



Transfer pricing decisions in Multinational Corporations: A review of concepts

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ABSTRACT

The aim of this paper was to review the concept of transfer pricing decisions in multinational corporations (MNCs). The library-based research was employed in carrying out this study through an extensive review of relevant materials. The findings revealed that the debate on transfer pricing and how it is being exploited by MNCs has been an issue of serious concern in the area of international taxation. Particularly, the negative aspects of transfer pricing decisions in host countries. Also, enlighten is the weakness of the arm's length principle among MNCs and suggested the need for a closer review of the unitary taxation which is premised on the principle of profit apportionment or formula apportionment and there is a need for future empirical research to address and provide greater insight into this critical issue.

Keywords: Arm's Length Principle, multinational corporations, tax treaty, transfer price

1. INTRODUCTION

The twenty-first century has witnessed a surge in globalization to the point that many commercial organizations' operations have switched from the old form of having just domestic coverage to having cross-border coverage. Firms' worldwide scope has expanded rapidly since 1970. A lot of significant global corporations today have subsidiaries or branches in different nations (Borkowski, 2010). As a result, the parent company organizes its resources in such a way that worldwide resource utilization and revenues are maximized.





The actual price of transactions should be applied to products and services transferred between a parent company and its subsidiary to properly assess each branch's operational success. This is because the parent business and all of its subsidiaries are one integrated economic entity with the same levels of accounting. The subsidiaries all report to the parent company at the end of the fiscal period (Browning, 2015; Ring, 2002). Multinational corporations gain significantly from trade and investment, and their commercial operations cover the world; as a result, they have emerged as key drivers of economic globalization. As global market competition heats up, multinational corporations' commercial operations are becoming increasingly important in generating income in host countries (Browning, 2015; Cui et al., 2009). One of these acts is the amount set aside for trading products and services between connected businesses.

The transfer price is used by multinational corporations to settle the transfer of tangible and intangible assets or services between the parent company and its subsidiaries, or only between subsidiaries, to maximize profits (Cui & He, 2015; Zhang, 2007). The transfer price is unaffected by the market's supply and demand laws. It is set by top management and in line with the firm's overall strategic objectives which majority of the time is to maximize profit (Xue & Yang, 2008).

Multinational firms can legally and successfully use transfer pricing to get around trade restrictions, pay less in taxes, decrease transaction risk, increase economic efficiency, and gain a competitive edge (Blouin, et al., 2018).

Blouin et al. (2018) differentiate three different forms of transfer pricing: Arm's Length Pricing: This is the most common type of transfer pricing. It is based on market prices and is typically used between unrelated parties. The price established is based on what the market would bear if the two companies were unrelated. Next is the Cost-Plus Pricing method: Cost plus pricing is the second most common form of transfer pricing. It is used when the parent company sells goods to its subsidiary at a price that is higher than the cost of producing them. The price is determined by adding a certain percentage to the production cost and finally, is the Negotiated Pricing method: Negotiated pricing is the least common form of transfer pricing. This type of pricing is used when the two related parties agree to a specific price that is not based on market prices. Negotiated pricing can be used when the two parties have different objectives or when the transfer of goods involves a high degree of complexity or risk.

Because of this, the transfer pricing approach is an effective instrument for multinational corporations to accomplish worldwide coordination of their human, financial, and material resource deployment and centralized control (Talha, et al.





2005). Multinational corporations (MNCs) in their use of transfer prices have resulted in a lot of critical issues with them increasingly using transfer pricing to shift profits from high-tax jurisdictions to low-tax jurisdictions, creating a misalignment of transfer pricing strategies and creating a risk of double taxation. Companies often lack the necessary data to accurately determine the arm's length transfer price. This can lead to disputes between tax authorities and companies (Dogan, et al., 2013). The constant changes in a company's structure are shown by multinational corporations' reorganization and growth efforts, such as the numerous merger and acquisition waves and divestment plans, as opposed to the traditional corporate structure (Brem & Tucha, 2006).

