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**Summary of International Transfer Pricing**

Transfer pricing is the determination of the price at which transactions between related parties will be carried out. It could be upstream or downstream or from one subsidiary to another of the same parent. Intercompany transactions are transfers between related parties.

Two factors influence the determinations of international transfer prices which are:

1. The objective that headquarters management wishes to achieve
2. The law that exists in most countries governing intercompany transactions

**Decentralization and Goal Congruence**

Business enterprises often are organized by division which leads to delegation or decentralized authority and responsibility by top managers to division managers. Though decentralization has many advantages such as; allowing local managers to respond quickly to a changing environment, it also has disadvantages which include; local managers may make decisions that are in their self-interest but detrimental to the company as a whole.

Goal Congruence therefore means provision of incentives for local managers to make decisions that are consistent with corporate goals.

**Transfer Pricing Methods**

1. Cost-based transfer price: The transfer price is based on the cost to produce a good or service.
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.
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

Furthermore, there are to major objectives to consider in international transfer pricing which are:

1. Performance Evaluation: to fairly evaluate the performance of both parties to an intercompany transaction, the transfer should be made at a price acceptable to both parties. This price could be determined by reference to outside market prices or by allowing the two parties to the transaction to negotiate a price.
2. Cost Minimization: when intercompany 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.

However, there is an inherent conflict between the performance evaluation and cost- minimization objectives of transfer pricing.

Other Cost-Minimization Objectives include; avoidance of withholding taxes, minimization of import duties (tariffs), circumvent profit repatriation restrictions, e.t.c.