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DETERMINATION OF TRANSFER PRICING IN MULTINATIONAL COMPANIES

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Abstract. *The issue of transfer pricing in multinational companies assumes strategic importance in modern business conditions. Evaluation of performance and goal congruence of all supsidiaries and multinational companies as a whole are determined by the applied rules and methods of transfer pricing. Determination of transfer pricing in multinational companies has become more complicated with differentiation of the tax systems of the countries in which subsidiaries are located. Due to different tax rates on income, companies transfer their profit from high-tax countries to low-tax countries. According to that, the aim of this work is to indicate the importance of transfer pricing and methods of their determination in multinational companies. During the preparation of this article, analysis methods based on relevant and available foreign literature and practices, methods of synthesis and methods of comparison will be applied. The aim of this paper is to indicate to the domestic and professional public the phenomenon of transfer prices and their implications on the performance of subsidiaries and multinational companies as a whole.*

Key Words: *transfer pricing, multinational companies, costs, methods.*

INTRODUCTION

Increasing instability of the environment and the complexity of technology, the need for continuous innovation and rapid decisions, have led to a more flexible organizational structure. Divisional model of organizational structuring, which is characterized by extreme flexibility and adaptability is present, especially in the organization of multinational companies. As this model is compatible for use in conditions of higher risk and suspense in the environment, its advantages in formulating and implementing the objectives of multinational companies have particularly come to the fore.

Subsidiaries within the multinational companies, that are relatively independent and functionally capable segments, also possess a high level of responsibility for both their

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own results and the results of the entire company. An important aspect of success of subsidiaries and the company as a whole are transfer prices, which is established in terms of internal transfer effects. They are determined to provide reliable and correct determination of involvement of each participant in this transfer and to measure its efficiency. Transfer pricing, in contrast to the external market price, affects the performance of subsidiaries that sell and subsidiaries that buy goods and services, but also the company as a whole.

Control-oriented accounting information system and especially accounting of liability, which provide necessary quantitative and qualitative information are essential for the effective management of multinational companies. They are primarily important for the selection and application of an appropriate transfer-pricing method. Therefore, management accounting offers a number of different methods of transfer pricing for multinational companies, as well as an information base for calculation of tax liabilities connected with the transfer of goods and services between the subsidiaries.

Accordingly, the attention of this work is the implementation of transfer pricing in multinational companies, the effects of their use on the performance of subsidiaries and the company as a whole, as well as transfer-pricing methods, with special emphasis on the role of transfer pricing in managing taxes.

1. The Role of Transfer Pricing in Multinational Operations

Specificity of multinational companies is shown through a large geographical coverage, excellent organizational interdependence and ability of coherent integration activities that are taken in different countries. In terms of revenues, profits, capital and available resources, these companies are extremely powerful, and their economic power is often greater than the potential and the results of many countries.

Great power of multinational companies is based on the enormous size of the company, activity on the global level and social impact derived from these; internationalization of all phases of business; centralization of decision-making; monopolistic control of the world's source of materials and energy; as well as the big potential of scientific and technical development. Therefore, multinational companies are the most important factor in the global economy, which controls more than 70% of world trade and 80% of the world's financial potential [17, 277-283].

Existing knowledge and accumulated experience of multinational companies come to the fore in situations where they use the good conditions and comparative advantages offered by each geographic location and when they integrate these different locations in the multinational network of research and development, production and sales, or marketing.

In terms of complex organizational structures, exchange rate volatility and possible political changes in the host countries, the company tasks such as coordination, control, resource allocation and performance measurement become even more complex [5, 338-350].

Internal transfer between some of subsidiaries in multinational companies, that is internalization of international economic transaction, becomes an extremely important part of international trade and the reason why these corporations are dominant on the global market [13, 15]. With increasing internalization, the issues of internal transfer pricing gain in importance.

Within the company, internal transfer of products and services often occurs, where one subsidiary appears as the seller, and the other one as the customer. Internal transfer of products and services includes an appropriate mechanism for determining the price that will be applied, so that revenues and costs can be accurately reflected. The pricing mechanism that is used in these transactions is called transfer pricing. Transfer pricing represents the cash basis for quantifying the internal transfer of products/services [1,1075]. The specificity of transfer pricing in relation to the external market pricing is reflected in the fact that transfer pricing conditions the success of buying subsidiaries, selling subsidiaries, but also the entire company success. In this regard, it is necessary to use reliable information support during its formation.

