



The transformative potential of GenAI in transfer pricing and valuation

Generative artificial intelligence (GenAI) can enable tax professionals to perform better analysis, review data faster, and generally become far more efficient. This is already happening in the worlds of transfer pricing and valuation, which require processing a tremendous amount of information.

When Excel first came out, some accountants worried that it would put them out of business. Instead, it just made us more effective. The same is true for GenAI. We believe that in the very near future, companies will have no choice other than to harness this technology, with transfer pricing (TP) and valuation being early leaders within tax due to their heavy data requirements.

GenAI helps make companies more efficient at processing data. Tax authorities are aware of this, creating a feed-forward spiral that will only drive up demand for the information that GenAI enables—not just in TP and valuation, but eventually in every other tax space. The more capable these technologies make us, the higher the demand for data will be. That's why keeping up with GenAI technology is not optional.



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For tax, keeping up with GenAI technology is not optional.

I An early leader in AI for tax

KPMG LLP (KPMG) was an early leader in AI models, starting before the GenAI revolution, with a focus on areas that traditionally involved a time-intensive, manual process. For example, we were awarded the first patent in the field of TP related to identifying comparables using a machine learning model trained on business descriptions and financial data, for KPMG tpEngine(TM). Now, third-party tools like Kira and Microsoft Azure can sift through large numbers of documents, identify key information, and put them into an easy-to-process format.

Key trends in AI

Almost every day, there's something new coming out in the GenAI space. Here are six recent trends:

- 1 Small language models (SLMs):** While everyone is aware of the large language models (LLMs) from companies like OpenAI, Google, Anthropic, and Meta, there's also a growing trend of creating smaller models, called SLMs, from companies like Microsoft.
- 2 Multimodality:** Increasingly, models are becoming multimodal, able to see and create images and videos—for example, Sora from OpenAI is able to generate movie-like videos based on simple prompts.
- 3 Agents:** Soon, we're going to start seeing reasoning models, referred to as agents. Agents, such as Devin, are reasoning systems that can take a business problem, think about it over time, do their own research, write their own code, and come up with a software solution.
- 4 Grounded:** Companies are also putting a lot of effort into trusted AI to ground it in accuracy, decrease hallucinations, and prevent jailbreaks (undesirable output generated through unique prompts).
- 5 Interpretability:** They're also putting effort into interpretability to better understand how the AI generates an output. That's important from the perspective of an audit trail.
- 6 Risk training:** Companies are increasingly ensuring that their trusted AI team understands their AI models and rules around authorized content.

Transfer pricing

Transfer pricing is particularly well suited to benefit from GenAI. Not only do we work with vast quantities of financial documents, but we also work with a lot of qualitative and unstructured data such as human resources information, insights we gather through interviews, organizational charts, business plans, industry reports, and so on. From those, we generate various outputs.

GenAI is uniquely capable at processing those inputs, generating the needed outputs, and validating various functions (e.g., during tax authority audits). It is already impacting every element of how we operate:



TP planning

Analyze global tax and TP developments and identify new planning opportunities.



Operational TP

Analyze and segment financials for TP purposes, identify deviations from TP policies, update calculations, summarize and compare intercompany agreements, etc.



TP compliance

Automate TP documentation, including functional analysis, industry analysis, comparable analysis, etc.

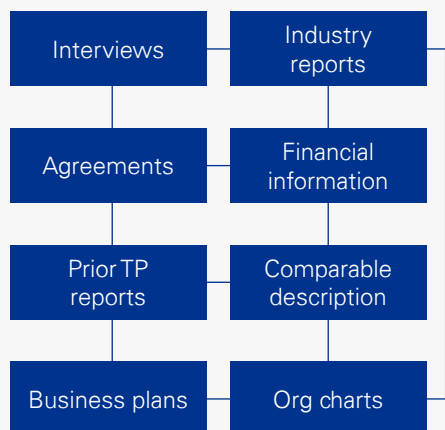


TP controversy

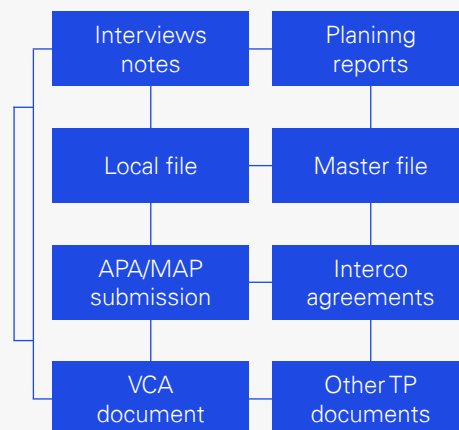
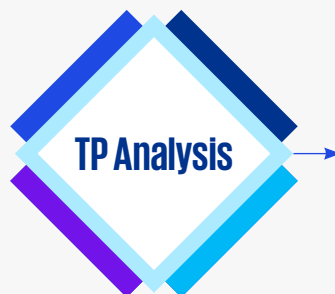
Analyze historical documents, including contracts, TP documentation, internal communication, etc. Identify risks and strengths of different positions, including tax authority reports. Generate responses.



TP particularly suited to benefit from GenAI



TP analyses consume a wide range of data and information.



TP analyses generate a wide range of text and graphic-heavy documents.

Valuation

Valuation shares common themes with TP in terms of processing vast quantities of data from different sources across a wide variety of different formats—all on compressed timelines.