For now, the arm's length principle is the most widely accepted method of determining transfer prices between related parties. Under this approach, the transfer price is determined based on the price that would be paid by an independent third party (OECD, 2017). However, there are several limitations which have been identified in the literature.

First, it is difficult to determine a comparable price in many cases, as the market for the product or service may not be well-developed or may have different characteristics than the market between the related parties (Bamford & Ernst, 2002; Bastian, 2005; Blouin et al., 2018). Second, the arm's length principle relies heavily on the assumptions made by the parties, which can be difficult to verify and may be subject to manipulation (Dogan et al., 2013). Finally, the arm's length principle does not consider other factors, such as the strategic objectives of the related parties, that could have an impact on the transfer price (Brem, 2004; Jafri & Mustikasari, 2018).

The purpose of this paper is to review the literature on the concept of transfer pricing methods of multinationals corporations.. The paper is structured thus; Section 2 is on transfer pricing, the reasons and negative effects of the practice, as well as innovative remedies put in place by regulatory institutions and the conclusion is given in the last section.

2. LITERATURE REVIEW

Transfer Pricing

Transfer pricing is the practice of setting prices for goods and services exchanged between related entities, such as subsidiaries of the same parent company (Qin & Wu, 2011). It is common for multinational companies to have subsidiaries located in different countries, and transfer pricing is used to allocate income and expenses between these entities. The implications of transfer pricing are that it can be used to





manipulate the taxable income of a company, which can lead to tax avoidance and other issues. Companies must ensure that their transfer pricing practices are in line with local tax laws and regulations (Gallermore & Labro, 2015).

Many countries have enacted laws and regulations to ensure that transfer pricing practices are in line with arm's-length principles, which dictate that prices charged between related parties should be comparable to prices charged between unrelated parties. The United States has a number of laws and regulations (Internal Revenue Code (IRC) Section 482, United State Courts regulations) in place to ensure fairness in transfer pricing. These include the Internal Revenue Code which sets out the rules, definitions, and standards for transfer pricing in the US. It requires taxpayers to use the "arm's length" standard when pricing transactions between related parties, meaning that the prices of goods and services must be comparable to what would be charged to an unrelated party. Other such laws in the US are the Economic Substance Doctrine which looks at the substance of a transaction and not just its form, meaning that taxpayers must prove that the transaction has economic significance and is not just a paper transaction designed to reduce taxes (Lambert, 2001; Marti, et al., 2003; Smith, 2002).

Nigeria has various laws which regulate the use of transfer price in the country. These are provided below:

- Section 10(1) of the Companies Income Tax Act (CITA 2004 as amended) provides that the profits of an enterprise shall be computed in accordance with the arm's length principle in determining the profits of a company.
- Section 11(2) of the (CITA 2004 as amended) states that a taxpayer should make sure to adjust any transfer pricing arrangement in order to ensure that the profits or losses of any associated enterprise are determined in accordance with the arm's length principle.
- Section 14(4) of the (CITA 2004 as amended) requires taxpayers to maintain and make available to the tax authorities all documents and records necessary to enable them to determine the amount of tax payable by the taxpayer under the CITA.
- Section 81A of the Value Added Tax Act 2010 as amended (Finance act) prohibits any adjustment of the amount of any Value Added Tax payable by a person as a result of any transfer pricing arrangement.
- Section 84A of the Value Added Tax Act 2010 as amended (Finance act) requires taxpayers to provide information on transfer pricing arrangements to the tax authorities.





- Section 58 of the Petroleum Profits Tax Act requires the taxpayer to maintain and produce to the tax authorities all documents and records necessary to enable them to determine the amount of tax payable by the taxpayer under the PPT Act.

The OECD 2017 key provisions on methods of transfer pricing aim to provide guidance for multinational companies on how to determine the arm's length price for their cross-border transactions. The OECD's 2017 Transfer Pricing Guidelines (TPG) updates the guidance from the 2010 version. The key provisions include guidance on the selection of the most appropriate transfer pricing method, the application of the arm's length principle, the application of the comparable uncontrolled price (CUP) method, the application of the transactional net margin method (TNMM), the application of the cost-plus method, and the application of the profit split method.

