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**ASSIGNMENT TITLE: INTERNATIONAL TRANSFER PRICING**

For every transaction to be carried out between related parties there as to be a price. The determination of these prices is called transfer pricing. A significant amount of global trade that is international trade consists of transfers of goods and services as well as cash within an MNC group these transfers are regarded as intra-group transfer or inter-company transfer

There are factors that affect the determination of transfer pricing these are; the objectives the organisation wants to achieve and the other is the law governing the activities of the country they operate in. These laws were established to ensure that multinational corporations do not avoid paying taxes. Correspondents identified that transfer pricing is one of the important issues they face compared to all other international tax issues. Other objective of transfer pricing is decentralization.

There are various method for determining prices include; cost-based transfer price, market-based transfer pricing and negotiated price. The first method determine cost as a basis of variable production cost, variable plus fixed production cost on either budgeted or the actual amount. The second method is based on the market pricing system. The last method deals with negotiations between the seller and the buyer.

**Objectives of International Transfer Pricing**

International transfer pricing has two objectives; performance evaluation and cost minimization.

Performance evaluation evaluates the performance of both parties involved in an intercompany transaction. The transfer should be made at a price acceptable to both parties. The price can be determined by allowing both parties to negotiate a price. The policies for establishing prices for domestic transfers should be based on the objectives of both parties for evaluating performance.

**Cost minimization**

Differences between countries can lead a multinational corporations to achieve cost-minimization through the use of discretionary transfer prices mandated by the head office. The use of discretionary transfer pricing is to reduce the taxes charged on income. There are conflicting objectives regarding cost-minimization but this can be dealt with using dual pricing.

Other cost-minimization objectives are; avoidance of withholding taxes, minimization of import duties, circumvent profit repatriation restriction, protect cash flow from currency devaluation and improve competitive position of foreign operation.