THE FINANCIAL TRANSACTIONS BETWEEN RELATED ENTITIES WITH EMPHASISIS ON TRANSFER PRICING

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ABSTRACT

Pricing of intra company transactions has become a major concern of Multinational Corporations' management. The price used to transfer goods and services between related entities is referred to Transfer Pricing and it is a well-known practice in the field of financial management in the International Businesses. The income shifting activities through price manipulations are limited by tax authorities and regulated with the concept called arm's length principle. This principle requires the intra company charges to be defined at the same conditions which might set up wile transacting with independent parties. The Transfer pricing (TP) concept and arm's length principle in the world literature and practices are well known concept, whereas in North Macedonia this is a new an unexplored topic, which legally was regulated in Income Tax law after 2011 year.

The research approach used in the study is qualitative. A direct observation of one case company engaged in service industry was done. The objective of this research is to understand the importance of TP issues and implementation processes in corporate level. Additionally, two types of semi structured questionnaires were designed and distributed to the company representatives and TP experts with the main goal to gain additional insights on how professionals are assessing TP importance, and to compare the TP issues between the professionals in the field and managers of the companies.

KEYWORDS

Transfer pricing, arm's length principle, international financial management, multinational companies

JEL CLASSIFICATION CODES: H25, H87, F23

1. INTRODUCTION

Reduced trade barriers and technological changes have facilitated the globalization of markets and production and have transformed it to a more advanced stage. Determinants of becoming global for companies have always been multidimensional and have explored challenges from different perspectives like: reducing home country risks, exploring new markets, following competitors, reducing costs and many other reasons which enabled companies to overcome some trade barriers. Therefore, enlargement strategies of these companies were to be headquartered in one country but to be spread over the world through creation of affiliates or subsidiaries. Companies which have pursued such international strategies are called multinationals and are recognized as the main drivers of globalization.

The above excerpt is a conversation between two division managers of a multinational company Bill Ewing a Vice President of North Western Paper Company based in US and Arthur Kim the director of Korean subsidiary (Dan Li, 2007) regarding the decision to supply from a subsidiary at higher price or from an unrelated company at lower price. This conversation raised many questions to Bill such as how to price the products sold to a related entity taking into consideration the tax issue, what if the subsidiaries purchase from outside companies (not related), how the financial performance of the subsidiaries will be affected with this decision. These questions are not a characteristic only for

this case, but every subsidiary manager is dealing with these issues on their everyday tasks, that is why TP decisions are major concerns of multinational corporations' managers.

The increased participation of multinational companies in the world economy is also a fact which was pointed out by United Nations. According to the United Nations Conference data in 1993, almost 35.000 headquarters and 170.000 affiliates were recognized whereas in 2009 this number was increased to 82.000 headquarters and 807.000 affiliates (UNCTAD report). Also according to this report the production of MNC accounted for ¼ of the world GDP.

Many transactions occur between headquarters and affiliates and among affiliates, which can appear as transfers of goods or services between related entities. The problem which arises on this context is how these transfers among related entities can be priced? The fact that headquarters and their affiliates are interrelated entities can be enough to drive the companies to set up different prices compared to them which can be set up in perfect market conditions. The price which is used to transfer goods and services between related entities is referred to transfer pricing and is recognized as a well-known practice in the field of financial management in international business.

According to Dean, Feucht and Smith Internal (2008) transfers between related companies may appear in the form of: raw materials, semi-finished and finished goods, fix cost allocations, loans, fees, royalties for trademarks, copyrights and other items as well.

Multinational companies operate in different economic, financial, legal, socio-cultural, and political environments, so the main goal of the companies is to take advantage from the country differences, especially from different tax regimes. Transfer prices are very crucial in defining revenues/expenses of the company; thus, they can be used to reduce companies' tax liabilities by shifting their profits from a high tax country to a low tax one or completely transferring them to tax heavens. The set high transfer prices can move a company's profit to the low tax countries and low transfer prices can position the funds in that country.

1.1 Understanding a case of fund positioning within an MNC

The fund positioning through transfer prices within an MNC can be more specifically presented in the example below which is a case of two subsidiaries of one MNC operating in two different tax jurisdictions:

The assumption is that there is a subsidiary and a parent company operating in countries A and B that have different tax rates of 20% and 60%.

