



Camero, Camero & Asociados (CCA) is a firm of Certified Public Accountants in Panama. Our partners have more than 20 years of experience as accountants, consultants, and auditors for companies of all sizes and activities.



Econ. Laura Andrea Palma Lemus  
Transfer Pricing Manager  
Camero, Camero & Asociados

VER PERFIL

Quality,  
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Responsibility

Office One Building, 58th Street and 50th Street, Panama City. 12th floor, 1207 Office.

+507 395 1676

info@cca.com.pa

www.cca.com.pa

## Interesting aspects of Transfer Pricing in context with COVID-19

The COVID-19 brought uncertainty and instability, leading the states to adopt different measures (at the public health, social, labor, and fiscal levels, among others) that allow them to face the unprecedented effects of this new reality, which are still being studied.

The disruption of the world economy has left sectors affected and others hard hit (such as aeronautics, tourism, hotels and industry) which, together with the restrictions on the free movement of international cargo, has led to a slowdown in the processes of distribution and supply, leaving aspects that are now relevant to transnational business groups and to those heading towards internationalization (before COVID-19).

At present, economic agents are facing strong setbacks that have tested their resilience. One of the obstacles to be overcome is the undermining of solvency levels (which will surely be strengthened through:

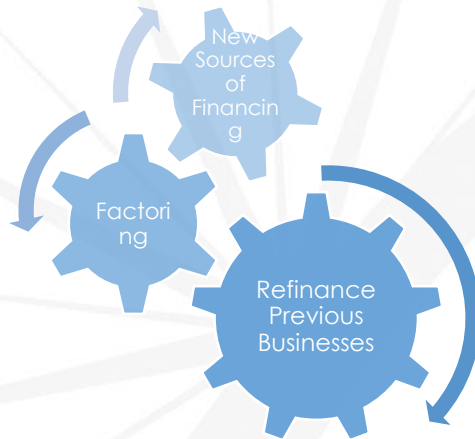


Figure 1: Possible ways of recovering solvency levels of related companies.

- The refinancing of previous loans, increasing their debt capacity and re-evaluating the circumstances and conditions of the current situation,
- Factoring as a tool for short-term liquidity injection from a linked one,
- By adding other types of financing sources such as new loans with competitive interest rates, incorporate centralized treasury services (improving the passive interests of the strengthened related parties and lower financial costs for the related parties due to liquidity).

Other obstacles are all those aspects related to transfer pricing policies, adopted and fully accepted prior to COVID-19 or those related to decreed guidelines for commercial interaction between related companies, such as:



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- **Profit or loss location:** Taking into consideration the development of an ex ante analysis and an ex post analysis of the functions, they can facilitate the identification of the incidence in the generation of the profit or loss of the business group.
- **New functions developed:** The incorporation of technological assets that modify the cost structure, production processes or distribution channels, can favor the generation of new functions (temporary or permanent) that could, in their absence, develop intangible assets that have to be valued and paid in due time.
- **Making relevant decisions:** The dilation of the decision making processes as a result of the social distancing measures could have negative repercussions on the generation of the companies' profits, which could lead to a re-evaluation of the current risk structure as well as the organizational structure.
- **Payments for intra-group services and intangible assets:** In the current conditions where the operating level of a great part of the economic sectors has been affected, it is important to adequately sustain the need to incur in expenditures related to intra-group services or intangible assets, to identify the incidence of these in the

