Methodological Tools for Making Management Decisions on Transfer Pricing

Oleksandr Muravskyi
Candidate for the Degree of Doctor of Philosophical Sciences,
State Tax University, Ukraine
E-mail: yu.and.mur72@gmail.com
ORCID: https://orcid.org/0000-0003-0081-2124

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Abstract. *The article systematises methodological tools for making managerial decisions on transfer pricing. An analysis of domestic scientific works on the study of the list of methodological tools for determining transfer prices is carried out. It is found that transfer pricing researchers in the system of management accounting agree on a list of methods for determining transfer prices, including methods for determining transfer prices on the basis of market prices, on the basis of cost prices determined by marginal/standard/full costs or on a double basis, and on the basis of contract prices. Researchers of transfer pricing in the tax system are united in this approach and work with the methods (comparable uncontrolled price (as sales); resale price; "cost plus"; net profit; profit distribution) recommended by the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and established by the Tax Code of Ukraine when checking the conformity of the terms of controlled transactions with the arm's length principle. Identify the conditions under which transfer pricing methods are used in domestic practice. The advantages and disadvantages of using certain transfer pricing methods are identified. To test and thoroughly analyse the transfer pricing methods, business operations of an agro-industrial enterprise are developed. The characteristics and limitations of the application of a particular transfer pricing method are identified. These transactions clearly illustrate the characteristics, advantages and disadvantages of using each transfer pricing method to verify the arm's length transfer price. The author demonstrates the need for adjustments in cases where the transfer price or profitability of a controlled transaction is not in line with the arm's length principle. The article emphasises the need for proportional adjustment of the tax base as a means of avoiding double taxation. Taking into account the systematisation of legal and regulatory provisions on transfer pricing, peculiarities, advantages and disadvantages of using certain methods, the author proposes a general scheme for making managerial decisions in the field of methodological management of transfer pricing operations.*

Keywords: *transfer pricing, methods of transfer pricing, comparable uncontrolled price method (CUP), resale price method (RPM), cost plus method (CPM), transactional net margin method (TNMM), profit split method (PSM).*

JEL Classification: *E64, F23, F65, H25, H26, H32, K34*

1 Introduction

The process of determining transfer prices for the objects of transfer pricing transactions is quite complex and controversial as to the validity of using certain methods in determining this type of prices. An analysis of the scientific literature on the subject has shown that the methodological approach to the determination of transfer prices is also dualistic: methodological tools are created and used either in the accounting (management) system or in the tax system. At the same time, the methods of determining transfer prices in the management accounting system are fully based on the basic concepts and categories of management accounting, while the methods in the taxation system correspond to those defined by law.

The purpose of the article is to identify the conditions for the application of transfer pricing methods, to identify the advantages, disadvantages, bottlenecks and limitations in the application of certain methods with a view to developing a mechanism for managing methodological support for transfer pricing decisions. The achievement of this goal will be based on the conclusions obtained within the framework of the research objectives, namely: to systematise the conditions for the application of transfer pricing methods for each method with the definition of characteristics; to determine the list of advantages, disadvantages, limitations in the application of each method; to test the application of transfer pricing methods on the example of an agricultural company.

The methodological basis for the study of the object of research was the postulates of the theory of systemic problem solving, the systematic approach was implemented. The study used the following general scientific methods (analysis, synthesis, induction, deduction, specification, abstraction – in the process of research and development of each issue); special methods (comparison and critical evaluation – in determining the conditions of application, features, advantages and disadvantages of transfer pricing methods); structural and logical ordering – to develop a scheme for making managerial decisions in the field of methodological support for transfer pricing operations; comparative analysis.

2 Transfer Pricing Methods and Their Theoretical Basis

Researchers of transfer pricing in the management accounting system (Tytenko, & Bohdan, 2020) agree on the list of methods of determining transfer prices, including methods of determining transfer prices on the basis of market prices, on the basis of cost price determined at marginal/standard/full cost or double rate, and on the basis of contractual prices. The researchers of transfer pricing in the tax system agree on this approach and work with the methods (comparable uncontrolled price (sales analogues); resale price; cost plus; net profit; profit distribution) recommended by Section II of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2022) and provided for in subparagraph 39.3.1 of the Tax Code of Ukraine (Tax Code of Ukraine, 2010) when verifying the compliance of the terms of controlled transactions with the arm's length principle. It is for the latter that these methods are used. It should be noted that the list of transfer pricing methods in accordance with the OECD Guidelines and the provisions of the Tax Code of Ukraine is arranged in order of priority of application, with the first three methods being the main ones and being preferred when determining transfer prices, while the last two methods are alternative and are applied when the first three methods are impossible or inappropriate. In addition, the conditions for the application of each method are also specified in the OECD Guidelines and the Tax Code of Ukraine.

Given the current understanding of transfer pricing and its dual nature in the accounting and tax system, the only correct methods for determining transfer prices are those recommended by the OECD Guidelines (OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2022) and provided for in subparagraph. 39.3.1 of the Tax Code of Ukraine (Tax Code of Ukraine, 2010) with mandatory consideration of the conditions of their application.