The effect of the internal transfer of products and services on the profit of the subsidiary of the company can be both positive and negative. High transfer pricing has resulted in lower profit for the subsidiary office that buys, but a higher profit for the subsidiary that sells. The low transfer pricing has the opposite effect. Given the existence of the conflicting interests between the two subsidiaries, where the customer subsidiary is trying to lower the transfer pricing, whereas the seller subsidiary wants to sell a product or service for higher pricing, finding the optimal level of transfer pricing is very important. The policy of transfer pricing may affect the decision of the manager of the independent subsidiary whether to transfer or not.

As transfer pricing affects both revenues of the subsidiary that sells and of those that buy products and services, it determines profit, return on investment, and thus the success of managerial performances of both subsidiaries. Table 1 illustrates the impact of transfer pricing on the subsidiaries that perform internal transfer as well as on the entire company.

Table 1 Impact of transfer price on transfering divisions and the company as a whole

ABC multinational company	
Subsisiary A	Subsidiary C
Produces component *a* and transfers it to C for transfer price of 3000 m.u. per unit Transfer price = 3000 m.u. per unit Revenue to A Increases net income Increses ROI	Purchases component *a* from A at transfer price of 3000 m.u. per unit and uses it in production of the final product Transfer price = 3000 m.u. per unit Costs to C Decreases net income Decreases ROI
Transfer price revenue = Transfer price cost Zero impact on ABC multinational company	

*m.u. - monetar unit

Source: [2, 492]

Subsidiary A produces component *a* and sells it to a subsidiary belonging to the same company, subsidiary C. The transfer pricing represents revenue for the subsidiary A, so subsidiary A tries to do an internal transfer at the highest possible transfer pricing. On the other hand, the transfer pricing is the cost for subsidiary C, so subsidiary C tries to do an internal transfer at the lowest possible pricing. For the company as a whole, the revenue of subsidiary A faces with the cost of subsidiary C so that the transfer pricing has no impact on its profit.

Although this internal transaction has no effect on the profit of the company as a whole, if the subsidiaries behaved in accordance with their own interests, ignoring the interest of the company as a whole, the effects would be different. In this case, the system of transfer pricing that is being applied, would also affect the profit of the entire company. Namely, if subsidiary A determined transfer pricing of 3000 m.u. for the component whose production costs is 2400 m.u., and if subsidiary C realized that the same component could be obtained externally at a pricing of 2800 m.u., the internal transfer would not occur. The supply from the external supplier represents a cost saving for subsidiary C of 200 m.u. (3000 m.u., which is the transfer pricing - 2800 m.u. which is the market pricing). In this case, the company as a whole suffers a loss in the amount of 400 m.u. (2800 m.u. which is the market pricing - 2400 m.u., that are the costs of the production of components that are exchanged). Thus, the transfer pricing must be aligned to the interests of individual subsidiaries and the interests of the company as a whole.

The task of the management in determining the level of transfer pricing is to provide a harmonized behavior of subsidiaries involved in the internal transfer. The general rule for determining transfer pricing implies that it should be the sum of the additional costs per unit caused by the transfer of products and services and the opportunity costs per unit caused by the realization of transfer [3, 803]. Additional costs, incurred in the subsidiary that produces products in order to transfer them, cover all expenses related to the production of goods and services, as well as expenses incurred due to their transfer. Opportunity costs are those that the company has because of the realization of the internal transfer.

In some situations, there are some difficulties in implementing the rules for determining transfer pricing, due to the fact that the exact amount of opportunity costs cannot always be determined. One of the reasons is the lack of a perfectly competitive market for a particular product or service, or non-existence of markets in general. Also, other reasons that make it difficult to determine the opportunity costs are the specificity of certain products or services, the interdependence of different products and services, etc. In most cases, the general rule for determining transfer pricing is applicable. Otherwise, companies can use some other methods for transfer pricing.

During the formation of transfer pricing, multinational companies are focused on numerous goals. The following figure illustrates the basic objectives of transfer pricing in the domestic and international markets.

