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 **Summary On International Transfer Pricing**

Transfer pricing is known as the determination of the price at which transactions between related parties will be carried out. Transfers can be from a subsidiary to its parent, from the parent to a subsidiary, or from one subsidiary to another of the same parent. Transfers between related parties are also known as inter-company transactions. Inter-company transactions represent a significant portion of international trade.

Two factors heavily influence the manner in which international transfer prices are determined. The first factor is the objective that headquarters management wishes to achieve through its transfer pricing practices.

The second factor affecting international transfer pricing is the law that exists in most countries governing the manner in which inter-company transactions crossing their borders may be priced.

**TRANSFER PRICING METHODS**

1. **Cost-based transfer price:** The transfer price is based on the cost to produce a good or service. Cost can be determined as variable production cost, variable plus fixed production cost, or full cost, based on either actual or budgeted amounts. The transfer price often includes a profit margin for the seller.
2. **Market-based transfer price:** The transfer price charged a related party is either based on the price that would be charged to an unrelated customer or determined by reference to sales of similar products or services by other companies to unrelated parties. Market-based systems avoid the problem associated with cost-based systems of transferring the inefficiencies of one division or subsidiary to others.
3. **Negotiated price:** The transfer price is the result of negotiation between buyer and seller and may be unrelated to either cost or market value. A negotiated pricing system can be useful, as it allows subsidiary managers the freedom to bargain with one another, thereby preserving the autonomy of subsidiary managers.

**Objectives Of International Transfer Pricing**

1. **Performance Evaluation:** To fairly evaluate the performance of both parties to an inter-company transaction, the transfer should be made at a price acceptable to both parties. An acceptable price could be determined by reference to outside market prices or it could be determined by allowing the two parties to the transaction to negotiate a price.
2. **Cost Minimization:** When inter-company transactions cross national borders, differences between countries might lead an MNC to attempt to achieve certain cost-minimization objectives through the use of discretionary transfer prices mandated by headquarters. The most well-known use of discretionary transfer pricing is to minimize worldwide income taxes by recording profits in lower-tax countries.

 **Conflicting Objectives**

There is an inherent conflict between the performance evaluation and cost- minimization objectives of transfer pricing. One way that companies deal with this conflict is through dual pricing.