The conditions and specifics of applying transfer pricing methods are shown in Fig. 1.

Each transfer pricing method has its own advantages and disadvantages. The use of these methods is based on different economic and commercial aspects, which leads to disagreements and controversies between companies and tax authorities regarding the justification of the choice of a particular method. The advantages and disadvantages of transfer pricing methods are systematised in Table 1.

Table 1 Advantages and disadvantages of transfer pricing methods

№	Transfer pricing method	Advantages and disadvantages	
		Advantages	**Disadvantages**
1	Comparable Uncontrolled Price Method (CUP)	Objectivity and possibility of comparison with market information (real situation)	Lack of relevant information in some industries, difficulty in finding comparable transactions
2	Resale Price Method (RPM)	Flexibility to adjust prices in accordance with the level of risk and functions assumed by each business unit	Need to obtain detailed and accurate information on the costs and benefits of comparable transactions
3	Cost Plus Method (CPM)	Possibility of use in conditions of limited or absent market information	Contradictory justification and complexity of explanations to tax authorities
4	Transactional Net Margin Method (TNMM)	Relationship of the method to investments and use of tangible assets	Difficulty in finding comparable transactions with specific tangible assets
5	Profit Split Method (PSM)	Ability to reflect the economic reality of transactions, taking into account aspects such as intellectual property or capital contributions	Complexity of use and the possibility of contradictions in the distribution of profits between business units of the group of companies