The OECD recommends that companies consider all available methods in order to determine the arm's length price. The selection of the most appropriate method should depend on the specific nature of the transaction and the characteristics of the taxpayer. Companies are encouraged to consider multiple methods to ensure that the most reliable and accurate arm's length price is determined.

The arm's length principle requires that the price of a transaction between associated enterprises should be the same as if the transaction had been between independent parties. The CUP method is used to compare the prices of a controlled transaction to that of an uncontrolled transaction. The TNMM compares the net profit margin of the taxpayer to that of an uncontrolled third party. The cost-plus method is used to determine a markup on the costs incurred by the taxpayer. The Resale Price Method is used to determine the price of a resale transaction. The Profit Split Method is used to divide the total profit from a transaction between two associated parties (OCED, 2017).

The Motive of Multinational Corporations to use Transferring Price Strategy

By using the transfer pricing approach, multinational firms may gain in several ways as specified in this subsection.

According to Jafri and Mustikasari (2018) and Oyedele et al. (2013), their actions can be discerned by actions such as evading tax. To reduce their corporate income tax burden, multinational firms routinely intentionally inflate or deflate transaction costs and shift earnings from nations with higher tax rates to nations with lower tax rates. They achieve this by taking advantage of regional customs union laws and regulations, national differences in tax rates, and a preference for free ports (Depari,



et al., 2020). Additionally, multinational firms frequently employ regional customs unions or other favourable terms in the contract in order to avoid paying customs. They also frequently exploit cheaper transaction costs inside their own organizations (Zhou, 2015).

The motive can also be discerned through mitigating risks undertaken and the adjustment of internal funds for profit.

When a multinational corporation expands globally, it must deal with risks connected to the many countries and regions it wishes to operate in, such as institutional flaws, crime, political unrest, violence, and exchange rate volatility (Oyedele, et al., 2013). According to Dai (2010); Zhang (2007), transfer pricing can assist to manage the hazards indicated, one of which is currency rate fluctuation. Foreign currency rates have continued to vary throughout time, affecting company operations and resulting in revenue loss since the value of currencies changes between when contracts are signed and executed.

Another danger noted by Qin and Wu (2011) is that of foreign currency trading transactions and asset translation. MNCs face the danger of their assets losing value as a result of exchange rate fluctuations, and locking in a certain exchange rate does not ensure that the transfer price would improve the situation and hence minimize the risk associated with it.

Melnychenko et al. (2017) evaluated the risks connected to a nation's political activity. When a host nation experiences a "coup," In order to transfer a sizable sum of money outside the host country and lessen the impact of political risk on multinational corporations, this may affect an MNC's interests and lead to the sale of goods acquired from other subsidiaries at high prices or the transfer of materials and equipment seized by the local government to subsidiaries or affiliates at low prices. Last but not least, multinational firms frequently utilize price transferring as a countermeasure to get past pricing limitations when host-country governments introduce market price control measures to oversee and monitor the operations of multinational organizations in the local market (Jafri & Mustikasari, 2018).

Also, another motive is the adjustment of internal funds by companies for profit. The cost of materials and other components in some nations is exorbitant when compared to what is accessible in other countries. As a result, firms create methods to reduce the cost of obtaining such commodities, and transfer pricing do that. According to Klynveld Peat Marwick Goerdeler [KPMG] (2007), in order to outbid certain rivals and boost the company's worldwide standing, MNCs move raw, completed goods, and components at a very low price to their overseas subsidiaries. This gives its





subsidiaries a competitive edge in the host country's market and helps the company's reputation.

The issue of excess earnings being taxed or collected by investors is another motivator for MNCs to use transfer pricing. According to Brem (2004) and Borkowski (2010), multinational corporations face the risk of retaliatory behaviour, which means that MNCs can reduce subsidiaries' profitability, allowing them to acquire products from subsidiaries at lower prices or trade goods to subsidiaries at increased rates.

