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TRANSFER PRICING AT MULTINATIONAL CORPORATE: A LITERATURE REVIEW APPROACH

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Abstract

This study is the result of a literature review of 10 articles on transfer pricing in multinational corporations (MNCs) studied by researchers from various countries both developed and developing countries in terms of objectives, methods, and results. These articles reviewed are sourced from international journals namely Scindirect and Emerald Insight. The study results show that in general, the purpose of the articles is to address transfer pricing abuse in multinational companies. The method used is generally quantitative and the result is that transfer pricing is related to tax avoidance.

Keywords: transfer pricing, multinational corporate, tax, tax avoidance

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INTRODUCTION

The impact of globalization is responsible for the quickly expanding economic sector that occurs beyond national borders. As a result, major corporations conducting business across national borders are indicative of global economic expansion (Devita & Sholikhah, 2021). Financial resources from wealthy nations can now flow into emerging economies through globalization, because of the flexibility of transfer pricing and its role in avoiding taxes by rerouting public income to shareholders, the idea of nations and states has been driven by the accelerating pace of globalization (Amidu et al., 2019; Sikka & Willmott, 2010).

Internal or related-party transactions, which enable businesses to determine internal or transfer prices, account for the majority of transactions in international trade. The price agreed upon for the exchange of services, tangible products, and intangible goods between related parties is known as the transfer price (Sari et al., 2020). Transfer pricing is the process of determining the rates at which goods or services are transferred between related businesses that are a part of a global organization. When tax authorities began to notice that multinational corporations were manipulating the transfer prices to gain reduced tax liabilities, this practice turned into a tax issue (Beebeejaun, 2018). Then abuseful transfer pricing has been described by the OECD (2016) as the inadequate allocation of income and expenses to lower taxable income. According to Uyar (2014), transfer pricing is a tactic employed by companies to fulfill the important goal of profit maximization, but it may also be harmful to the nation as a whole since it results in a loss of potential tax income.

Transfer pricing is a crucial accounting topic because it has historically developed to support and have an impact on internal decision-making inside divisionally structured firms. But in recent years, tax compliance—an additional goal of transfer pricing—has grown in significance. Transfer pricing can be used to reduce taxes since they control the revenues of legal entities within multinational corporations. International norms, such as the transfer pricing guidelines of the Organisation for Economic Co-operation and Development (OECD), regulate the establishment of transfer prices to prevent such tax reduction frauds (Hummel et al., 2019).

Transfer pricing is recognized as a complex concept when determining the prices of goods and services exchanged between related businesses, particularly subsidiaries of multinational corporations (MNCs). It entails determining the prices for those transactions, which may affect how profits and tax obligations are distributed across several countries (Kalra & Afzal, 2023). Transfer pricing also illustrates how Multinational Enterprises (MNEs) have an incentive to manipulate internal transfer prices to avoid paying taxes as they actively participate in cross-border intercompany transactions (Choi et al., 2020).

Transfer pricing calculations have long been one of the biggest tax and operational challenges facing multinational corporations (MNCs). These calculations apply to transactions involving business units within the same corporate group but located in separate geographic zones. The tax issue stems from the difficulty of proving that intercompany pricing adhere to the "arm's length" principle and from the associated worry that multinational corporations (MNCs) may be able to selectively alter cross-border transfer prices to move profits from high-tax to low-tax nations (Beuselinck et al., 2015; De Simone, 2016; Klassen et al., 2017; Steens et al., 2022; Wier, 2020).

In transfer pricing, the arm's length concept acts as a compass. It implies that the costs utilized in cross-company transactions ought to be equivalent to what unrelated parties would have agreed upon in a comparable situation. To put it another way, transfer pricing has to be determined as though all parties were independent and conducting business at arm's length (Kalra & Afzal, 2023). Research on the topic of transfer pricing has been widely examined by practitioners and academics, including Kohlhase and Wielhouwer (2023), Amidu et al. (2019), Choi et al. (2020), Steen et al. (2022), Sari et al. (2020), Hummel et al. (2019), Devita and Solikha (2021).

For tax authorities and multinational companies (MNCs), transfer pricing is essential, this study examines transfer pricing with its various elements in multinational companies based on a literature review. By reviewing articles that have been published in international journals related to transfer pricing or transfer price in multinational companies (MNCs). By comparing the objectives, methods, and results of these studies. This study is expected to contribute to the development of science, especially related to accounting management, especially on transfer pricing in multinational companies (MNCs).

METHOD

This research is a literature review, sourced from articles that have been published in international journals. We looked at ten pieces of literature about transfer pricing in multinational corporations as part of our literature research for our analysis. The articles are searched using the keywords transfer pricing and transfer pricing at multinational corporations on ScienceDirect and Emerald Insight. why the author only searches on Sciendirect and Emerald Insight, because the two search engines are already known as publishers that publish

high-quality articles. On average, journals published by Scimedirect or Elsevier and Emerald are Scopus and was indexed journals. Based on the search and screening of articles to be used for analysis, the authors used 10 articles. The articles will be analyzed based on objectives, methods, results, and research areas.

RESULT AND DISCUSSION

Ten studies published in international journals were reviewed for this study; the authors of the articles include Choi et al. (2020), Steens et al. (2022), Rossing et al. (2017), Amidu et al. (2019), and Hummel et al. (2019). The ten articles reviewed discuss the practice of transfer pricing in multinational companies in both developing and developed countries, such as Switzerland, France, Indonesia, and Ghana. The ten articles were reviewed based on research objectives, methods, and results. The following is the matrix of the review results of the ten articles.