Figure 2 Profit shifting through transfer prices in multinational companies

Case 1: The subsidiary which produces a product at a cost of 100 $ sells it to the parent at a transfer price of 200$ than the parent sells the product for 300 $.

	Subsidiary	Parent	Consolidated
Selling Price	200$	300$	300$
Cost of goods sold	100$	200$	100$
Profit before tax	100$	100$	200$
Tax	20$	60$	80$
Profit after tax	80$	40$	120$

Case 2: This case shows an effect of increase of transfer price for 280$ in a country A with low tax rate

	Subsidiary	Parent	Consolidated
Selling Price	280$	300$	300$
Cost of goods sold	100$	280$	100$
Profit before tax	180$	20$	200$
Tax	36$	12$	48$
Profit after tax	144$	8$	152$

Source: Molly Dean, Frederick J. Feucht, Murphy Smith," International Transfer pricing issues and strategies for the global firm", Internal Auditing, Vol.23, No.1, p.12

Note: Transactions among the members of corporate are not included in consolidated statements, only transactions with third parties are shown.

From the above cases (Figure 1) it is obvious that when setting high transfer prices in countries with low tax rate the overall company profit will increase, i.e. the difference is 32$ in the consolidated profit for our case.

However, profit maximization decisions have always been tracked and limited by tax authorities. The profit-

shifting activities are prevented by the use of arm's length principle. This concept was initially introduced by OECD and has become an integrated part of the tax legislation of almost every country. The logic behind this is that tax authorities with transfer price manipulation are losing a great portion of budget revenues from tax evasion.

Arm's length price is the price that unrelated entities can charge each other for different products and services in a market setting, thus according to this standard, when charging each other for intra-company transactions companies must act as independent entities.

Transfer pricing is a relatively new concept in international businesses, even though it has been mentioned in many tax systems since 1930, the world framework for transfer pricing was developed by OECD Model Guidelines in 1979.

In the R. of North Macedonia, transfer pricing is a new topic and may arise concerns from different stakeholders like business entities, tax authorities, auditors etc. This issue in the R. of North Macedonia was legally regulated in 2011 and mentioned in the Law on Income Tax and its accompanying regulations, and surely this new concept will pose a challenge to our tax authorities and to companies as well. Companies will start to review, update and improve their transfer pricing strategies in order to be easily implemented, to be compatible with their main activities, to create a reasonable level of profit to be compliant with the actual legal country requirements.

1.2 Main research questions and hypothesis formulation

The central research questions that will be addressed in this research paper are as follow:

1. How a company can define its transfer pricing strategy in order to be easily implemented and communicated?
2. Which of the methods is appropriate for the case company?
3. How compatible is the proposed transfer pricing strategy with OECD regulations and the country's current law?

The following hypotheses are stated in order to find answers to the central theme questions;

H1: If Transfer pricing is done properly can improve the overall success and value of an international company.
H2: The chosen transfer pricing method is appropriate for the case company and can be easily implemented and monitored

The Hypotheses are formulated in order to gain insight into transfer pricing and to ease the implementation of the transfer pricing strategy as a new concept for the case company.

2. LITERATURE REVIEW

With the continuous globalization of the world economy, the center of attention on transfer pricing has increased rapidly. Multinational corporations have spread their value creation activities to different parts of the world, so intra-company transactions between related entities are growing and becoming more complex. On the other hand, companies are permanently in a search for an optimal transfer pricing strategy, a strategy that will enable them to achieve the profit-maximization goal, thus "transfer pricing is a term used to describe all aspects of intercompany pricing arrangements between related business entities, and commonly applies to intercompany transfers of tangible and intangible properties" (Global Decosimo). According to other financial definitions "transfer pricing is the price a division of a company charges a different division of the same company for a good or service." Transfer prices are important, especially for large, decentralized corporations where each division reports its own profits and losses separately.

Prices of goods and services charged by unrelated companies are formed based on market conditions, thus are defined by supply and demand for a particular product or service, unlike market prices transfer prices are created in business transactions between related entities, so they can influence each other and may agree in order to determine the needed transaction prices. The aim of the agreement is to avoid the tax burden and to shape the profits, showing better financial results in the places with lower income tax rates and lower profits in countries with high income.