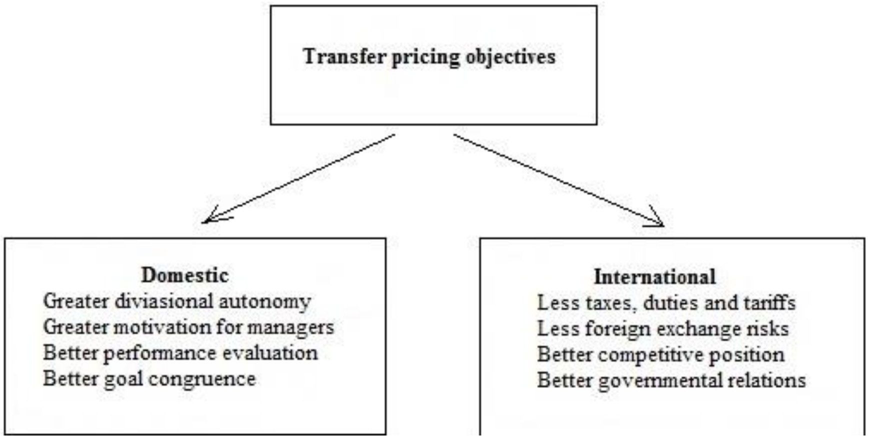

Fig. 1 Objectives of transfer pricing in the domestic and international market
Source: [7, 61]

As it can be seen from the picture, multinational companies use international transfers to minimize the taxes, custom duties and the risk of changes in foreign currency exchange rate, while improving competitive position and relations with foreign countries. The goals that the companies are focused on during the formation of transfer pricing in the domestic market, although very important, become secondary when it comes to international transfers.

Business management within the borders of one country because of the necessity to adapt, because of the national environment and the external environment factors. Particularly significant are the differences in tax rates, foreign currency and customs regimes. Therefore, the question of transfer pricing and their tax implications is a strategic issue that has a strong influence on profitability, performance and competitiveness of multinational companies [15, 91-93].

Transfer pricing at multinational groups level has multiple effects. It directly impacts the business results of the group members in the supply chain. For multinational companies with global supply chains, increased conscience of transfer pricing–related issues leads to the recognition that changes in an operational structure often demand appropriate changes to the tax and legal structure to align business models [10, 375-404]. By transfer pricing, the profit is transferred from countries with high tax rates to countries with lower tax rates. It directly influences the increase in profits in countries with lower rates of income tax. Also, the transfer price may have a control part. Thus, for example, if the parent company wants to receive dividends from its subsidiaries, which is not possible because of legal restrictions, the parent company will, through transfer pricing, increase their profits and reduce the profit of subsidiaries.

Since multinational companies tend to lessen their tax obligations and maximize the profit of the system as a whole by applying transfer pricing strategies, it is logical to expect the negative fiscal repercussions of such practices on the economy of the host country. With the application of transfer pricing, the state treasury is losing, and the governments of all countries nowadays face the challenge of applying tighter regulation of transfer pricing and law strengthening whose implementation would contribute to minimizing the negative tax repercussions of such strategic behavior of corporations.

Transfer pricing also serves as a means for circumventing the payment of withholding tax. Directing money from subsidiaries to the parent company in the form of dividends and interest to which the withholding tax is paid can be avoided. Instead, the money is transferred through the sale of products and services [14]. The withholding tax is not paid for the transaction of purchasing goods and services. The higher the pricing charged to subsidiaries, the more money can be received from the country in question without the payment of the withholding tax. The same effect can be achieved if the subsidiary sells goods and services to the parent company at low transfer pricing. In this way, companies can bypass the cases when the state puts restrictions on the repatriation of profits.

Transfer pricing is not agreed on a free, open market and it may differ from the pricing that unrelated subjects agreed upon in a comparable transaction under the same circumstances. Therefore, the taxpayer is required to display the related party transactions in the tax balance at pricing "out of reach" (market pricing), that is, to implement adjustments in the tax balance based on the tax laws. Tax authorities, on the other hand, tend to adjust the pricing realized in these transactions with the pricing in transactions between unrelated parties, ie. with the pricing that is formed freely on the market. For these purposes, many different methods are used for determining the pricing "out of reach". In determining tax liability, the tax authority takes into account the transfer pricing arranged by the unrelated persons, and not the transfer pricing arranged by the related parties.

