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 **SUMMARY OF INTERNATIONAL TRANSFER PRICING**

Transfer pricing is referred to as the determination of the price at which transaction between related parties will be carried out. Transfer between related parties are also known as intercompany transactions and this represents a significant portion of international trade. There are two factors that heavily influence the manner in which international transfer pricing are made which are:

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

Business enterprises are often organized by divisions, and in such companies, top managers delegate or decentralize authority and responsibility to division managers. Some of the advantages of decentralization include: allowing local managers to respond quickly to a changing environment, dividing large, complex problems into manageable pieces, motivating local managers who would be otherwise frustrated if they were to only implement the decisions of others.

On the other hand, a major potential pitfall is that local managers who have been granted decision-making authority may make decision that are in their self-interest but detrimental to the company’s. Here, goal congruence is employed. Goal congruence is known as when the corporate accounting and control system are being deigned in a way that it provides incentives for local managers to make decisions that are consistent with corporate goals.

There are three methods for transfer pricing as follows:

* Cost-based transfer price which is the transfer price based on the cost to produce a good or service.
* Market-based transfer which means the transfer price charged a related party is either based on the price that would be changed to an unrelated customer or determined by reference to sales of similar product or services by other companies to unrelated parties, and
* Negotiated price: Where the transfer price is the result of negotiation between buyer and seller and maybe unrelated to either cost or market value.

In a broad view, there are two possible objectives of international transfer pricing namely; performance evaluation and cost minimization.

* In 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. An acceptable price could be determined by reference to outside market prices or by allowing the two parties to the transaction to negotiate a price.
* As for cost minimization, differences between countries might lead an MNC to attempt to achieve certain cost minimization objectives by using discretionary transfer prices mandated by headquarters. Although, there is an inherent conflict between these two and one way companies deal with this conflict is through dual prizing.

In addition, other objectives can be achieved through the use of discretionary transfer prices for international transactions which include; avoidance of withholding taxes, minimization of import duties (tariff), circumvent profit repatriation restrictions, protect cash flow from currency devaluation, improve competitive position of foreign operation. Also, there are transfer prices (categorized as high or low) needed to achieve various cost minimization objectives.