2.1 Previous studies done on transfer pricing

In previous years a lot of research has been done related to transfer pricing which enriched the literature framework and brought a lot of insights regarding to this hot topic in international business stage. Increasing the importance of these issues in international business spurred not only the academic environment to deal with problems and challenges

caused by the application of TP, but also impacted international economic organizations such as OECD, European Union and state legislations to address and incorporate the streams how to apply this concept in a most appropriate way.

The history of transfer pricing dates back to the 1930s when transfer pricing was first mentioned in the Internal Revenue Service Tax Code where the actions of transfer pricing were called “product laundering”.

The first study in economics on transfer pricing was done in 1956 by Jack Hirschleifer who analyzed transfer pricing as a subject common for vertically integrated and decentralized companies. According to economic theory the optimal transfer price is the price which maximizes the company’s overall profits without considering some external factors influence like: taxes, externalities etc. Hirschlifer constituted his model under these assumptions: a company consists of only two divisions: a buying (manufacturing) and selling (distributing) division which will be treated as profit centers. The operating costs of the divisions are independent and additional external sales by either do not reduce the external demand for the product (Hiromoto, 1983). Also, Hischlifer considered the situations where there was no intermediate market, perfectly competitive intermediate market and not perfectly competitive intermediate market. The conclusion of his study was that the transfer price of a company does not depend by the company itself, but on the market where it operates. So in the first situation, a company should produce that level of output where the overall marginal cost equals the marginal revenue, the output which will maximize the overall firm profits, the central office will determine the profit-maximizing level of output and will communicate this to the divisions. In a perfectly competitive market, the intermediate product within divisions should be transferred at a market price (the company will behave as a price taker).

A transfer price in an imperfect intermediate market which is more complicated than a perfectly competitive market is not in-depth analyzed by Hirschlifer, the only thing which was mentioned is that in imperfect markets the transfer price is not determined by market conditions, but from company profit-maximizing decisions. When considering imperfect market conditions scholars go beyond Hischlifer’s model and analyze two variants of imperfect market conditions: an imperfect output market with a competitive intermediate goods market and an imperfect final and intermediate goods market. In an imperfect market when firms operate in an environment with no taxes the firms’ transfer prices will not be market prices as companies will tend to set transfer prices that will maximize their overall profits.

2.2 Introducing the concept of arm’s length standard

Arm’s length principle (ALP) is an international standard used in transfer pricing. This standard requires from transaction parties to act independently as being non-related entities and the price of the product to be defined by market forces. The history of ALP dates back to 1928 when it first was mentioned in the League of Nations Model Tax Convention than after was treated by OECD Model Tax Convention Article 9 in 1968. In 1980 ALP was incorporated by United Nations Article 9 in the United Nations Model Double Taxation Convention between Developed and Developing countries. Arm’s length principle was continuously updated by the abovementioned institutions in order to meet the new challenges imposed by different corporations; the same principle is applied and has become a part of legislation and bilateral treaties of OECD member and non-member states.

OECD Guidelines defines the arm’s length concept as a principle applied to commercial and financial transactions between related companies. It states that transactions should be valued as if they had been carried out between unrelated parties each acting in his own best interest. The benefits of arm’s length are dual; first it helps governments to protect their tax base and multinationals avoid double taxation by setting a fair transfer price. However, the implementation of arm’s length in practice is much more difficult due to the lack of comparison, especially when we are talking about less developed countries or some specific activity performed by a company in a given country.

Tax authorities have the right to request transfer pricing documentation from taxpayers where they must demonstrate compliance with the arm’s length principle and show that documentation is yearly updated, this issue was regulated by OECD Transfer Pricing Guidelines (1995, 2010 updated). Also, functions performed by associated enterprises, assets engaged, and risks undertaken by related parties are some of the parts which are stressed in arm’s length documentation. Different states have different requirements, but what most companies follow is the necessity of documenting the fact that their transactions with related parties are at arm’s length range otherwise tax authority sanctions of different levels will be imposed.