Source: systematized by the author

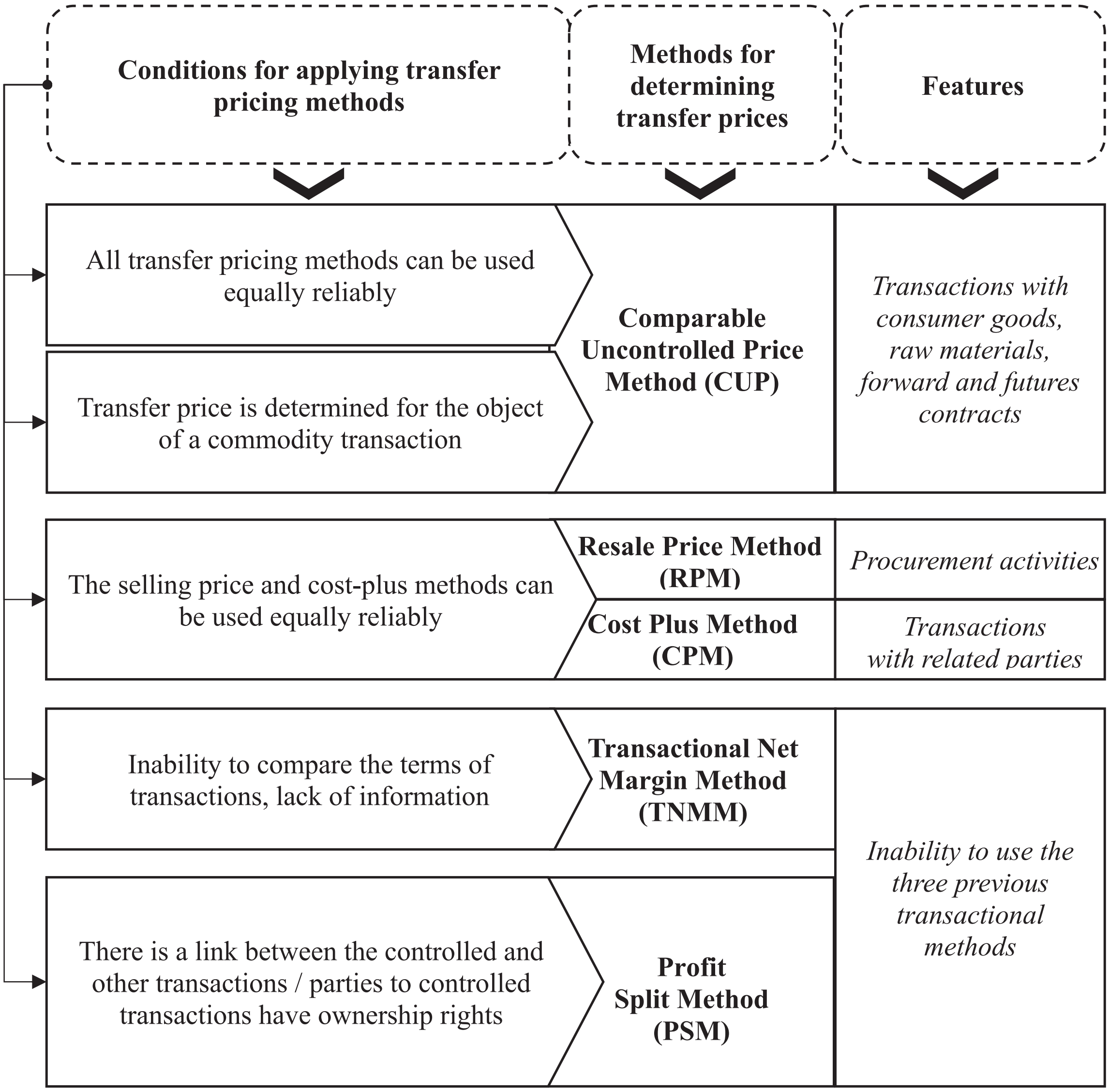

Figure 1 Conditions for applying transfer pricing methods

Source: based on OECD Guidelines and the Tax Code of Ukraine

It is essential for the Group to comply with the applicable tax laws in each country in order to avoid disputes and legal risks. Understanding and correctly applying these methods will help to establish fair and reasonable transfer prices, ensure transparency and compliance of transactions. The practical application of transfer pricing methods is subject to scrutiny and disagreement between companies and tax authorities. Therefore, it is advisable to consider typical transfer pricing transactions with the use of transfer pricing methods and to disclose controversial issues that management should be aware of.

3 Practical Application of Transfer Pricing Methods

The research will be based on an agro-industrial and trading company whose main activities are agriculture, oil extraction, sugar and bioethanol production. In particular, the company operates a livestock business. The company has a closed production cycle and is vertically integrated, which ensures stable operation of all business units in a synergistic manner. All of the company's production facilities, except for oil extraction and bioethanol production, are located in Ukraine. The oil extraction and bioethanol production facilities are located in Poland and are registered as Polish companies. The overall management of the company's production facilities is carried out by a head office registered in the Netherlands by the ultimate beneficial owner. The company also has sales offices in Ukraine, Poland and the Netherlands.

Having understood the business, its scope and possible business transactions, it is clear that such transactions will fall under the criteria of controlled transactions under the Tax Code of Ukraine, and therefore situational modelling of business transactions that may be considered controlled, i.e., falling under the definition of transfer pricing transaction, should be used. The models of transfer pricing transactions based on the example of transactions between separate business entities of a company are presented in Figures 2–6.

Business transaction 1: a crop production business unit (Ukraine) sells inputs, such as sunflower and soya, to an oil extraction business unit (Poland). The finished product (oil and soybean meal) is then sold through a trading house (Poland) (Figure 2).

An agricultural company sells raw materials in the form of sunflowers and soybeans to an oil extraction plant in Poland, which processes them into sunflower oil and soybean meal, respectively, and sells them through a trading house. In this case, the controlled transaction is the sale of the sunflower and soybeans, which is the basis for determining the transfer price and verifying its compliance with the arm's length principle.

As noted above, the use of the comparable uncontrolled price method is mandatory for commodity transactions and the arm's length test. However, it should be noted that commodity transactions are the most difficult of the controlled transactions to perform. First of all, it is necessary to check whether the subject of the transfer pricing transaction (raw materials) is included in the list of raw materials (List of Raw Materials of 09.12.2020 № 1221, 2020). The next step for management is to determine a transfer price that is consistent with the arm's length principle. For this purpose, either the prices of comparable uncontrolled transactions (subject to the mandatory condition of their regularity and consistency of volume) or quoted prices should be studied. And, as practice shows, the use of the latter is the most appropriate method of comparison for the tax authorities. According to the requirements of subparagraph 14.1.941 of the Tax Code of Ukraine, "quoted prices are defined as the average price or price range for a certain date or period" (The Tax Code of Ukraine, 2010). A quoted price is a price (average) and/or a price range for a specific date or period. The procedure for calculating the price range and the median of the price range (Procedure for Calculation of Price Range (Profitability) and Median of Such Range for Transfer Pricing Purposes dated 04.06.2015 № 381, 2015). The source of information on such prices is recognised information and analytical (statistical, governmental) agencies, which is also defined in subclause 4, subparagraph 39.3.3.4 of the Tax Code of Ukraine (The Tax Code of Ukraine, 2010). In particular, the official website of the State Tax Service of Ukraine recommends using the platforms of Argus Media Ltd, FastMarkets, IHS Markit Ltd, Refinitiv Holdings Ltd, S&P Global Platts and SE «DERZHZOVNISHINFORM» and Ukrainian Industrial External Expertise. At the same time, the company may use any other sources of information on quoted prices, provided that they meet the conditions of comparability in accordance with subparagraph 39.2.2 of the Tax Code of Ukraine (The Tax Code of Ukraine, 2010). In addition, the company must notify the State Tax Service of Ukraine of agreements on the sale of goods within the framework of controlled transactions within 10 days from the date of the