The Abuse of Multinational Corporations Transferring Price

Multinational corporations use price transfers to exercise influence on their subsidiaries all over the globe, pushing them to comply with global strategic objectives and maximize income (Liu & Liu, 2014). The Nigerian Transfer Pricing Regulation (2012) and (2018) were promulgated to check such abuses. On the contrary, when multinational firms utilize price transfer to further their goals, these acts may have a negative impact on the economies of the host nations resulting in loss in tax revenue to the host nation.

According to Melnychenko et al. (2017) transfer pricing abuse by multinational companies (MNCs) undermines the fair and orderly functioning of the global economy, contradicts the principle of tax fairness, and hinders the regular expansion of global trade and investment. Furthermore, Depari et al. (2020) and Qin and Wu (2011) agreed that multinational businesses relocate the earnings of their subsidiaries outside of host nations using the "high-low price" transfer pricing strategy. As a result, both the tax revenue attributable to the host governments and the taxable income of multinational corporations in the host nations are dramatically reduced.

Another result of transfer pricing abuse is a decrease in host country income from foreign commerce. This is known as "high-low price" transfer pricing used by multinational firms, according to Borkowski (2010). The foreign income and payments received by the host nations are significantly impacted by this. On the one hand, the use of transfer pricing may increase foreign merchants' overall profits, encouraging them to purchase items that their host country might create domestically instead (Browning, 2015). The "high-low price" of transferring price causes host countries to increase imported goods and intangible expenses while decreasing exported goods, which causes a decline in host countries' international income and payments when multinational corporations purchase the same amount of goods, services and technology, etc. from or sell the same amount of goods to related companies abroad (Ring, 2002).





Additionally, it can cause unfair competition to undermine the market environment. Indigenous companies in host nations find it difficult to compete favourably with their international counterparts when the cost of inputs transferred from their international parent company is very low. Sometimes, multinational firms construct lower internal transfer pricing so that subsidiaries can sell goods at a lower price than usual and even at a manufacturing cost in order to control the market and intimidate rivals (Zhang, 2007). This measure looks to be useful rather than damaging to customers. However, this behaviour has the potential to considerably reduce market competition, seriously injure or endanger similar businesses, and hinder or endanger the existence and growth of competitors (Smith, 2002).

The "high-low pricing" transfer price approach is used by multinational corporations to divert earnings from host nations and make the books to be making a low profit or even a loss. This gives the false impression that making investments in host nations is unproductive (Huizinga & Laeven, 2008; Oyedele, et al., 2013). This untrue perception might dampen foreign business people's excitement for investing in host nations, affecting not just the reputation of such nations' business climates throughout the world but also the inflow of additional foreign capital and innovative technology.

Due to the fact that their real tax rate is lower than the normal tax rate, businesses that increase their prices to avoid paying taxes may obtain unfair competitive advantages. Law-abiding and ethical taxpayers are thus at a disadvantage in the marketplace (Gallemore & Labro, 2015). Some subsidiaries of multinational firms with investments in host nations employ the transferring pricing method to bring in a lot of goods from the parent companies' overseas manufacturing base for less than cost. The multinational enterprises subsequently release these items into the markets of the host nations, having an impact on related industries there. Many nations currently have anti-dumping legislation or procedures in place to collect anti-dumping fees for cheap dumping goods (Cecchini, et al., 2013).

The Arm's Length Principle

The arm's length principle is the international standard for transfer pricing, which is the setting of prices for transactions between related parties. It is the fundamental principle of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, and provides that associated enterprises should determine prices for their transactions as if they were independent parties dealing at arm's length (OECD, 2017). The arm's length principle is the basis for the OECD's transfer pricing guidelines and the rules of many countries for taxing the profits of multinational enterprises. This means that transactions should be priced in a manner that reflects





the fair market value of the goods or services exchanged in a transaction between independent parties (Refgia, 2017).