2.3 Macedonian regulatory framework on transfer pricing

As is the case with all country legislations, Macedonia has included the transfer pricing issue in its regulation as well. The concept of transfer pricing and the related party can be found in these laws:

- Income Tax Law (the Official Gazette nr.80/1993….135/2011)
- Regulation on the calculation and payment of income tax and double tax avoidance (the Official Gazette nr.173/2012)
- Customs Law (the Official Gazette 39/2005…..11/2012)
- Company Law (the Official Gazette 28/2004……24/2011)
- Banking Law (the Official Gazette 67/2007…….67/2010)
- International Accounting Standards (13, 18, 24)

3. RESEARCH METHODOLOGY

The methodology used in the study is exploratory research. The research starts from the research question formulation based on the problem statement and continues with the hypothesis's formulation. A semi-structured questionnaire was designed for this purpose, which means that the structure of the questionnaire was depending on the conversation with respondents.

The questionnaire was intended to gather qualitative data, i.e. the persons which are directly or indirectly involved in the transfer pricing issues were interviewed, such as: company tax consultants, finance employees and tax consultants from auditing companies that are specialized on this issue. Two types of slightly different questionnaires were designed; one was targeting company professionals and the other transfer pricing experts dealing with this issue.

TP is a new and unexplored topic for the Macedonia case which will influence companies operating in the country, so a detailed analysis of country legislation covering this issue was done as the legislation part will have a significant impact on future strategic decisions of the case company.

4. DATA COLLECTION AND DATA PRESENTATION

Company A (a case study selected) is a multinational company which provides life support and infrastructural services targeting task forces, aid organizations and other private companies which operate in crisis ridden areas or remote places. The company has shown to be very successful in the provision of these services and was awarded with many references by its business partners and well-recognized international service standards. In order to be efficient and reduce its operational costs, the company has spread its activities in different parts of the world, headquartered in UAE and it has established other affiliates in different countries like: USA, China, Turkey, Kuwait and Macedonia. The affiliate operating in Macedonia has been established for recruitment and other administrative support services. As the company is multinational it deals with providing some services to its related companies or other affiliates, so the question of pricing the intra company transactions becomes highly important for the company itself.

International business operations make the value chain process or chain of activities to gain much importance, because this is a critical chain process by which a company adds value to its products or services (final output). Some of the most important functions inside this value chain, which are in detail analyzed and included in TP studies are:

- Research and development
- Product design and engineering
- Manufacturing
- Purchasing and materials management
- Transportation, warehousing, inventory
- Marketing, advertising, distribution
- Managerial, legal, accounting, finance, personnel management services,
- Intra group/ support services

In the literature there are cases when the value chain activities are classified as **main activities** like (purchase of raw materials, production, distribution, marketing, selling and after sales services) and **supporting activities** (R&D, HR, Corporate infrastructure etc).

Engagement of assets is also crucial while fulfilling the company's functions, so assets both tangible and intangible transferred between affiliates must be identified. For example, what kinds of capital assets (plant, equipment) are used, or for intangible assets (who has the ownership of the intangible assets and who receives the benefit of that asset examples can be brands, know how processes, trademarks, copyrights).

Risks are also important to be identified within a company group, whereas some of the common risks can be:

- Entrepreneurial risks – risks linked with capital investment;
- Financial risks- risks linked with methods of funding, interest rate changes, currency rate differences,
- Product risks- risks linked with design, development, R&D, product obsolescence, inventory risks;
- Market risks – risks linked with differences in prices, business cycles;
- Collection risks- risks linked with credit risks and bad debt risks;
- General business risks –risks linked with ownership of plant, property, environmental risk, infrastructural risks;
- Country /regional risks-risks linked with political, and regulatory risks.

It is not only important to identify the risks, it is also important to identify who bears the risks because the higher the risks and the more assets engaged in performing a function the higher will be the return or mark up and the lower the risks and the level of asset engagement the lower will be the return or mark-up charged by that legal entity.

In order to answer the main research questions which, aim to measure the importance of TP strategy and its implementation within a case company, the most appropriate TP for services provided and the TP strategy compatibility with country legal requirements a semi structured questionnaire was prepared and distributed to the finance personnel. The aim of the questionnaire was to understand the implementation process of TP within a company and what company values most during this process of implementation. Some additional TP experts were included in the respondent base so as to compare their opinions with the understanding of company representatives on this topic.