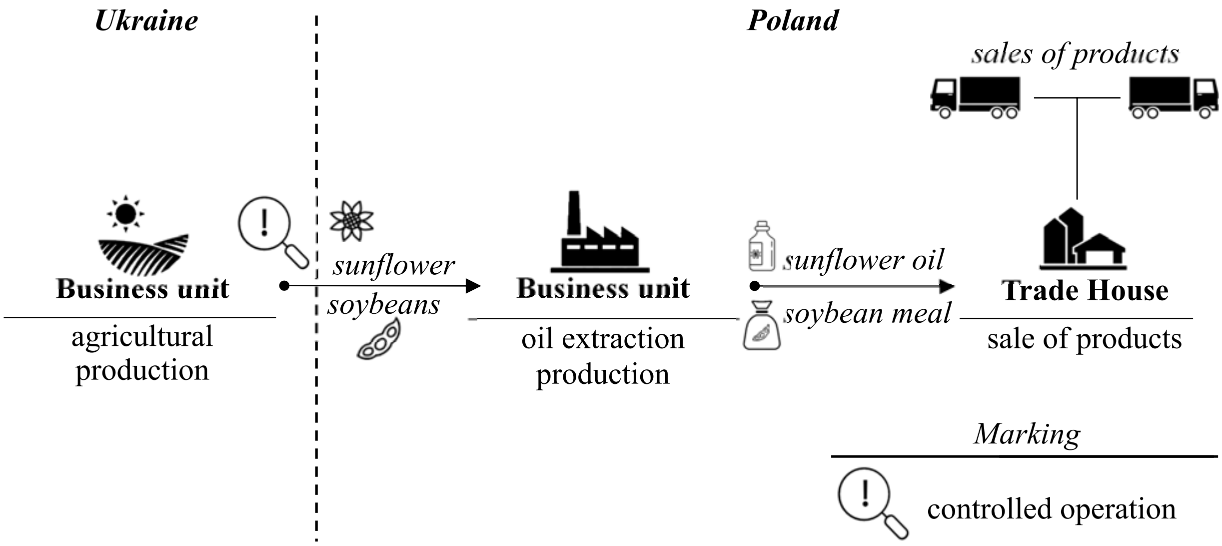

Figure 2 Scheme of business transaction 1 for transfer pricing purposes

Source: developed by the author

agreement (i.e., from the date of the agreement specified in the notification to the STS). In the author's opinion, transfer pricing management in commodity transactions is the most complex and requires the creation of an effective information support and management system. In addition, notification and reporting to the tax authorities is also a rather time-consuming process. In view of these difficulties, the practical and recommendation parts of the thesis will propose ways to optimise and digitalise these processes.

Returning to the business transaction of the investigated company, it can be said that this transaction is related to the export of raw materials (sunflower and soybeans), which are included in the list of commodities (Ukrainian Classification of Goods for Foreign Economic Activity codes 1201 and 1206), respectively, and the company must comply with all requirements related to this type of transaction. First, to determine the transfer price for sunflower and soybeans, the company should use information on prices for these commodity groups from sources recommended by the State Tax Service or information on futures prices for agricultural products on the world's largest exchanges. Assume that the company under study determined the transfer price for soybeans in Transaction 1 based on the quoted price. Consider this price to be arm's length using the Procedure for Calculation of Price Range (Profitability) and Median of Such Range for Transfer Pricing Purposes (Table 2).

The range of arm's length prices is set at the level of 500.7 USD/t to 544.2 USD/t, and therefore the terms of the controlled transaction of soybean sales by the company at the price of 521.0 USD/t are arm's length. If the enterprise is unable to determine the transfer price, it may use the median of the price range, that is, it may set the price at the level of the arithmetic mean between the 2nd and 3rd ordinal number in the sample range, i.e. (521.0 + 534.1) / 2 = 527.6 USD/t. This price would be consistent with the arm's length principle.

As for sunflower seeds, their prices are usually not quoted on exchanges, so in this case, the company can compare the terms of the controlled transaction with the terms of similar transactions with third parties: either between the company and an independent counterparty (internal uncontrolled price) or between two independent counterparties (external uncontrolled price) (Table 3).

As part of the transaction, the company decided to set the transfer price for sunflower seeds at 380 USD/t, which is higher than the internal uncontrolled price but lower than the external uncontrolled price. In order to optimise the tax base, it is clear that it would be more profitable for the company to choose a price at the level of the internal uncontrolled price, but the external uncontrolled price is more in line with the arm's length principle and its use does not require additional justification to the tax authorities. However, according to the tax compliance approach to transfer pricing, the company's use of the 380 USD/t transfer price is quite reasonable.

In particular, it should be noted that the company can provide additional information on the selling prices of sunflower seeds by competitors based on benchmarking (mutual data exchange), analysis of commodity markets using various analytical platforms, etc.

Business transaction 2: a business unit producing bioethanol (Poland) sells the finished product (bioethanol) to a trading house (Ukraine) for use or sale to other companies (Figure 3).

In this case, the controlled transaction is the sale of the purchased bioethanol, in which the transfer price is determined and its compliance with the arm's

Table 2 Compliance of the transfer price for soybeans within business transaction 1 with the arm's length principle

Product group	**Established transfer price, USD/t**	**Commodity (raw material) prices on world exchanges, USD/t** *(on FCA terms)*					
		CBOT	**BCA**	**Euronext**	**NYBOT**	**WCE**	**LIFFE**
Soybeans	521.0	500.7	534.1	521.0	497.2	555.3	544.2

Determining the price range:

№ of sample values	**1**	**2**	**3**	**4**	**5**	**6**
Price, USD/t	497.2	500.7	521.0	534.1	544.2	555.3
№ in sample range		**1**	**2**	**3**	**4**	