The OECD (Organisation for Economic Co-operation and Development) published a critical review of the arm's length principle in 2017. The arm's length principle is a cornerstone of the international transfer pricing system, whereby related parties conduct their transactions as if they were independent (Khotimah, 2019). The OECD's review is intended to provide a comprehensive overview of the current state of the arm's length principle and to identify potential areas for improvement. The review reveals that the application of the arm's length principle can be subject to differing interpretations and approaches, which can lead to disputes between taxpayers and tax authorities (Cristea & Nyugen, 2016).

To address this, the OECD suggests the introduction of a uniform definition of the arm's length principle and a common set of rules for its application. The review also highlights the potential for transfer pricing to be used to erode the tax base of countries. To address this, the OECD suggests that taxpayers should be required to disclose more information about their transactions and that countries should adopt measures to ensure that transfer prices are set at an appropriate level (Khotimah, 2019). Overall, the OECD's review of the arm's length principle indicates that there is a need for better guidance and increased transparency in order to ensure that the principle is applied consistently and that its potential for tax avoidance is minimized.

Limited Comparability of Arms-Length Principle (ALP)

Among the critical issues identified in relation to the third-party principle is the lack of comparability of the current arm's length principle. The ability to compare third-party transactions with similar governance structures is at best challenging and at worst impossible since a meaningful application of ALP must portray transaction-specific governance arrangements. The vehicle "MNC" was created for this use. Hybrid or hierarchical governance may come from certain assets and specific entrepreneurial activities, which are frequently complementary to intangibles (Gestreicher, 2000; Schneider, 2003). Even if they did, the databases now in use to establish an arm's length range do not include transactional context or features.

The fundamentals of multinational governance are authority, direction, enforcement and safeguarding, which are likely to alter significantly if the same transaction were handled by a market of independent parties. The creation, provision, and coordination of intellectual capital protected by formal property rights (such as trademarks and patents), as well as valuable intangibles not (yet) protected by non-formal property rights, are transactions Cecchini, et al. (2013) refer to as transfer





pricing. These transactions include input sourcing, highly complex manufacturing, final product and service distribution, and risk management (currency, warranty, guarantee, and accounts receivable, among other.). Although these transactions may occur in external markets, ALP is opposed to them because of the fact that their governance differs from that of the business as a whole (Cecchini, et al. 2013).

It is self-evident that transactions (and their associated pricing) within an MNC cannot be directly (price) or even indirectly (margin) compared to transactions between distinct entities. As a result, although national tax jurisdictions employing the OECD model frequently use transfer pricing methods (TPMs) that need profit margin or external price comparison, they are rarely meaningful (Cui & He, 2015).

In general, relatively straightforward transfer pricing scenarios, such as a restricted deployment of intellectual property and non-routine operations, are frequently used to compare prices or margins using so-called transaction-based approaches. However, such external comparison tools are limited by a lack of comparable data on governance structure elements (Depari, et al. 2020). Due to the differences in transactional features between related-party and independent-party transactions, even internal pricing comparisons based on transaction cost economics (TCE) are insufficient. If transfer prices are based on comparable external markets, incentive difficulties are likely to be mismatched in addition to the tax implications of direct pricing and/or margin comparison (Browning, 2015).

In terms of comparing the direct or indirect effects of transfer price similar to TCE, they would still need to be rejected since the publicly accessible data on comparables lacks adequate details on the terms of the contracts and the context of the transactions. Traditional transfer pricing databases only contain financial information and give a cursory account of how a business operates (Bastian, 2005). Databases today seldom ever offer information based on transactions. For instance, interest rate databases often do not contain details on the commercial context in which the parties bargained (Depari, et al., 2020).