Intangibles Spotlight

Intangibles Spotlight is our patent-pending solution that extracts data from public filings—such as transactions with intangible assets, relative allocations of value, useful life ranges, etc.—to generate insights. This information can be summarized by industry, date, size, and more. Prior to GenAI, the tool required a lot of manual mapping to ensure intangible assets and industry classifications were appropriately categorized.

Now with GenAI at its core, not only is the mapping much faster but also we are getting much greater insights in real time. This allows us to deliver instant guidance to clients who are in quick-turn situations such as predeal transactions where asset allocation data may not be readily available.

Valuation Insights

Valuation Insights is our innovative solution that utilizes GenAI to offer thorough valuation and benchmarking capabilities based on our proprietary archive of purchase price allocations. This solution creates interactive summaries that are customized by industry, geography, asset class, deal size, and more. Our solutions integrate both public and proprietary quantitative and qualitative transactional data with additional market data metrics, helping ensure a thorough data blend. The extensive search capabilities provide both macro and micro perspectives, while the progressive data accumulation helps ensure the information remains relevant and reliable.

Designed to deliver swift, actionable intelligence, Valuation Insights addresses various client needs, including purchase price allocation, Accounting Standards Codification 805 complexities, and predeal analysis. By combining the functionalities of Intangibles Spotlight and Valuation Insights, clients gain in-depth insights into high-level assets as a percentage of purchase price, as well as detailed key performance indicators like deal multiples, royalty rates, and many more.

Valuation Technical Advisor

We developed a Valuation Technical Advisor persona that leverages a vast amount of internal and external technical guidance to answer complex technical questions, which improves the quality and consistency of valuation analyses we perform.

Before GenAI, searching across hundreds of documents to answer a technical question could take hours. Now, we've put this entire body of knowledge into a dedicated AI space so our people can chat with it to find an answer. This persona—an interactive, intelligent body of knowledge—also provides the document it used to generate the answer as a verification to ensure the AI is not hallucinating, as well as a fast way for our people to continue reading on the topic if needed.

GenAI most common use cases

KPMG released GenAI technology for tax in May 2023. We very quickly saw a wide range of uses:

- 1 Conduct research:** ranging from company and market research to technical guidance
- 2 Summarize:** content in documents, email chains, meeting notes, and more
- 3 Translate:** information, including financial statements, reports, etc.
- 4 Refine:** search of guideline public companies.



Operational transfer pricing

GenAI can generate a functional analysis based on financial, human resources, departmental and other information it receives. It can segment financials, generate an income statement, and separate balance sheets based on instructions and details about payment terms. And it can then package all this into automation tools and generate reports.

Report generator

GenAI can generate reports—thus its name—in real time and we already have specific client success stories. GenAI can accelerate report generation dramatically and multimodal models can develop graphics, video, audio, and, of course, text as outputs.

Quality control

GenAI makes it easy to generate content—and not all of that is reliable content. Companies may soon face an avalanche of inaccuracies as the quality of GenAI-based technologies and approaches varies and hallucinations continue to pose a real challenge. Rigorous quality control processes will be more important than ever.

One example: A recent word-count analysis of the word *elevate*—which ChatGPT really likes to use—in published medical articles found that the appearance of the word exploded in 2023 and continued to skyrocket in 2024. Even in a space like medical journals, with quality control and peer review, there are strong indicators that a lot of the content is being generated by LLMs.

How do we guard against that? The best cure for GenAI is GenAI. Building out prompts that get GenAI to check its own work requires experience with GenAI, an understanding of the underlying content, and familiarity with the requirements of the report you're trying to generate, whether TP, valuation, or other.

Ten thousand years of experience

Most LLMs have been trained on publicly available data, but there's also a massive amount of private data that we have—especially in niche fields like TP and valuation. As we inform the models with this data, they gain experience and become better.

For all intelligence, human and machine, experience matters. As we feed massive amounts of data into these models, they're going to gain the equivalent of tens of thousands of years of experience. That's going to completely change the dynamic on how we all operate. Your own experience will empower you to better use these tools, but there is no question that we will all have to become fluent in using them.

The time to develop that fluency is now, before regulators start requiring the sort of deeper data analysis that only AI can generate. We recommend that clients with internal, secure access at KPMG start using our Digital Gateway GenAI as soon as possible. Start with use cases. Experiment within your environment and build the experience needed to deploy it widely and rapidly. GenAI is here, and we all need to be prepared for its transformative potential.

1 Ease of use

What made ChatGPT revolutionary wasn't just what it could do—LLMs existed before ChatGPT—but how easy it was to use. Natural language prompts without the need for a programming language, formulas, or other barriers to entry constituted a massive leap forward precisely because they could become so widely used.

2 Data retention

Data is the oil that powers these models and makes them so valuable. In the tax world, the preference and policy are often to avoid keeping data longer than necessary. But these models may require a mindset shift on the issue of data retention, as information could turn out to be far more valuable in the future.

3 Data security

Be careful about public models and ensure your team isn't feeding them any proprietary or sensitive data. That's the advantage of a tool like our Digital Gateway GenAI, with a rigorous security ring fence to help ensure your information isn't exposed to anyone outside your organization.

4 Communications and forensics

Lawyers have a saying that the only way to legally hide a "smoking gun" email is to drown it in a sea of other documents. In the past, it was often not feasible to manually sort through a million emails. That's becoming far easier with new AI technologies that can pinpoint the relevant messages.

Let's start the conversation

Connect with our team to learn how you can harness the power of GenAI for tax.

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