1. Lower quartile of the sample: 6 × 0.25 = 1.5 – *since the number 1.5 is not an integer, the lower quartile corresponds to number 2, the ordinal number following number 1 in the sample.*

2. Upper quartile of the sample: 6 × 0.75 = 4.5 – *since 4.5 is not an integer, the upper quartile corresponds to number 5, the sequence number preceding number 6 in the sample.*

Source: systematized by the author

Table 3 Compliance of the transfer price for sunflower seeds within business transaction 1 with the arm's length principle

№	Indicator	Established transfer price	Price in similar conditions	
			Internal uncontrollable	External uncontrollable
1	Sunflower seed price	380 USD/ton	370 USD/t	400 USD/t
2	Costs of growing sunflower (per tonne of weight)	350 USD/ton		
3	Exports of sunflower seeds	10 000 ton		
4	Transaction value	3,800,000 USD	3,700,000 USD	4,000,000 USD
5	Income tax rate	18%		
6	Tax liability	54,000 USD	36,000 USD	90,000 USD
		x	- 18,000 USD	+ 36,000 USD

Source: compiled by the author

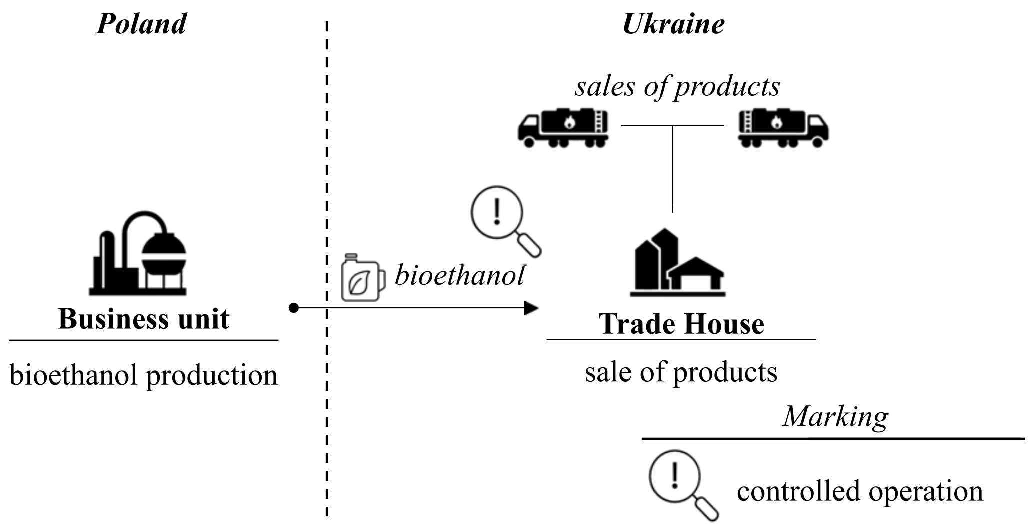

Figure 3 Scheme of business transaction 2 for transfer pricing purposes

Source: developed by the author

length principle is verified. Given that the bioethanol is resold to other companies, it is advisable to use the resale price method as the transfer pricing method (the comparable uncontrolled price method cannot be used). Under this method, the base price is the price at which the company sells the goods to third parties (i.e., the resale price). This resale price is reduced by an estimated gross margin, which is determined by comparing the gross margin in an uncontrolled transaction under similar conditions. Gross profitability is determined according to the formula specified in subparagraph 39.3.2.5 of the Tax Code of Ukraine (Tax Code of Ukraine, 2010) on the basis of income statement (or IFRS income statement) data. This price is also reduced by costs associated with the sale of products.

Consider a similar uncontrolled transaction for the sale of bioethanol on the domestic market to assess the appropriateness of the transfer price determined in Transaction 2 (Table 4).

Therefore, the transfer price established in transaction 2 is in line with the arm's length principle. It should be noted that the use of this method is much less common due to the difficulty of obtaining information on the gross profitability of a third party transaction. This information can be obtained by benchmarking, which also presents certain difficulties.

Business transaction 3: an oil extraction business unit (Poland) sells the finished product (rapeseed meal for animal feed) to a livestock business unit (Ukraine) (Figure 4).

In this case, the controlled transaction is the purchase of rapeseed meal, within which the transfer price is established and checked for compliance with the arm's length principle. Since the transfer pricing method is difficult to apply, it is possible to use either the resale price method or the cost plus method for this transaction. Here's an example based on the latter.