When it comes to the pricing of intra-company transactions TP is the only option that can be applied in the international business stage, it is a universally accepted principle, defined and regulated in detail by OECD. All respondents gave almost the same answer to this question. Some of them mentioned that in less developed countries where the concept of TP is relatively new, tax authorities usually request a price list for products or services without mentioning the necessity of TP documentation. In the literature, there is an approach called "unitary taxation with formula apportionment" where the overall profit of a company is apportioned based on one agreed formula which can be: third-party sales, assets located in a particular affiliate, or employees engaged for the fulfillment of company activities. This approach gives importance to the economic activity of a company, but again it resembles the profit split method of TP. The approach was used in the US a century ago.

Figure 3 Company representatives and TP experts'(9 experts) opinions presented in a matrix

TP concept	**Company representatives**	**Experts**
TP is a unitary concept in international business	Yes even with some alternatives	Yes
Pros of TP implementation are almost the same	Yes	Yes
Arm's length principle affects TP	Yes	Yes
Company factors crucial for TP are almost the same	No	No
TP adds value to the companies' fundamental goals	Yes	Yes
TP requires managerial and legal know how	Yes	Yes
C+ method is the most appropriate for the service companies	Yes	Yes but alternatives are possible
Same markups to the same cost base must be added	Yes/No	Yes/No depends on the case
The chosen TP method is compatible with Macedonian legislation	Yes	Yes
TP policies must be regularly updated and reviewed	Yes	Yes
Budgeting process is important for the pricing policy	Yes	Yes
Implementation process is as important as the determination of the arm's length range	Yes	Yes

Risks are directly linked with the TP process	Yes	Yes
Centralized TP strategies are more favorable than the decentralized strategies	Yes	Yes/No depends on the case

Source: Author's own research

According to respondents the first advantage of TP is reducing income tax liabilities with profit shifting activities, but they also stressed that the existence of a well-documented TP policy, gives transparency, legitimacy to the company as it is an acceptable tool by tax authorities. Other advantages which are mentioned by respondents include: standardization of pricing policies, ease in measuring divisional performance, achieving coordination in the divisional goals, and profit repatriation goals.

The application of the arm's length principle requires the pricing of transactions to happen based on market conditions and companies to act as being unrelated parties, and the application of this principle according to the respondents limits the companies' tendencies to price intra-company transfers based on their own interests. Every company defines the pricing based on market conditions, and then TP is used as a mechanism for testing whether the prices are market based or not (so they are defined according to arm's length principle). The requirement to apply the arm's length principle is the main driver that pushes companies to review their intra company prices, update their TP studies and documentations based on the changing market conditions. So, the TP process is always a subject to change, thus it is not a policy created once and forever

Different respondents mentioned different factors which are crucial for TP implementation within a company which tells that the degree of importance given to factors is different for persons and depends heavily on business processes and operations, management perception, country of operations, and others. Some of the important factors mentioned by respondents were: legal factors (tax requirements within a country), economic factors (financial reporting standards, restrictions of capital flows), products or service characteristics being transferred (comparable product or specific product), internal factors(evaluation of business processes, management performance, ease of application, autonomy of a subsidiary), social environment (flow of information between business units), and production technologies. Almost all of the respondents did not have any specific comments on why they consider one factor more important than the other or any other detail in the explanation of the importance of a particular factor to TP implementation.

All the respondents agreed that the question of adding value to company's fundamental goal was very important, addressing the aim of TP implementation. The main goal of every company is profit maximization and TP strategy must be defined in a way which will facilitate the fulfillment of this goal. Companies are spreading their value creation activities- indifferent parts of the world in order to increase their efficiencies while performing these value creating functions and with this the role of transfer pricing increases, as the pricing of intra company transactions inside the value chain will determine the tax obligations of every affiliate.

So, a well-defined, sound, reviewed and defensible TP policy in front of tax authorities can or what it is called a right TP applied, can save a company huge amount in taxes and enable spreading of the activities in a Value Chain in a more efficient way. A concept called "Value Chain tax management" will ensure that business and tax goals of a particular MNE are fulfilled. Also, legitimacy, transparency to the stakeholders and transparency of the business processes (tax authorities, banks and others), protecting of brand name are some additional benefits of TP which were mentioned by respondents. All of these arguments are in favor of the benefits of a well-documented TP policy, and confirm the first hypotheses, that TP is a tool which helps the company in fulfillment of its main profit maximization goal.