Also omitted from (transaction-based) price and profit margin comparisons are case-specific fact patterns like market penetration stage, market volatility, any unusual event (high-risk damages), exchange rate fluctuations, recession, inflation, and so on. In practice, profit-based tactics and profit-level indicators are also employed. Because the comparability of a transaction, the business organization (functions, risks, assets), and the contractual structure are typically not provided, it is challenging to make any trustworthy claims about the appropriateness of the transfer price (direct comparison) or its related income stream (indirect comparison) (Oyedele, et al. 2013). Traditional transfer pricing, on the other hand, uses





comparable comparisons to the second and, in some circumstances, the third number after the percentage comma with astounding precision. To put it in another way, transfer pricing in the tax sector rarely reflects business reality and contractual complexities (Depari, et al., 2020).

Critical Issues of Transfer Pricing and Multinationals (MNCs)

Transfer pricing has implications for MNCs' highly integrated business processes. Companies that are highly integrated often have complex supply chains, production processes, and distribution networks. As a result, the transfer pricing of goods, services, and capital within these networks can have a significant effect on the overall performance of the company. Transfer pricing can also be used to manage the tax implications of these complex networks.

The limitations of the mainstream transfer pricing arm's length concept may be demonstrated in how frequently global dealing situations are handled. Global trading is seen as a business with highly interwoven tasks that cannot be separated to determine an arm's length resulting in international taxation (OECD, 2015, Sec. 3.5 and 4.82). The 24-hour trading of derivatives and financial goods anywhere in the globe carried out by a global asset management company is frequently characterized by highly integrated services and risk management (Xue & Yang, 2008). Despite the presence of legally different companies, the transfer pricing community accepts that the separate-entity approach cannot be used to test for arm's length conclusions. Instead, because the company is a unitary entity, only a modified profit-split technique may be used to disperse income from these kinds of intricately intertwined commercial activities.

Many company processes reflect characteristics of global dealing situations, but present inter-national transfer pricing and revenue distribution mechanisms do not. Rather, they are based on an idea that, until the early 2000s, may have been suitable for dealing with the majority of transfer pricing difficulties.

One reason why traditional transfer pricing is confusing is due to the lack of a thorough knowledge of the factors impacting the decision between firm-internal vs. firm-external governance structures, as well as the spectrum in between (Gallemore & Labro, 2015). The tax transfer pricing method ignores governing transactional uncertainty, asset specificity and measurability issues, institutional environment factors, price and profit differentials, and more. It is commonly employed unilaterally (from the viewpoint of one country), without taking into account both transaction participants. Most practitioner transfer pricing analysis provides 'routine' and 'non-routine' activities, risks, and assets in a basic manner before assigning profits to the





MNC's legal divisions based on a third-party comparison. According to our observations, no (dynamic) theory exists that makes use of governance cost differentials (Jafri & Mustikasari, 2018).

Despite the fact that function and risk analysis is typically descriptive and seldom demonstrate similar methodologies for establishing the magnitude of such governance cost differentials, practitioners nevertheless employ it. Both "regular" and "non-routine" occupations fall under this category. The (residual) profit pie cannot be easily defined or assigned within a specific structure of entrepreneurial uncertainty, asset specificity, frequency, or quality measurability, even though a risk premium may match conventional transfer pricing. If non-routine activities are documented, the leftover profit is divided either as a percentage or in accordance with variables like relative pay amount, relative asset worth, and relative revenues. A given function's organizational embedding inside the MNC is not taken into account. In other words, the intriguing query of what sets MNCs apart from "stand-alone" companies is simply ignored (Depari, et al., 2020).

Countermeasures to the Issues Generated by Transfer Pricing

In literature, several attempts have been made to provide solutions to combat the issues of transfer pricing as identified in the previous section. These solutions have been categorized and presented below:

Correctly understanding the necessity of the transferring price management

It has long been assumed that control over transferring prices may have an impact on the utilization of foreign capital. However, there are other factors than tax savings and even tax evasion that motivate foreign traders to engage in multinational investment in the real world. If the host countries have an excellent investment climate, that is the most important factor in luring multinational investment there (Scott, 2015). We can conclude that a stable and clear legal system creates a good investment environment to entice multinational investment, particularly high-tech investment, if transferring price legislation includes internationally recognized principles, such as normal trade principles, and these principles have been implemented equally and effectively.