The *“arm's length”* principle (ALP) is a guiding principle and manual in the process of determining intra-group transfer pricing, ie. the pricing of intercompany transactions and international standard related to transfer pricing. The difference between the *"arm's-length"* transfer pricing, formed by independent companies in the free market, and the transfer pricing formed by the related companies is profit, or revenue generated from the transfer goods, services or intellectual property rights. That profit is taxed and included in the tax base. The taxpayer is obliged to separately indicate the value in the tax balance sheet of the transactions in accordance with these principles. The application of the *“arm's length”* principle is based on a comparison of the conditions of controlled transactions with the conditions of uncontrolled transactions. OECD member countries consider that an appropriate alignment is achieved by establishing conditions from the commercial and financial relations between unrelated parties in comparable transactions and under comparable conditions [16].

Significant differences in tax rates on income in different countries are evident. In this regard, multinational companies use a system of transfer pricing as a tool to reduce their tax liabilities. Namely, by setting a high transfer pricing of the company, there is an increasing amount of expenses in the buying subsidiary relation located in countries with high taxes, while in the selling subsidiary relation, the amount of revenue increases. This is how the transfer of profits is done from the countries with high tax rates to the countries with low tax rates. All this ultimately results in maximizing profits after taxation at the level of a multinational company as a whole.

The effects of transfer pricing to the amount of tax paid will be illustrated on the example of a hypothetical multinational company “XYZ”, that has a large number of subsidiaries around the world, among which subsidiary A (located in the country where the tax rate is 60%), which occurs as the customer and subsidiary B (located in the country where the tax rate is 30%), which occurs as the vendor [3, 802-816].

Throughout the year, production costs incurred in subsidiary B amounted to 750.000 m.u., and 2.250.000 m.u. in subsidiary A. Revenues from sales of subsidiary A were 9.000.000 m.u. Other companies imported the same quantity of similar products in the country in which subsidiary A operates for a total of 1.000.000 m.u. The company “XYZ” estimated that for the exchange of this product among its subsidiaries, the adequate transfer pricing at which the costs of internal transfers for subsidiary A amounted to 3.750.000 m.u.

The following tables illustrate the calculations of tax liabilities in a situation when the transfer pricing is equal to the external pricing at which other companies purchase a specific product, and at which the internal transfer costs amount to 1.000.000 m.u. (Table 2) and when the costs of internal transfers amount to 3.750.000 m.u. (Table 3).

Table 2 Calculation of tax liability by applying lower transfer price

Elements	Subsidiary B	Subsidiary A
Revenue	1,000,000 m.u.	9,000,000 m.u.
Production costs	(750,000) m.u.	(2,250,000) m.u.
Transferred goods costs		(1,000,000) m.u.
Taxable income	250,000 m.u.	5,750,000 m.u.
Tax rate	0.30	0.60
Tax liability	75,000 m.u.	3,450,000 m.u.
Total tax liability	3,525,000 m.u.	

Table 3 Calculation of tax liability by applying higher transfer price

Elements	Subsidiary B	Subsidiary A
Revenue	3,750,000 m.u.	9,000,000 m.u.
Production costs	(750,000) m.u.	(2,250,000) m.u.
Transferred goods costs		(3,750,000) m.u.
Taxable income	3,000,000 m.u.	3,000,000 m.u.
Tax rate	0.30	0.60
Tax liability	900,000 m.u.	1,800,000 m.u.
Total tax liability	2,700,000 m.u.	

Based on the data presented above, we can conclude that the company “XYZ” saved an even 825,000 m.u. by paying fewer tax liabilities, based on the changes in the amount of transfer pricing.

Transfer pricing can also affect the competitive position of business units abroad. Low transfer pricing leads to strengthening the competitive position of certain subsidiaries, while a high transfer pricing weakens the position. Multinational companies use transfer pricing also to provide a better bargaining position by maintaining the best possible relations with the local government and its organizations.

Multinational companies can use transfer pricing to remain competitive in international markets or to break into new markets. When entering a new market, the company may establish a selling subsidiary. In order to win a certain market share, a subsidiary with a discounted pricing has an aggressive approach on the market. To ensure the profitability and competitiveness of the new operations, the parent company can sell products and services at a low transfer pricing to the subsidiary. In this case, the parent company is the one that absorbs the subsidiary discount.

