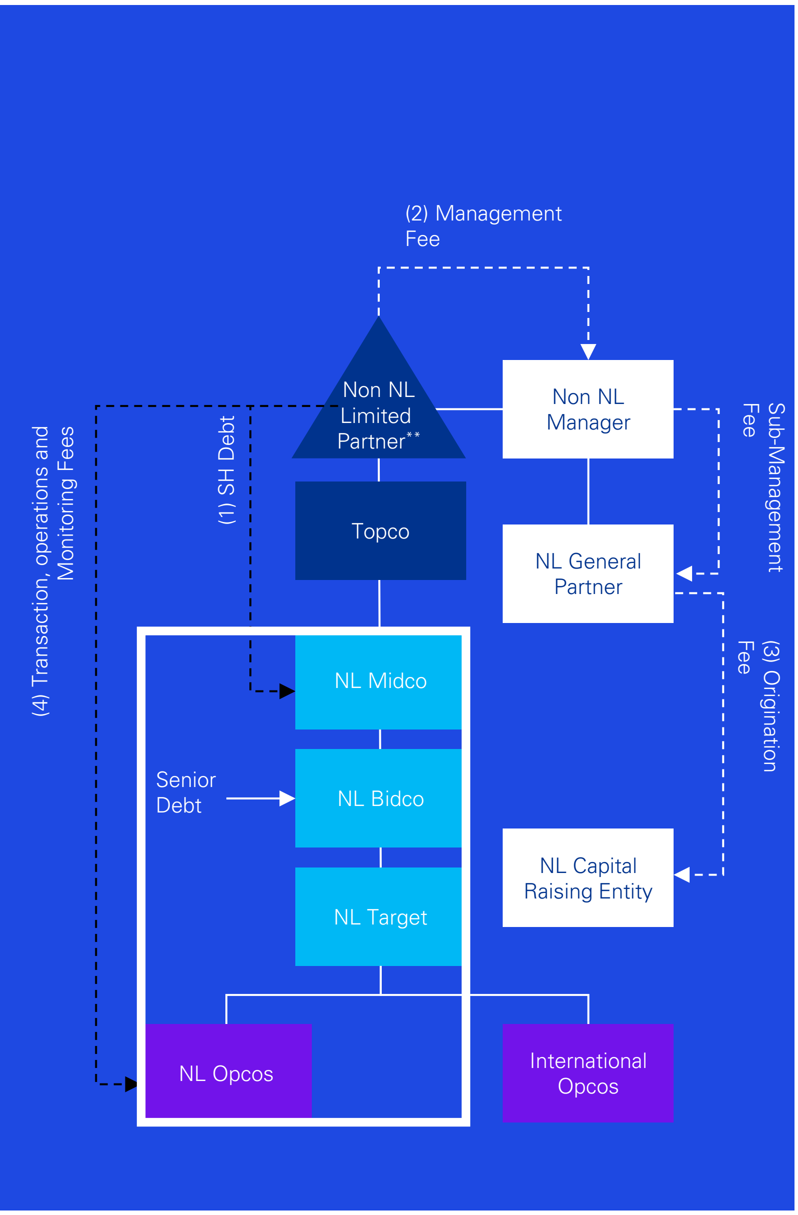
TP primarily focuses on identifying and understanding in detail the roles and locations of various key value adding functions within a business. Although each private equity business is slightly different, we typically see the key value driver functions as highlighted in blue.



*In some case this can be considered value adding – depending on the structure of the private equity fund.

Private Equity Snapshot

The figure below is a simplified private equity structure that is commonly applied to international funds with assets in the Netherlands ("NL")[(a)]:



***Please note this is a simplified diagram for illustrative purposes and fee flows may differ between funds.*

As shown in the simplified flowchart, there are several key transactions in private equity structures that can create TP risk. Furthermore, referring to the value chain discussed previously, it is evident that fees and transactions within the private equity structure are linked to the key functions performed within the private equity value chain.

We have summarized several key transactions that need to be considered from a TP perspective:

(1) Intra-Group Debt and Interest: Typically, investments are funded through a large portion of related-party debts. This approach ensures that the investment has a strong internal rate of return ("IRR"). However, the quantum of debt and interest needs to be supported from a TP perspective. This is particularly important in a distressed situation where tax authorities may question the asset's ability to service the debt.

(2) Management Fees: Management fees are paid to the manager and sub-manager for continuous management of the asset and are typically based on Assets under Management. For TP purposes, it is important to ensure that these fees are priced at market rates. Further, any split between the manager and sub-manager should be based on arm's length pricing.

(3) Origination Fee: Capital-raising/origination fees are allocated to the capital-raising entity. These fees are usually based on a percentage of the management fees and are paid throughout the life of the investment. Given the nature of these fees, it is important to consider from a TP perspective.

(4) Transaction Fees: Transaction fees are one-off fees that cover internal and external costs associated with an acquisition and are generally passed down to the asset company. For TP purposes, these fees must be priced at arm's length.

(4) Monitoring Fees: Monitoring fees are associated with the ongoing monitoring of an asset. These fees are charged annually, and various approaches can be taken such as percentage growth in EBITDA etc. Monitoring fees should be set at arm's length.