The answer given by respondents to the following questions justifies the second stated hypothesis which is about the choosing the most appropriate method for the case company and to come up with the process of a successful TP implementation policy.

5. CONCLUDING REMARKS

Some of the concluding remarks which can be drawn from the TP research, analyzed from corporate level perspectives are the following:

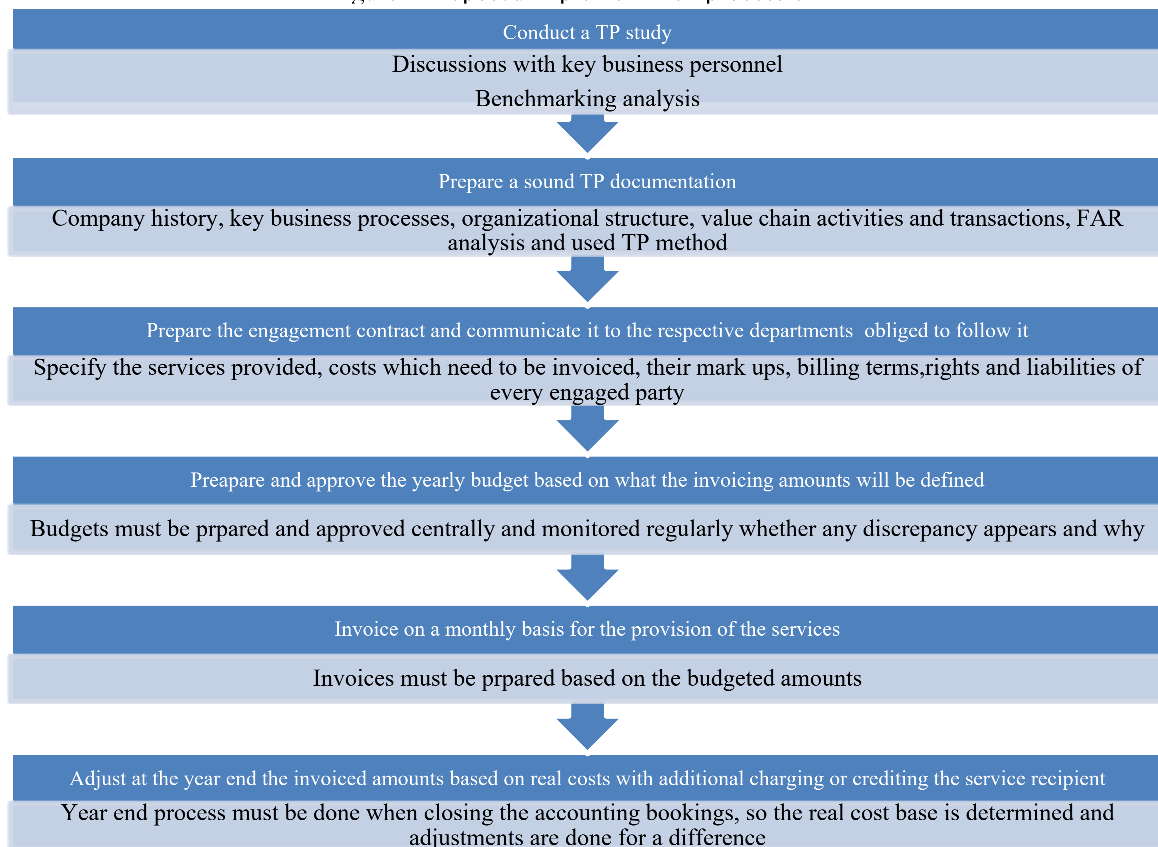
- Transfer Pricing is a unitary principle that must be followed by every company (affiliate) engaged in intra-company transactions.