A survey taken on a sample of 500 American multinational companies, came to the following variables on which the application of transfer pricing has the greatest impact [3, 814]:

Table 4 Ranking the impact of transfer pricing on certain variables

Ranking of average importance score	Variable
1	Overall profit to the company
2	Differentials in income tax rates and income tax legislation among countries
3	Restrictions imposed by foreign countries on rapatriation of profits or dividends
4	The competitive position of subsidiaries in foreign countries
5	Rate of customs duties and customs legislation where the company has operations
6,7,8	Restrictions imposed by foreign countries on the amont of royalty management fees that can be charged against foreign subsidiaries
6,7,8	Maintaining good relationships with host guvernments
6,7,8	The need to maintain adequate cash flows in foreign subsidaries
9	Import restrictions imposed by foreign countries
10	Performance evaluation of foreign subsidiaries
11	The need of subsidiaries in foreign countries to seek local funds
12	Devaluation and revaluation in countries where the company has operations
13,14	Antidumping legislation of foreign countries
13,14	Antitrust legislation of foreign countries
15	The interests of local partners in foreign countries
16	Rules and requirements of financial reporting for subsidiaries in foreign countries
17	Volume of interdivisional transfers
18	Rates if inflation in foreign countries
19	Risk of expropriation in foreign countries where the company has operations
20	U.S. government requirements on direct foreign investments

Source: [3,814]

Almost correctly, transfer pricing can save a company millions of dollars. If not done accurately, transfer pricing can place global companies at considerable risk for audits, interest and penalties, high legal costs, even result in double or triple taxation [12, 35]. This results in an increase in the total cost, the increased total cost makes the corporation less profitable. Transfer pricing was found to be an important part of maximizing operating performance [11, 5431–5448].

2. METHOS OF FORMING TRANSFER PRISING IN MULTINATIONAL COMPANIES

The pricing of internal transfers that takes place in multinational companies should correspond to the pricing at which similar transactions are carried out on the external market. Possible deviations may occur due to the certain differences which may have an impact on the pricing, and which relate to the transportation costs, insurance costs, customs duties and taxes, as well as marketing costs. Landing costs (e.g. freight, insurance, customs duties and special taxes) can increase the allowable transfer price, while marketing costs are usually avoided for internal transfer and reduction of transfer price [2, 502].

Determining transfer pricing in transactions between subsidiaries of multinational companies is usually based either on costs or estimated market pricing for products and services that are traded. The most commonly applied methods for determining transfer pricing in these types of transactions are the comparable uncontrolled price method, the resale price method, the cost-plus method and the comparable profits method. The transfer pricing determined by the **method of comparable uncontrolled price** is actually a market pricing. In order for this method to be applicable, it is necessary that there is an external market for a specific product or service, ie. that in addition to the internal sales, the multinational company also sells that product or service to the external market, or that it is being exchanged between the two independent companies. **The resale price method** includes transfer products and services at a pricing equal to the retail price reduced for a certain amount of profit that is realized by the subsidiary-vendor. **The cost-plus method** is based on the real costs, and transfer pricing is determined by adding the appropriate amount of profit to the cost of production of goods and services. **The comparable profits method** involves comparing the profitability of the company that is engaged in the same or similar activity with the profitability of the subsidiary office that uses transfer pricing [6, 399].

The issue of determining transfer pricing by applying the method of comparable uncontrolled price, the resale price method and the cost-plus method will be illustrated in the example of a hypothetical multinational company "ABC", which has a large number of subsidiaries around the world, among which subsidiary A, which occurs as the buyer and subsidiary B, which occurs as the vendor [2, 502]. Subsidiaries A and B are located in different countries. Subsidiary A procures the component *x* from subsidiary B. Component *x* can be purchased from external suppliers at a pricing of 475 m.u. Transport costs and insurance costs amount to 60 m.u. Commission expenses in the amount of 50 m.u do not need to be paid.

The transfer pricing determined by using the *method of comparable uncontrolled price* is 485 m.u, and is calculated in the following way:

Market price	475 m.u.
Transport costs and insurance	60 m.u.
Comissions	(50 m.u.)
Transfer price	485 m.u.