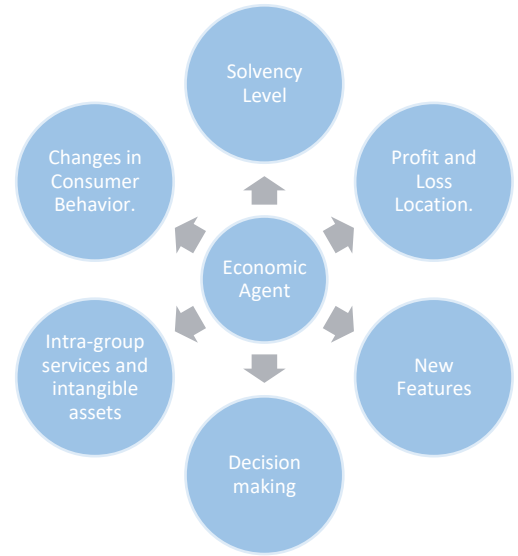


Figure 2: Problems faced by companies doing business with related parties. Source: Own elaboration.

generation of the benefit, as well as, to widely document each one of the decisions taken and transactions carried out with the different related parties.

- Another aspect to bear in mind is the changes in consumer behavior in recent years, which have been consolidated in the first half of the year with the incorporation of COVID-19 into daily life. One of these changes is the technology that has favored interaction between consumer and supplier, improving the accompaniment of the former and the highly valuable feedback for the latter. Another of the changes is in the quality of service, which had led companies to gradually improve their processes, and which now must be accelerated and adapted to the new market reality.



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This implies the need to assess the flexibility of the transfer policies of business groups, their adaptability to the unique reality of their members, as well as to the current circumstances:

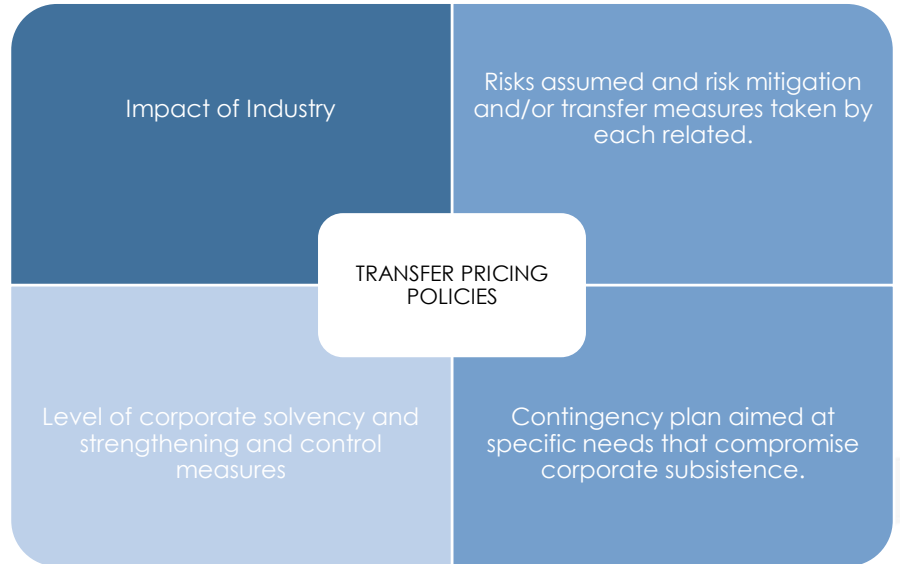




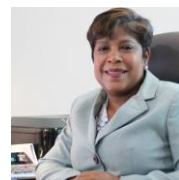
Figure 3: Aspects related to transfer pricing policies to be reviewed by companies. Own elaboration.

Directing them to take the pertinent decisions to face a possible recessive cycle (as it could be through corporate restructuring) and without leaving aside the important task of accrediting the whole decision making process through the respective contractual, administrative, financial and informational documentation of the different internal communication channels, which support the materiality of the decision taken (in the same way this accreditation should be replicated in cases where transactions are made between related parties), all with the purpose of mitigating fiscal risks in the matter of transfer pricing.



Lic. Omar Camero  
Partner  
Camero, Camero & Asociados

[omar.camero@cca.com.pa](mailto:omar.camero@cca.com.pa)  
 



Lic. Grenna de Camero  
Partner  
Camero, Camero & Asociados

[grenna.camero@cca.com.pa](mailto:grenna.camero@cca.com.pa)  