(5) Operations Fees: Operations fees (or commonly referred to as advisory fees) are typically charged by asset managers that play a pivotal role in actively managing the asset. These managers will typically be on site providing expert advice. As such, these fees are typically charged to the asset at an agreed rate and should be set at arm's length.

What Are Some of the Key TP Points Raised by Your Peers?

People Movements: The COVID-19 pandemic brought about significant changes to the way private equity employees worked, essentially resulting in remote working from locations outside the remit of the fund and management company. As such, this situation created a permanent establishment risk for both the manager and the fund. While we are now seeing a return to pre-COVID-19 working patterns, this is still something that most private equity funds should monitor on an ongoing basis.

Development of Intellectual Property: Over the last few years, private equity funds have started to develop proprietary Intellectual Property ("IP") with respect to identifying/converting deals and monitoring capital. As such, some market participants are rolling out this IP to third-party funds. Consequently, there are some key considerations around the development, enhancement, maintenance, protection and exploitation of IP created through years of development spending. Some of your peers are also considering where this IP should be located and whether such IP could benefit from beneficial tax schemes such as the Dutch Innovation Box.

Change in Investor Base: Some private equity funds are starting to refine their investment strategies to focus on particular assets with very unique features. Consequently, private equity funds are concentrating on identifying investors with a specific focus/risk appetites. As a consequence, capital-raising functions are becoming more specialized and localized, requiring an active focus on the identification and conversion of investors. In Europe, this is resulting in additional permanent establishment risks as capital-raising teams focus on raising capital in various jurisdictions. This must definitely be managed from a TP perspective to ensure no excessive risk is created from these strategies and activities.

Debt Push Down: It is common in the private equity space to fund acquisitions with debt. However, tax authorities are increasingly questioning the arm's length nature of this debt following the restructuring of distressed businesses through the use of the unallowable purpose/non-business motivated tax provisions. As such, many of your peers are conducting detailed analysis to ensure intra-group loans are benchmarked, documented, and have associated legal contracts in place.

100-Day Plans: In many European countries, a requirement when completing deals is to have the TP approach signed off with appropriate legal documentation. Consequently, many of your peers require upfront TP planning and assistance in ensuring that the TP policies between the fund/manager and asset are at arm's length. This, in turn, requires a robust 100-day plan for all assets in their portfolio.

KPMG Meijburg Observations

It has become particularly important for private equity teams involved in deals to ensure that the TP approach used is robust, in line with international best practices and cosistent across the business. In a dramatically changing tax and TP landscape, buy-side due diligence teams often focus on the TP framework historically applied to assets, while also accounting for any deferred tax liabilities when considering the price of an acquisition.

How Can KPMG Meijburg Help You?

As noted above, there are a number of key TP aspects related to private equity structures that need to be considered throughout the entire deal cycle to ensure minimizing TP risk preventing tax leakage in the structure. KPMG Meijburg has a specialist TP team focusing on private equity structures that can help clients minimizing TP risk while ensuring that any potential benefits (both operational and tax) are realized. Typically, the process we follow with many of your peers is as depicted on the right.

1. Perform a TP diagnostic health check on the fund and corporate group.
2. Perform functional analysis of fund and corporate group – building a unique value chain for your business.
3. Work with you to ascertain the most pragmatic and sustainable TP policy.
4. Hold workshop(s) to discuss key findings and a pragmatic solution.
5. Perform benchmarking analysis and prepare TP policy report.
6. Work with you on implementation of the TP policy across the fund and corporate group and 100-day plan for asset companies.

What Are the Benefits of Working with KPMG Meijburg?

The KPMG Meijburg team will work with you to review, design and implement your TP framework and methodology to cover both the fund and corporate part of your business for your entire deal cycle.

You will be able to provide internal and external stakeholders, as well as tax authorities, with robust documentation on your TP approach. Here are a few examples of the assistance we can provide:

Diagnostic Health Check: Perform a health check on the the fund and corporate group to assess any key issues that may lead to tax and TP exposure. This diagnosic health check is performed as a point of view paper which will cover aspects such as transactions, appropriateness of policies applied, application of policies and any overarching observations on how to better streamline your approach to TP to help provide time and finanincal efficiencies throughout your future deal cycle.

TP Report: A robust TP report that includes (i) a comprehensive summary of your organization's structure; (ii) a detailed overview of functions performed by the different parts of your business; (iii) a robust TP policy that adequately renumerates different parts of the investment structure based on functions performed; and (iv) a robust benchmarking analysis to support the pricing used.

Implementation Support: A hands-on approach providing you with implementation support to help model the impact of different scenarios on your TP approach and overall economic results in different geographical locations.

Operational Guidance: Clear guidance in the form of do's and don'ts with respect to activities performed by key personnel in different geographical locations. Advice on legal agreements to minimize TP risk by ensuring the conduct of group entities aligns with their legal form.

100-Day Plan: A 100-day plan to help your new asset C-suit personnel familiarize themselves with your TP approach, while also providing help with any TP issues that may need to be considered as the asset becomes part of a larger group.

Contact Meijburg

Jaap Reyneveld
Partner, Meijburg & Co
reyneveld.jaap@kpmg.com

Alistair Mclaren
Director, Meijburg & Co
mclaren.alistair@kpmg.com

Diderick de Roy van Zuidewijn
Manager, Meijburg & Co
deroyvanzuidewijn.diderick@kpmg.com