Table 4 Compliance of the transfer price for bioethanol within business transaction 2 with the arm's length principle

№	Indicator	Established transfer price	Price in similar conditions of third parties	
			Company A	Company B
1	Bioethanol sales price	789 USD/m³	759 USD/m³	812 USD/m³
2	Costs of purchasing bioethanol (import duty – 0%, excise tax – 3.65 USD/m³)	434 USD/m³	414 USD/m³	449 USD/m³
3	Gross profit per unit of output	355 USD/m³	345 USD/m³	363 USD/m³
4	Gross profitability	45%	45%	45%

Source: generated by the author

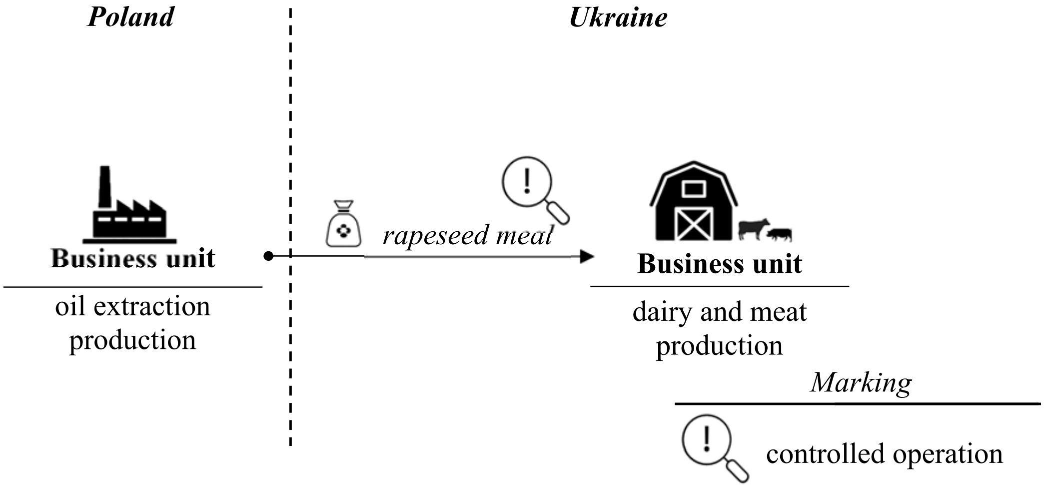

Figure 4 Scheme of business transaction 3 for transfer pricing purposes

Source: developed by the author

In this case, the controlled transaction is the purchase of rapeseed meal, within which the transfer price is determined and its compliance with the arm's length principle is verified. Since it is difficult to apply the primary transfer pricing method, either the resale price method or the cost-plus method can be used in this transaction. Here is an example based on the latter. The cost-plus method is based on determining the costs incurred by the rapeseed meal producer, finding a company that has made comparable transactions under similar conditions, and calculating a mark-up on the products of the transaction (Table 5).

Thus, the selling price of rapeseed meal is set in violation of the arm's length principle. According to the cost-plus method, it should be 253 USD/t, which means that the tax authorities should collect an additional 7 USD in income tax for each tonne of rapeseed meal sold. It should be noted that the use of this method is also not common in transfer pricing practice. It is mostly used in transfer pricing transactions related to the sale of goods (products) to order.

Next, it is advisable to consider the transactional transfer pricing methods – the net profit method and the distributed profit method. These methods are used even less frequently in practice and their main

Table 5 Compliance of the transfer price for rapeseed meal in business transaction 3 with the arm's length principle

№	Indicator	Established transfer price	Verification of compliance with the arm's length principle	
			Comparative operation	Adjusted transfer price
1	Total cost of rapeseed meal	220 USD/ton	205 USD/ton	220 USD/ton
2	Surcharge	18%	15%	
3	Selling price	260 USD/ton	236 USD/ton	253 USD/ton

Source: generated by the author

purpose is to adjust the net profit of the transaction rather than the transfer price.

Business transaction 4: a sugar production business unit (Ukraine) sells products to a bioethanol and oil extraction business unit (Poland), namely pelleted pulp (for fuel purposes) and molasses (for production purposes) (Figure 5).

In this case, the controlled transactions are the sale of cake to a granulated oil extraction plant and of molasses to a bioethanol plant. For these controlled transactions, the net profit method should be applied, which essentially consists of determining the net profit within the controlled transaction and calculating the profitability indicator. The net profit is then compared with the net profit of a comparable third party transaction. It should be noted that this method allows comparable transactions to be considered similar to the controlled transaction, which increases the number of cases where the net profit method is applied (Table 6).