Improving the tax legislation and strengthening tax intelligence work

Multinational corporations typically employ internal shifting pricing to avoid paying taxes. Therefore, improving tax policy is the primary means of reducing the misuse of altering prices to avoid paying taxes. In this domain, the United States is now defining the norm. As a result, other countries can benefit from what the United



States has learned. To alter the transferring price from recognition before the transaction to adjustment after the transaction is the current practice in the United States (Depari, et al. 2020). This change was made because adjustment after the transaction has several drawbacks, including significant practical problems that might lead to a disagreement between the tax side and the tax payment side, a lengthy processing period, the use of a tremendous amount of labour and resources, and others (Zhou, 2015).

The primary method to recognize before the transaction is the advanced pricing method, which requires that taxpayers inform the tax authorities in the relevant countries of the internal transferring price of the related parties and the valuation calculation method before the transaction takes place, and after the tax authorities have confirmed it, make it the tax price. Recognizing before the transaction provides advantages over correcting after it happens, and the contrary is also true. Consequently, the primary tactic for addressing price transfer should be price recognition prior to a transaction (Dogan, et al. 2013).

Increased tax intelligence activities and the creation of a data information network are both required at the same time. The host countries ought to establish a reputable price information organization. Important departments must work together, share information, and construct a flawless pricing information feedback mechanism that can give national tax authorities relevant domestic and international price information while also facilitating the efficient growth of anti-avoidance operations.

Constructing a high-quality tax team and ensuring effective enforcement of legislation

Creating specialized entities to investigate transferring pricing and develop a work plan for transferring price inspection is the first stage. The Nigerian government has made a number of attempts to control transfer pricing operations there, including the adoption of the Nigerian Transfer Pricing Regulation in 2012 and again in 2018 to address some of these problems. This aids in the inspection of the procedure's professionalization and identification. The second step is to consult with foreign tax specialists and competent asset appraisers about the task. New personnel should be carefully recruited, compelled to attend training for a set length of time, and hired only after passing an assessment. We may seek the assistance of a qualified consulting company for estimating the value of intangible assets and novel technologies (Melnychenko, et al., 2017). By regularly educating staff to raise the general calibre of reviewers, it should be possible to develop a high-level foreign tax team with expertise in tax law, global business, and multinational corporations as well as the ability to determine the transferring price.





Strengthening international cooperation and controlling transfer price

Restricting multinational firms from using internal transfer pricing is a global issue. When we rely solely on the legislation of one country, it is extremely difficult to prohibit the transfer pricing of multinational firms completely. Regularizing multinational firms as a whole cannot be done by a single country; instead, the international community must regularize and coordinate the actions of multinational corporations as a whole. As a result, governments can only successfully regulate the transfer price if they improve international cooperation and take joint action (Liu & Liu, 2014). Furthermore, it is a successful method for improving information gathering efforts in the global market, establishing intelligence information systems, exchanging intelligence across international borders, and cooperating with one another, allowing us to share materials about multinational corporations' transferring costs and assist the opposing side in surveying, auditing, and thoroughly reviewing the situation regarding multinational corporations' ability to provide services (Qin & Wu, 2011)

3. METHODOLOGY

This paper employed the desk research method to conceptually examine the nexus between transfer pricing and the activities of multinationals corporations. Relevant materials for this study were gathered from articles, periodic bulletins, textbooks, publication of international organization such as the OECD, working papers and other internet materials. For this study a total of thirty-six (36) materials were used for the work.

4. CONCLUSION

Due to the breadth, scope, and character of international commerce inside MNCs, the outdated transfer-pricing model developed in the 1960s and widely used late in the 1980s and in the early 1990s might not be compatible with the truth of the corporate world of today and the future. Given the globalization of MNCs and the value chain structure of international business activities, it is projected that the next iteration of transfer pricing may likely depart from the arm's length principle to the unitary taxation with profit apportionment or formula apportionment. The study therefore recommends a need for future empirical research to address and provide greater insight into this critical issue of global concern.





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