To illustrate the process of determining transfer pricing by using the method of retail pricing, we introduce the assumption that subsidiary B does not have external sales for the component *x* that transfers to subsidiary A. Let us also assume that subsidiary A sells component *x* at a pricing of 525 m.u. and achieves 40% profit from the purchase pricing of the sold goods.

The transfer pricing determined by using the *resale price method*, taking into consideration the above-mentioned assumptions is 375 m.u., and is calculated in the following way:

Resale price = Transfer price + Markup perentage × Transfer price
525 m.u. = Transfer price × (Markup percentage + 1)
525 m.u. = Transfer price × 1,40
Transfer price = 525/1,40
Transfer price = 375 m.u.

The process of determining the transfer pricing by using a cost-plus method will be illustrated by assuming that for component *x* which is being transferred from subsidiary A to subsidiary B there is no external market and that component *x* is used in the manufacture of product Y. The production costs for component *x* amount to 250 m.u.

The transfer pricing determined by using a *cost-plus method* taking into consideration the above-mentioned assumptions is 310, and is calculated in the following way:

Market price = Production costs + Transport costs and insurence
Transfer price = 250 m.u. + 60 m.u.
Transfer price = 310 m.u.

When considering range in which the transfer price can be determined, the level of utilization of existing capacity also has to be taken into account. When the subsidiary that sells operates under conditions of full capacity utilization, the opportunity cost per unit is actually the market price of the product [6, 400]. Namely, in conditions of full capacity utilization, the seller subsidiary must give up selling the product on the external market if they decide to sell products internal, to the customer subsidiary. In this case the market price represents an upper limit for the transfer price. If the transfer price is established at a level above the market price the buying subsidiary will not be motivated to do an internal transfer. When the selling subsidiary has enough excess capacity, lower limit of transfer pricing is determined by the amount of variable costs. In the conditions of insufficient capacity utilization, the selling subsidiary will not be motivated to complete an internal transfer if the transfer price is set at a level that does not cover variable costs.

The problem of determining the lower and upper limits of transfer prices, regarding the level of capacity utilization will be illustrated in the case of hypothetical multinational company “Trend”, which has a large number of subsidiaries around the world, among which are subsidiary C, which appears as the seller and subsidiary D, which appears as the buyer [4, 561].

Subsidiary C has the capacity to produce 100,000 product units. Subsidiary C sells component *k* to subsidiary D. Subsidiary C sells component *k* to the external market at a price of 38 m.u. Variable costs per component *k* unit are 20 m.u., and fixed costs per unit are 11 mu. Subsidiary D uses component *k* in the production of product P. Subsidiary D purchases annually 10,000 units of component *k* from the external supplier at the price of 36 m.u. per unit.

Further in the text the identification of a transfer pricing range under different assumptions will be presented.

If we assume that subsidiary C has enough excess capacity to meet the need for all 10,000 units of component *k* that subsidiary D has, where at the same time does not have to give up on sales to external market, lower limit for the transfer price from the selling subsidiary's point shall be determined as follows:

$$\text{Transfer price} \geq \text{Variable costs Per unit} + \frac{\text{Total contibution margin on lost sales}}{\text{Number of units transferred}}$$

Transfer price $\geq$ 20 m.u. + 0 m.u. / 10.000 units = 20 m.u.

Subsidiary D would not agree to the transfer price that is greater than 36 m.u., which is the price that external suppliers offer . In this case, the transfer price must be formed in the range from 20 m.u. to 36 m.u.

In the case when the selling subsidiary does not exploit fully its available capacity, selling products at a transfer price higher than the level of variable costs is acceptable because of the profit increase. This will happen if the transfer price forms at the level greater than 20 m.u., and lower than 36 m.u. The choice of this transfer price leads to reallocation of the profit in favor of the selling subsidiary, while for the buying subsidiary this price remains more affordable than buying at the external market, due to the difference between the transfer price and the market price [8, 411-417].