Based on the literature review, generally, these studies are conducted to avoid manipulation by MNCs through transfer pricing. Research conducted by Davies et al. (2015) in France suggests that the sensitivity of intra-company prices to foreign taxes is strengthened after controlling for market determinants of prices. There is no evidence of tax avoidance when ignoring tax havens. Tax avoidance through transfer pricing is economically substantial and most of this loss is due to the export of 450 firms to ten tax havens. They have used the method in the research the regression analysis.

The research conducted by Muhammadi et al. (2016) in Indonesia, the subject of this paper examines the difficulties faced by Indonesian tax auditors when auditing the transfer pricing of intangible assets between multinational companies. The findings show that when auditing transfer pricing cases involving intangible assets, Indonesian tax auditors face various challenges. These challenges include issues related to organization and human resources, regulations relating to transfer pricing, and a lack of transparency in taxpayers' books. The report also revealed that tax auditors and tax officials in Indonesia deal with situations involving transfer pricing by applying the legal basis as a reference point and carrying out various tasks, such as similar analysis. The method used in the research is qualitative research method.

Furthermore, research conducted by Beebeejaun (2018) in Mauritius, which investigated the factors contributing to transfer pricing abuse in Ghana, suggested that the absence of explicit formal rules regarding transfer pricing allows companies to manipulate transfer prices to avoid paying taxes. Therefore, amendments to the Mauritian legislation and regulatory framework are needed to prevent multinational companies from abusing transfer pricing. By using the method of critical analysis and legal comparison of relevant laws, cases, and literature.

The research conducted by Agana and Zamore (2019), this study investigates how multinational companies (MNCs) in developing countries can use international transfer pricing (ITP) as a means to move income. The capabilities, profitability, and dividend distribution of Ghanaian Controlled Entities (GCE) and Foreign Controlled Entities (FCE) differed significantly, according to the findings. Since theoretically, there is a positive correlation between these measures, the results do not indicate the possibility of income shifting by FCEs through ITPs. Using regression analysis as its data analysis method.

Research conducted by Amidu et al. (2019) in Ghana, examines how earnings management and transfer pricing (TP) impact Ghanaian businesses' efforts to evade taxes. The

results show that almost all sample companies have engaged in some form of transfer pricing and earnings manipulation to avoid taxes from 2008-2015. With regression analysis.

Hummel et al. (2019), investigate the relationship between the perceived success of a single-book tax-compliant transfer pricing system and its integration into the management control system, this research will utilize the concept of an enabling use of bureaucracy as proposed by Adler and Borys (1996). with SEM analysis, the results show that almost all sample companies have engaged in some form of transfer pricing and earnings manipulation to avoid taxes from 2008-2015.

Furthermore, Sari et al.(2020), research conducted in Indonesia, to examine the existence of income shifting using transfer pricing (TP) practices, not only on sales transactions but also on purchase and management services transactions, in developing Asian countries and investigate the role of specific anti-avoidance rules (SAAR) in preventing TP practices on different transaction types. Using regression analysis, this study found no evidence of TP practices on sales transactions but occurred on purchases, management service fees, and management service revenue, purchases, management service fees, and revenue transactions. In contrast to previous research. This study also found evidence that SAAR reduces TP practices in sales transactions.

Choi et al. (2020), analyzed the incentives of multinational companies to manipulate internal transfer prices, using the CP method, the results show that tax-motivated foreign direct investment (FDI) can lead to inefficient internal production, but benefit consumers. The results also explore the interaction between tax competition and transfer pricing regulation by considering tax competition between source and recipient countries. Each government sets tax rates in tax competition in a non-cooperative manner to maximize its social welfare. Their research shows how the level of transfer pricing regulation can affect this type of tax competitiveness. Specifically, in the presence of sufficiently strict regulations, source countries are willing to charge higher tax rates and allow profit shifting to tax havens. However, regulations that are too lax result in a "race to the bottom" due to tax competitiveness, which removes all incentives for FDI driven by tax considerations.

Steens et al. (2022), analyzed the effect of country risk level (proxied by S&P country rating and risk indicators from ICRG and WGI) on firm profitability (measured by ROS) using an uncontrolled sample of manufacturing firms, revealing that there is a positive relationship between country risk level and profitability. By using

The latest research conducted by Kohlhase and Wielhouwer (2023) was conducted on MNCs of European countries that have trading relationships outside the European countries, to examine the differences between various components of internal transfer pricing set by HOs and BUs. Using regression analysis methods, the results show that BUs contribute more to tax planning than HOs, even though the compensation plan does not contain clear incentives to do so. The competitiveness in the product market, the possibility of running afoul of tax and customs authorities, and agency problems within the company all influence the roles that HOs and BUs play. By deliberately allocating trade costs to higher-tax countries through the use of incoterms, or terms of trade, BUs further minimize the tax burden without changing the transfer price.

CONCLUSION

Transfer pricing has become a problem for countries where MNCs operate as well as the countries where MNCs originate. Based on the discussion above, it can be concluded that the purpose of these studies is to avoid or overcome transfer pricing abuse in multinational companies. Generally, the research method used is the quantitative method using regression analysis, and SEM, while the research conducted by Haris et al. (2016) and Babeejum (2018) used qualitative methods, and Choi et al. (2020) used the CP method. The results of these studies also reveal that transfer pricing is related to tax or tax avoidance. This means that MNC Companies manipulate transfer pricing to avoid paying taxes.

Transfer pricing research persists to be crucial, especially among nations with greater poverty where tax revenues are vital. Important transfer pricing topics require more investigation, including how transfer pricing laws affect multinational corporations (MNCs), how well they work to stop tax evasion, how to develop workable policy alternatives to accomplish this goal, how transfer pricing relates to other economic outcomes, and possible business uses for transfer pricing.

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