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SUMMARY ON INTERNATIONAL TRANSFER PRICING

Transfer pricing refers to the price at which transfers are to be made between similar parties. Transfers are also regarded as intercompany exchanges between similar parties. Two variables greatly affect how foreign export rates are calculated. The first element is the goal which the management of headquarters wishes to accomplish through its pricing transition practices. The second element impacting foreign share pricing is the regulation that exists in most countries that regulate the pricing of intercompany transactions that cross their boundaries.

Business enterprises are also split by division. A division may be a benefit center that is responsible for revenue and operating costs, or an acquisition center that is also responsible for properties.

There are other benefits of decentralization including: Allowing local managers to rapidly adapt to changing climate; Dividing major, complicated things into manageable pieces; Motivate district administrators who would otherwise feel disappointed because they are simply asked to enforce others' decisions.

The most critical drawback is that local administrators over whom decision-making power has been delegated will make decisions that are in their self-interest but harmful to the entire sector. The price at which an intercompany contract is made defines the amount of income generated by the seller, is a expense to the buyer, and thereby influences the calculation of the relevant parties' net benefit and efficiency.

**Transfer Pricing Methods**

The methods employed for calculating international transfer rates are exactly the same as those used in a strictly domestic context. Commonly, the following three strategies are:

1. Cost-based transfer price: The transfer price shall be dependent on the cost of manufacturing a product or service. Price may be calculated as variable cost of production, variable plus fixed cost of production, or maximum expense, and dependent on real or budgeted quantities (standard costs).
2. Market-based transfer price: The transfer price paid by a related company is either dependent on the price paid to an unrelated consumer, or calculated by reference to purchases by other firms to unrelated parties with identical goods or services.
3. Negotiated price: The transfer price is the product of purchaser-seller agreements and can be contrary to either cost or consumer demand. For this method to operate effectively, though, it is crucial that the goods being exchanged have external markets, so that the bargaining sides will provide reliable statistics as the basis for negotiation.

**Objectives of international transfer pricing**

Performance Evaluation: To determine equally all parties' success in an intercompany contract, the transfer should be made at a price appropriate to all parties.

Cost Minimization: When intercompany transactions cross national boundaries, differences between countries may cause an MNC to attempt to achieve such cost-minimization objectives by using the discretionary transfer rates required by headquarters.

In addition to the goal of reducing worldwide income taxes, the use of disposable transfer prices for international transactions will meet a range of other targets. They include: Avoidance of Withholding Taxes, Minimization of Import Duties (Tariffs), Protect Cash Flows from Currency Devaluation, etc. It should be acknowledged that these different goals for cost-minimization may clash with each other. For instance, paying a higher transfer price to a foreign subsidiary to minimize the amount of withholding taxes paid to the foreign government would result in higher import duties payable to the foreign government.