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**SUMMARY ON INTERNATIONAL TRANSFER PRICING**

Transfer pricing is seen as the determination of the price at which transactions between related parties are being carried out. The transfers can be from a subsidiary to its parent (i.e upstream), from the parent to a subsidiary (i.e downstream), or from one subsidiary to another of the same parent. Inter-company transactions are transfers between related parties which are a significant portion of international trade. Two factors heavily affect the way 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 how intercompany transactions crossing their borders may be priced.

Business operations are often organized by divisions, and in such companies, top managers delegate or disperse 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 carry out the decisions of others.

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

There are three methods of transfer pricing as follows:

* Cost-based transfer price is the transfer price which is based on the cost to produce a good or service.
* Market-based transfer is the transfer price charged at a related party that 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 is where the transfer price is as a result of negotiation between a buyer and a seller and may be unrelated to either cost or market value.

In a comprehensive 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 the 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 a certain cost minimization objective by using discretionary transfer prices assigned by headquarters. Although, there is an inherent conflict between these two and one-way companies deal with this conflict is through dual prizing.

Furthermore, 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 the competitive position of a foreign operation. Also, there are transfer prices (categorized as high or low) needed to achieve various cost minimization objectives.