**International transfer pricing**

This refers to the determination of the price at which transactions between related parties will be carried out. Transfers between parent and subsidiary are intercompany transactions.

**Decentralization and goal congruence**

Usually, business enterprises are organized by division. In such companies, top managers delegate or decentralize authority and responsibility to division manage because it allows local managers to repost quickly to a changing environment, it divides large, complex problems into manageable pieces and it motivates local managers who would be frustrated if asked only to implement the decisions of others.

**Transfer pricing methods**

1. Cost-based transfer price. This transfer price is based on the cost to produce a good or a service. This system is simple to use but there is an issue of which measure of cost to use and the use of standard rather than actual costs alleviates this problem.
2. Market-based transfer price. This transfer price is charged to 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 prices.
3. Negotiated price. Here the transfer price is the result of a negotiation between both parties involved. It may be unrelated to cost value or market value.

**Objectives of international transfer pricing**

1. Performance evaluation
2. Cost minimization

Other cost-minimization objectives

1. Avoidance of withholding taxes: by receiving cash in the form of sales price for goods and services, a parent company can avoid withholding taxes that would be paid to the foreign government.
2. Minimization of import duties: by transferring goods to a foreign operation at lower prices
3. Circumvent profit repatriation restrictions: in some countries there’s a restriction that only a certain amount of dividend can be paid to a foreign parent company. To get around that restriction, the parent company removes “profit” indirectly by setting high transfers prices on goods and services
4. Protect cash flows from current devaluation: in locations that are prone to currency devaluation the parent company may accelerate removing of cash from such place
5. Improve competitive position of foreign operation: the parent company might want to improve the credit status of a foreign operation as to earn local financing at lower interest rates.