Supposing that subsidiary C is using all of its available capacity for the production and sale of components on the external market. In order to enforce internal transfer and to respond to subsidiary D's order, subsidiary C must give up on some of the sales on the external market. When determining the lower limit for transfer pricing in such a case, it is necessary to take into account the variable and opportunity costs. Subsidiary C has an opportunity cost that actually represents the total amount of lost sales. The lower limit for the transfer price is 38 m.u. and is determined as follows:

$$\text{Transfer price} \geq \text{Variable costs Per unit} + \frac{\text{Total contibution margin on lost sales}}{\text{Number of units transferred}}$$

$$\text{Transfer price} \geq 20 \text{ mu} + \frac{(38 \text{ m.u.} - 20 \text{ m.u.}) \times 10.000}{10.000}$$

Transfer price $\geq$ 20 m.u. + 18 m.u.. $\geq$ 38 m.u

Given that subsidary D can procure the needed components on the external market at a price of 36 monetary units per unit, it is most likely that internal transfer will not occur.

If we assume that subsidary C operates at a maximum of its capacities and that by realization of the internal transfers can be saved up to 4 m.u. on the account of variable costs, due to the reduction of the costs of sales, the lower limit of transfer pricing is 34 m.u., from the seliing subsidary perspective. It is determined as follows:

$$\text{Transfer price} \geq \text{Variable costs Per unit} + \frac{\text{Total contibution margin on lost sales}}{\text{Number of units transferred}}$$

$$\text{Transfer price} \geq (20 \text{ m.u.} - 4 \text{ m.u.}) + \frac{(38 \text{ m.u..} - 20 \text{ m.u.}) \times 10.000}{10.000}$$

Transfer price $\geq$ 16 m.u. + 18 m.u. $\geq$ 34 m.u.

Subsidary D would not agree with the transfer price that is higher than 36 mu, i.e. the price of the external suppliers. In this case, the transfer price has to be formed somewhere in the range from 34 to 36 m.u.

Conclusion

Transfer pricing is an important business area in the modern business world. Its importance emerged due to an increase in the number of internal transactions within the company. Transfer pricing must be defined and determined to allow harmonization of the objectives of both numerous subsidaries and the company as a unique entity. In order to estimate the performance of the subsidiaries in regular and real terms, it is necessary for the appropriate methods of transfer pricing to be applied. Selecting the proper method prevents the overflow of the value from one subsidiary to another.

Enforcing internal transfers, multinational companies achieve a number of objectives that affect the business by providing: lower taxes, customs duties and charges, lower trade risks, better competitive position and better relations with other countries. Being the most important one, stress is put on the role of transfer pricing in minimization of the income tax. By shifting profits from the subsidiaries located in the countries with higher tax rates to the subsidiaries in the countries with lower tax rates, multinational companies maximize profit after taxation for the whole company. In this way, multinational companies are becoming more powerful and influential in the preferred market.

The exchange of goods and services between subsidiaries of one multinational company is done at the level of transfer prices. The level of transfer prices by which the goods and services are going to be exchanged, depends on the particular method that is applied, but also on the degree of untilization of the existing capacity of the company. When the subsidiary that sells products and services operates on the level of full employment of its capacities, its oportunity costs are equal to the market price, which determines the upper limit of the transfer pricing. In case when there is enough available capacity, the lower limit of transfer pricing is determined by the amount of the variable costs of the selling subsidiary.

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UTVRĐIVANJE TRANSFERNIH CENA U MULTINACIONALNIM KOMPANIJAMA

Pitanje transfernih cena u poslovanju multinacionalnih kompanija u savremenim uslovima poslovanja poprima strategijski značaj. Ocena performansi i harmonizacija ciljeva svih divizija i multinacionalne kompanije kao celine, determinisani su primenjenim pravilima i metodama formiranja transfernih cena. Utvrđivanje transfernih cena u multinacionalnim kompanijama usložnjeno je diferenciranošću poreskih sistema zemalja u kojima su locirane divizije. Usled različitih poreskih stopa na dobit, vrši se transferisanje dobitka iz zemalja sa većim poreskim stopama u zemlje sa nižim poreskim stopama. S tim u vezi, cilj ovog rada je da ukaže na značaj transfernih cena i metoda njihovog utvrđivanja u multinacionalnim kompanijama. U toku izrade članka biće primenjene metode analize na bazi relevantne i raspoložive inostrane literature i prakse, metode sinteze i metode komparacije. Od rada se očekuje da domaćoj i stručnoj javnosti ukaže na fenomen transfernih cena i njihove implikacije na performanse divizija i multinacionalne kompanije u celini.

Ključne reči: *transferne cene, multinacionalne kompanije, troškovi, metode*.