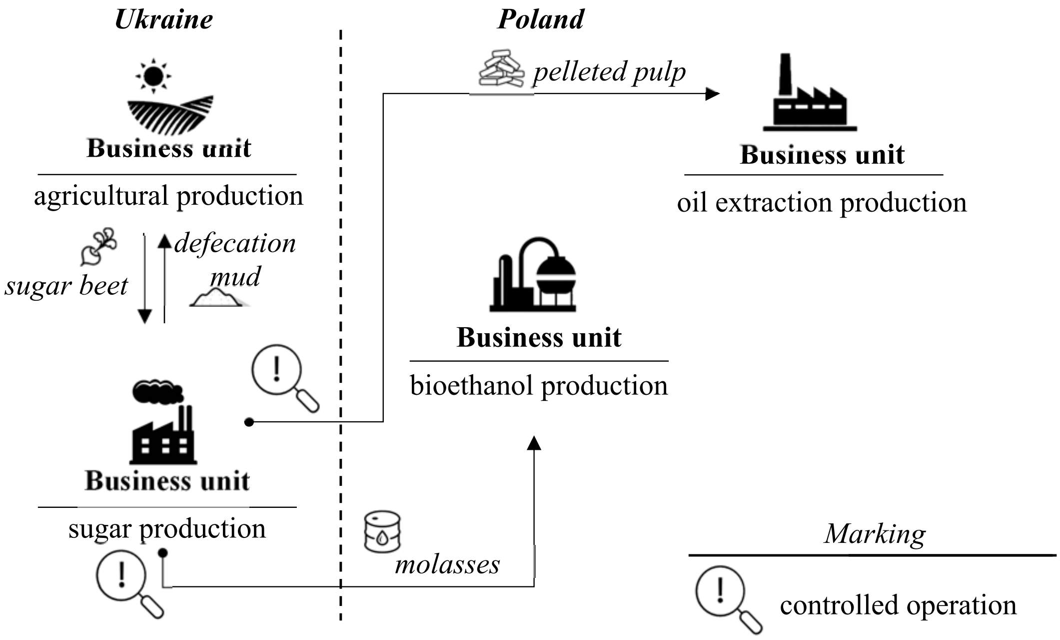

Figure 5 Scheme of business transaction 4 for transfer pricing purposes

Source: developed by the author

Table 6 Compliance of the transfer price for granulated pulp and molasses in business transaction 4 with the arm's length principle

№	Indicator	Transfer operations of the investigated company		Comparable third party transaction	
		pelleted pulp	molasses	pelleted pulp	molasses
	Data for calculation				
1	Total production cost	72 USD/ton	44 USD/ton	91 USD/ton	48 USD/ton
2	Sale price	150 USD/ton	142 USD/ton	195 USD/ton	150 USD/ton
3	Selling, distribution, maintenance and other unit costs	8 USD/ton	3 USD/ton	7 USD/ton	4 USD/ton
4	Scope of implementation	12 000 ton	5 000 ton	8 000 ton	3 000 ton
	Calculating the profitability of operations				
5	Revenue from sales of products	1,800,000 USD	710,000 USD	1,560,000 USD	450,000 USD
6	Cost of implementation	864,00 USD	220,000 USD	728,000 USD	144,000 USD
7	Selling, distribution, maintenance and other expenses	96,000 USD	15,000 USD	56,000 USD	12,000 USD
8	Profit from operating activities before taxation	840,000 USD	475,000 USD	776,000 USD	294,000 USD
9	Operating profitability before taxation	47%	67%	50%	65%

Source: compiled by the author

The transfer price for molasses within the transaction has been determined on an arm's length basis. On the other hand, the transfer price for pellet cake should be higher, but not less than 160 USD/t, at which the pre-tax profitability of the operating activities is at the level of the profitability of a comparable third-party transaction (50%). This method is used when traditional transfer pricing methods are not applicable but are subject to dispute, including litigation, with the tax authorities.

The final transactional method, the shared profits method, which is the most difficult to justify and the least applicable in practice, is used in the case of joint venture arrangements or the joint use of intangible assets. Consider an example of the application of this method.

Business transaction 5: a sugar producing business unit (Ukraine) sells by-products (dry bagasse and molasses pulp) for biogas production to a bioethanol producing business unit (Poland), with the latter selling through a trading house and sharing the profit in a 70% to 30% ratio (Figure 6).

In this case, the difficult-to-justify distributed profit method should also be applied, the idea of which is to determine the fair allocation of profits between related parties if a similar transaction had been carried out by unrelated third parties. In the above transaction, a sugar production business unit supplies bioethanol production for biogas production with the main raw materials being dry bagasse and molasses. In addition, the biogas is sold through a trading company and the profit is shared between the business units (Table 7). Accordingly, under the 70% / 30% split, the excess profit is distributed as follows 201 thousand USD and 86 thousand USD respectively, and then the amount of distributed profit that would be in line with the arm's length principle would consist of the sum of the profit from similar third party operations and the distributed excess profit.

Therefore, it can be concluded that the business unit (Ukraine) does not receive 421 thousand USD that should be subject to income tax. The business unit (Poland), on the other hand, receives the excess profit of 421 thousand USD and pays taxes to the state budget. The use of this method is much more difficult to justify and therefore, although it is used in pricing practice, it is also considered controversial by the tax authorities.

Thus, the developed schemes of typical business transactions of the company under study are not exhaustive, but they are the most common for transfer pricing purposes. Their peculiarity lies in the unconditional necessity of applying transfer prices, as all transactions take place within a group of related companies. In particular, these transactions illustrate the peculiarities, advantages and disadvantages of using each transfer pricing method to verify the arm's length nature of the transfer price determined.