- Conducting a comparability analysis in order to determine arm's length price is a necessary requirement of every country's tax legislation, so every affiliate, their value-adding function and legal requirements of every country where they operate, must be included on TP study at a corporate group level.
- A well-documented and defensible TP strategy protects a company from possible tax penalties, standardizes the internal processes and price determination and enables a fair profit allocation among company group entities, thus contributing to value adding within a company and efficient organization of value chain activities.
- The C+ method is more preferred for service industries, especially for specific services, but the possibility of using internal comparable also exist, if the CUP method cannot be applied, then the C+ methods are next to be considered, where the appropriate method is defined based on the functional analysis of a company, i.e. the most suitable method for intra group services (accounting, management, IT, marketing etc) where the level of costs better describes the value added by that entity and thus the market price.
- The mark ups defined by benchmarking analysis must be fair and reasonable and in direct link with risks assumed, functions performed and assets engaged, so no markup need to be added for on charging third party costs, minimum mark ups should be applied for low risk services and higher mark ups should be applied for high risk services and to those where engagement of specific know how, or other intangibles are involved
- Centralized TP strategies are more effective from administrative point of view but, when considering this strategy, importance must be given to the local TP legislation, since most of the jurisdictions have their own TP rules.

6. RECOMMENDATIONS

As stated previously the implementation process of TP is as important as the determination of the arm's length range. Since the TP concept is included in Macedonian legislation companies will increase their preparations regarding this matter so the implementation of the TP strategy becomes crucial for the company. A 6 step process can be proposed for the case company to be followed during the implementation of TP (see Figure 4).

Figure 4 Proposed implementation process of TP



Source: Author's recommendation to the case company

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International Accounting Standards *(13,18,24)*

APPENDIX 1

Questionnaire (company representatives)

Dear respondent,
This questionnaire is designed to measure the importance of transfer pricing application within a company. Your answers will be anonymous and will be used only for academic purposes. Please can you answer the questions in a most objective and clear manner? Your comments regarding this issue will be highly appreciated. Thank you in advance for your kind cooperation!

1. Is Transfer pricing the only option which can be applied in international business stage, please specify another option if exists for intra company pricing?
2. What are the pros of the implementation of transfer pricing?
3. How does the application of the arm’s length principle affect the implementation of transfer pricing?
4. What are the company factors which are crucial for TP implementation?
5. How does Transfer pricing implementation add value to the company’s fundamental goals?
6. Why does TP implementation require managerial and legal now how?
7. In the context of TP methods which of the methods are appropriate for your company’s services?
8. Is the chosen TP method and its implementation is compatible with country’s legislation, respectively can it easily be proven to the local tax authorities?
9. In the case of cost base determination what is the critical variable that you consider? Do all activity costs need to be included, or does same markup apply for all costs incurred during your everyday activities?
10. How does your company respond to the increasing regulatory framework for TP in the R. of North Macedonia?
11. Do you have any intra-company pricing policy statements?
12. How does the implementation policy (processes, design, documentation and monitoring) increase the competitiveness of the company?
13. Does the implementation of TP is linked to enterprise risk management framework (ERM)? How? When it comes to the ease of implementation are you for centralized or decentralized TP strategies?

APPENDIX 2

Questionnaire (TP experts)

Dear respondent,
This questionnaire is designed to measure the importance of transfer pricing application within a company. Your answers will be anonymous and will be used only for academic purposes. Please can you answer the questions in a most objective and clear manner? Your comments regarding this issue will be highly appreciated. Thank you in advance for your kind cooperation!

1. Is Transfer pricing the only option which can be applied in the international business stage or are there any other possible options?
2. What are the pros of the implementation of transfer pricing?
3. What are the cons of transfer pricing implementation?
4. How does the application of arm’s length principle affect the implementation of transfer pricing?
5. Which company factors are crucial for TP implementation?
6. How does Transfer pricing implementation add value to the company’s fundamental goals?

7. Why TP implementation does require managerial and legal know-how?
8. In the context of TP methods, which methods are appropriate for service industries?
9. Is there any case when two or more TP methods can be applied for one company, especially when it performs more than one activity?
10. If a cost-plus method is chosen as an appropriate method what will be the critical variable of cost base determination that companies must consider? Do all activity costs need to be included, or does the same markup apply to all costs?
11. How can companies respond to the increasing regulatory framework for TP in the country?
12. Are intra-company policy statements very crucial for transfer pricing implementation? If so, why?
13. How does the implementation policy (processes, design, documentation, and monitoring) increase the competitiveness of the company? Is the implementation of TP linked to the enterprise risk management framework (ERM)? If so, how?