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ACC 406

ASSIGNMENT TITLE: INTERNATIONAL TRANSFER PRICING

SUMMARY OF THE NOTE

Transfer can be from the subsidiary to its parent which can also be termed as **upstream** , it can also be from the parent to the subsidiary which can be also be termed as **downstream** . Transfer pricing means the determination of the price of transaction that will be carried out between related parties. Transfer between related companies can also be termed as intercompany transactions.

There are two factors that can influence the manner in which transfer pricing are determined;

* the objective that headquarters management wishes to achieve through its transfer pricing practices.
* the law that exists in most countries governing the manner in which intercompany transactions crossing their borders may be priced.

The following are the transfer pricing method ;

* Cost based transfer policy – this policy means that the transfer price is based on the cost to produce goods and services which can be variable production cost , variable plus fixed production cost or full cost
* Market based transfer price - Market-based transfer pricing allows companies to set transfer prices that are aligned with those that are found on the open market.
* Negotiated price - A negotiated pricing system can be useful, as it allows subsidiary managers the freedom to bargain with one another

The following are the objectives of international transfer pricing

* Performance evaluation- it can be use to evaluate the performance of both companies in intercompany transaction
* Cost minimization - differences in the countries might bring about an attempt to minimize cost through several means
* Conflicting objectives - There is an inherent conflict between the performance evaluation and cost- minimization objectives of transfer pricing. To minimize costs, top managers must dictate a discretionary transfer price.

In addition to the objective of minimizing worldwide income taxes, a number of other objectives can be achieved through the use of discretionary transfer prices for international transactions. They include:

* Avoidance of withholding tax
* Minimization of import duties
* Protects cash flow from currency devaluation
* Improve competitive position of foreign operation