

# Opportunities and challenges faced by multi-national companies in setting an appr...

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Transfer Pricing With the increasing levels of globalization resulting from liberalization of markets, efficient flow of information, and integration of economies across the world, the level of competition in the local and global market has increased tremendously. This has mainly resulted from the entry of multinational companies which have a huge financial base to segment the market, position their products and services strategically in the market, and attract the loyalty of the customers towards their products and services. Therefore, in order for these businesses to remain competitive, they are transferring prices to different parts of the world (Barba, Venables & Barry 2004). This strategy creates both the opportunities and challenges to the multinational companies.

One of the major challenge that face multinational companies is complying with transfer pricing rules which is a costly affair itself. However, when times are tough, tax laws are adjusted, an aspect that increases the cost of compliance. With every change in the tax laws, the multinational companies had to interpret the law, apply it effectively and change their internal systems (Kuan, WorldTrade Executive (Concord, & Mass.) 2005). For instance, they have to automate the processes and hire tax professionals who will track these changes on a regular basis. This requires immense spending by these firms.

Managing and producing a detailed trail of audit which involve a step by step of the overall process of transfer pricing is demanding and time-consuming (Wintzer 2007). Therefore, many companies that lack effective internal strategies find it difficult to take up this process. In addition, these companies face a challenge of using a third party because they lack an in-

depth understanding of their businesses and operations. In some cases, the top officials use this opportunity to embezzle funds from the organization, thereby affecting their positions in the market.

Transfer pricing provides an opportunity for the multinational companies to exercise their “multinationality” (Bakker & Obuoforibo 2009). In case these transfers do not exist, the concept of multinational companies to exist in different markets would not apply at all. Instead, domestic businesses would dominate each local market in the country. Therefore, transfer pricing plays a significant role in enabling these firms to transfer their resources to other countries some of which are used to support struggling subsidiaries which are located in countries experiencing intense competition.

Multinational companies are faced with different issues such as taxation, foreign exchange, cash control, and inflation (Abdallah 2004). Transfer pricing enables these organizations to maximize their objectives through exploiting the imperfections in the markets which mainly arises from differentials in the exchange process. For instance, companies can use the process to avoid high taxation in a certain country.

According to Head (2007) many companies use tax pricing to achieve tax-related objectives. Multinational companies are faced with a myriad of tax regulations which are associated with internal transfers. Many of the countries across the world have set up similar transfer pricing laws as those in section 482 of US internal revenue code. This is in attempt to prohibit the manipulation of transfer systems with the aim of evading taxes. However, majority of the decisions by the top-level managers of these organizations are based on tax decisions. Therefore, transfer pricing provides the

multinational companies with an opportunity to generate a particular amount of source country content thereby, avoiding incurring tariffs (Heimert, Johnson & Ceteris, Inc. 2010).

In conclusion, transfer pricing provides opportunities to multinational companies to expand their market base. In addition, it enables these firms to avoid high taxations. However, on the other side, it consumes time and resources and might create loopholes for the top-level managers to embezzle funds from the reserves.

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