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Tax Optimization Through Transfer Pricing, Common & Manipulative Practices

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Abstract:
When an associate enterprises transfer goods, intangible property then the prices at which the transfer takes place would be deemed as transfer price. The same has been defined as the Practice which is paid during a business transaction, which could be tangible property, goods or services between companies under which the price of the same can be controlled. The paper dwells into the ways through which multinational corporations use transfer pricing method to optimise their profits and at the same time use manipulative ways to evade tax.

Introduction:
Transfer price is said to be the value which is put upon the goods and services which are traded between the same entities of an organization. If we look at the current trend of transfer pricing which is being used by the international Enterprises it has become a nightmare for the tax authorities to deal with all the illegal activities that goes on to evade paying tax.

Review of literature:
When an associate enterprises transfer goods, intangible property then the prices at which the transfer takes place would be deemed as transfer price. The same has been defined as the Patrice which is paid during a business transaction, which could be tangible property, goods or services between companies under which the price of the same can be controlled. (Abdallah, 2004). This principle is also used to assess performance among large companies or related parties. (Langfield-Smith, Smith, 2005)

Issues:-
Whether the tax can be reduced with the help of Transfer pricing by maximizing profits without the manipulation of the actual price.

Objectives:
The paper would look into the different ways through which multinational enterprises choose the transfer pricing to transfer good services in different income tax rates of the corporate world.

Research Methodology:
While writing the present paper the different research methods that were used were secondary methods like the literature analysis and evaluation of other in research papers that were available on transfer pricing and tax optimisation.

Analysis:

Common methods of tax optimisation

The method of transfer pricing has been used by multinational enterprises to maximize their global profits through different international tax rates, economic social factors, foreign exchange rates regulations, currency manipulation and other abilities in the world. The benefit of transferring profits between one party to the other related to each other through selling goods and having alternative methods to structure and finance their investments to highly reduce their tax payments are the evidence which shows the choices that companies make considering the tax.

In the strategy to maximize the profits of multinational enterprises now the strategy of transfer pricing is being commonly employed by the corporate world in the marketPlace, this largely benefits the companies in tax and other practices. Every country has different foreign regulations on the basis of income tax and other goods and services related payments so the taxation system of every country has a significant effect on the big corporate firms which are the multinational enterprises. It is important to make decisions for the management in the long-term as they need to quickly and efficiently deal with the external and internal management system with the current tax system of the country with related entities, so that the tax could be minimized and more profits could be maximized through the same. It is very important for multinational enterprises to look at the place where investing or market products are being placed and how the financing is being done so that while using the strategy of transfer pricing as the tax considerations usually make an impact on the multinational enterprises choice's.

One of the most common methods that is used by the multinational enterprises to maximize the profits and minimize taxation is through managing their internal goals and external goals by evaluating the performance of the managers and motivating teamwork so that the foreign domestic tax bill could be reduced and the foreign subsidiary as an external factor can be strengthened. multinational enterprises reduce their foreign exchange risk by using transfer pricing and to put themselves in a better position comparing themselves to their competitors so that their fiscal success can be hidden and a profit could be maximized which would eventually reduce the tax. it is very important to look at the different criteria through which an efficient investment way of international transfer pricing system can be operated by the enterprises. Benefits of transfer pricing:-

- An efficient transfer pricing system for the multinational enterprises should increase the global profit and minimize the tax liability of the multinational enterprises. It should also reduce the foreign exchange prices by bringing the losses to a minimum level and also decreasing the tariff rates for imports and exports of international transactions.
- It should help the foreign subsidiaries to compete with other foreign subsidiaries so that the objective of the multinational enterprises can be achieved for maximizing the profit.

Manipulative Practices through transfer pricing:

Many times while trying to minimize their tax liabilities the multinational enterprises often abuse their strategies and methods to do the same during the manipulation of taxes, the value of the actual goods and services is manipulated in accounting. By doing this, the profit is maximized by the enterprise's as the tax gets lowered. The manipulation is quite common between multinational enterprises because during transfer pricing manipulation the entities among which the manipulation takes place are connected worldwide and due to them the global connection between the multinational enterprises makes it easier for them to take a dominant place in the market so that the transfer price can be manipulated. the transactions which are carried out at different prices of the goods and services within the businesses becomes more easy by acting independent of each other.

Illustration:

It is very important to allocate tax on the basis of the tax rate of that country as taxes with countries with high tax rate would eventually bring low income whereas lower tax rate countries would eventually bring more revenue to those enterprises. for example:- if you look at the subsidiary of a multinational enterprise of France which produces around 15,000 units and sells around 12,500 units to one of the subsidiaries in Norway which is also owned by the multinational company of France at €20 unit, then the same unit would be sold to an unrelated customer for 40 per unit. If you look at the income tax rate of Zoil which is 10% and also of the subsidiary which is held by Norway which is 28% then it clearly shows that there is a reduction of tax between the higher transfer pricing between what are the subsidiaries.

Recommendations:

In countries with low income tax rates when a multinational enterprise does any transfer of goods or services between entities than the transfer price should be as low as possible so that while transferring this goods out of the low income tax countries the transfer price which they get would be at the highest as possible and in countries where the transfer is done, the rate of income tax is high the goods which are transferred into the country should be at the highest price so that while purchasing the goods the subsidiary of the same would be at the highest level which would eventually minimize the rate of the liability to taxation.

Conclusion:

I would like to conclude by stating that transfer pricing is a very powerful tool to minimize tax and maximize profits but the tax authorities need to be more aware of the tools as they act as a weapon to international problems of taxation. multinational enterprises use these strategies and techniques to bring it to their own advantage by using it in different countries according to the tax rates and factors. It reduces the liability of the tax and to achieve their corporate goals this tool will be a common method to minimize the tax. It will keep on growing for the next coming years as it has become a very pervasive practice even though OECD has put up a lot of regulations to make it more regulated it still comes with its own issues and problems which cannot be fully avoided.

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