4 Mechanism for Making Decisions on Transfer Pricing Methods

In addition to the above transfer pricing methods, it should be noted that adjustments, including proportional adjustments, are required in cases where the transfer price or profitability of a controlled transaction does not comply with the

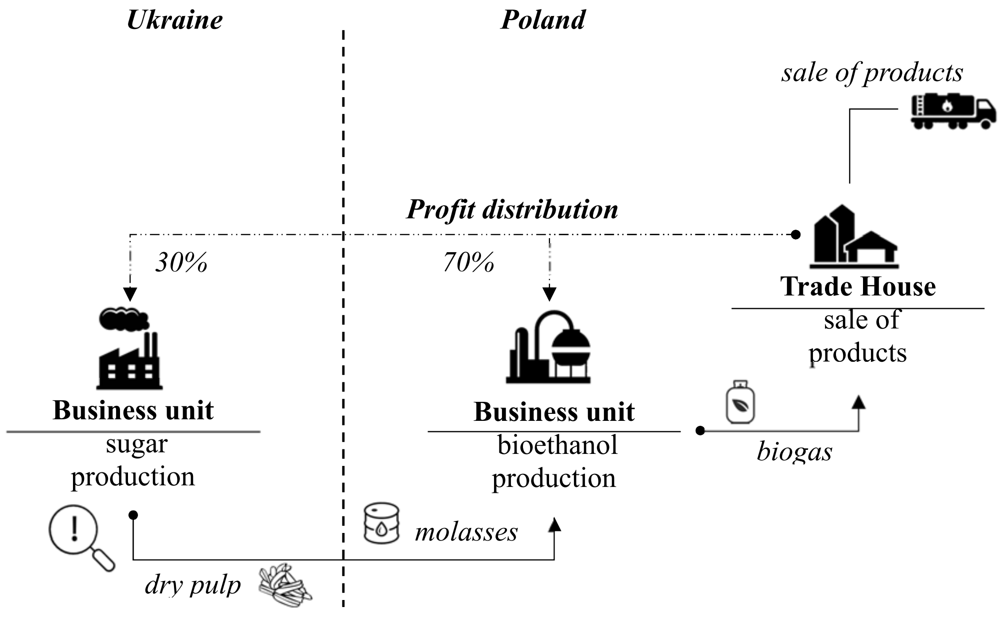

Figure 6 Scheme of business transaction 5 for transfer pricing purposes

Source: developed by the author

Table 7 Compliance of business transaction 5 with the arm's length principle

№	Indicator	Companies			
		Related companies under investigation		Third unrelated parties	
		Business unit (Ukraine)	Business unit (Poland)	Business unit (Ukraine)	Business unit (Poland)
1	Profit from biogas sales	16,354,000 USD		x	
	including a breakdown by business unit	4,906,000 USD	11,448,000 USD	x	x
2	Gain from similar transactions of third parties	x	x	5,241,000 USD	10,826,000 USD
	total profit from transactions with third parties	x		16,067,000 USD	
3	Profit from an arm's length transaction	5,327,000 USD	11,027,000 USD	x	x

Source: compiled by the author

arm's length principle. Independent adjustments are provided for in subparagraph 39.5.4 of clause 39.5 of Article 39 and clause 50.1 of Article 50 of the Tax Code of Ukraine (The Tax Code of Ukraine, 2010). Such self-adjustments may be made to the maximum or minimum values of the price (profitability) range. Taxpayers have the right to make self-adjustments without penalty until 1 October of the year following the reporting year. Taxpayers are prohibited from making self-adjustments during a transfer pricing audit.

The Ukrainian legislation also provides for proportional transfer pricing adjustments upon approval by the tax authorities. The mechanism of proportional adjustment means that if one of the related parties has made an adjustment (increase/decrease) to its tax liability, the other party must make a reverse adjustment (decrease/increase) in order to avoid double taxation in accordance with subparagraph 39.5.5.2 of the Tax Code of Ukraine (The Tax Code of Ukraine, 2010). In this case, three mandatory conditions must be met: the fact of double taxation and its justification, the fact that the parties are related, and the existence of an international convention for the avoidance of double taxation.

Unfortunately, there is no established practice of proportional adjustment, but Ukraine has signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, which should take into account the conditions that prevent countries from effectively resolving treaty disputes by mutual agreement.

Taking into account the systematisation of legal and regulatory provisions on transfer pricing, peculiarities, advantages and disadvantages of using certain methods, it is advisable to propose a logical scheme for making a management decision in the field of methodological support for the management of transfer pricing operations (Figure 7).

5 Conclusions

Transfer pricing, in its modern interpretation and understanding, should be a company's policy, consistent with its strategy, for carrying out transactions between centres of responsibility for which transfer prices are determined, provided that they are optimal for the effective functioning of the centre of responsibility and reasonable for the purposes of tax compliance. As a complex system, transfer pricing operates under the influence of a number of external and internal factors, based on clearly defined principles and objectives, approaches and tools. The efficiency and effectiveness of a company's transfer pricing policy depends to a large extent on the management of the centre of responsibility or the specialist assigned to the relevant functions, and on the level of their knowledge and competence. The new view of transfer pricing as a tool for balancing the interests of the company and the tax authorities is a driver for the development of a qualitatively new form of tax relationship between companies and the state, represented by the tax authorities, based on compliance.

The methodological tools for making management decisions in the area of transfer pricing are represented by a number of methods defined by the OECD Guidelines and the Tax Code of Ukraine as methods for confirming the compliance of controlled transactions with the arm's length principle. In line with the philosophy of the tax compliance approach to transfer pricing,

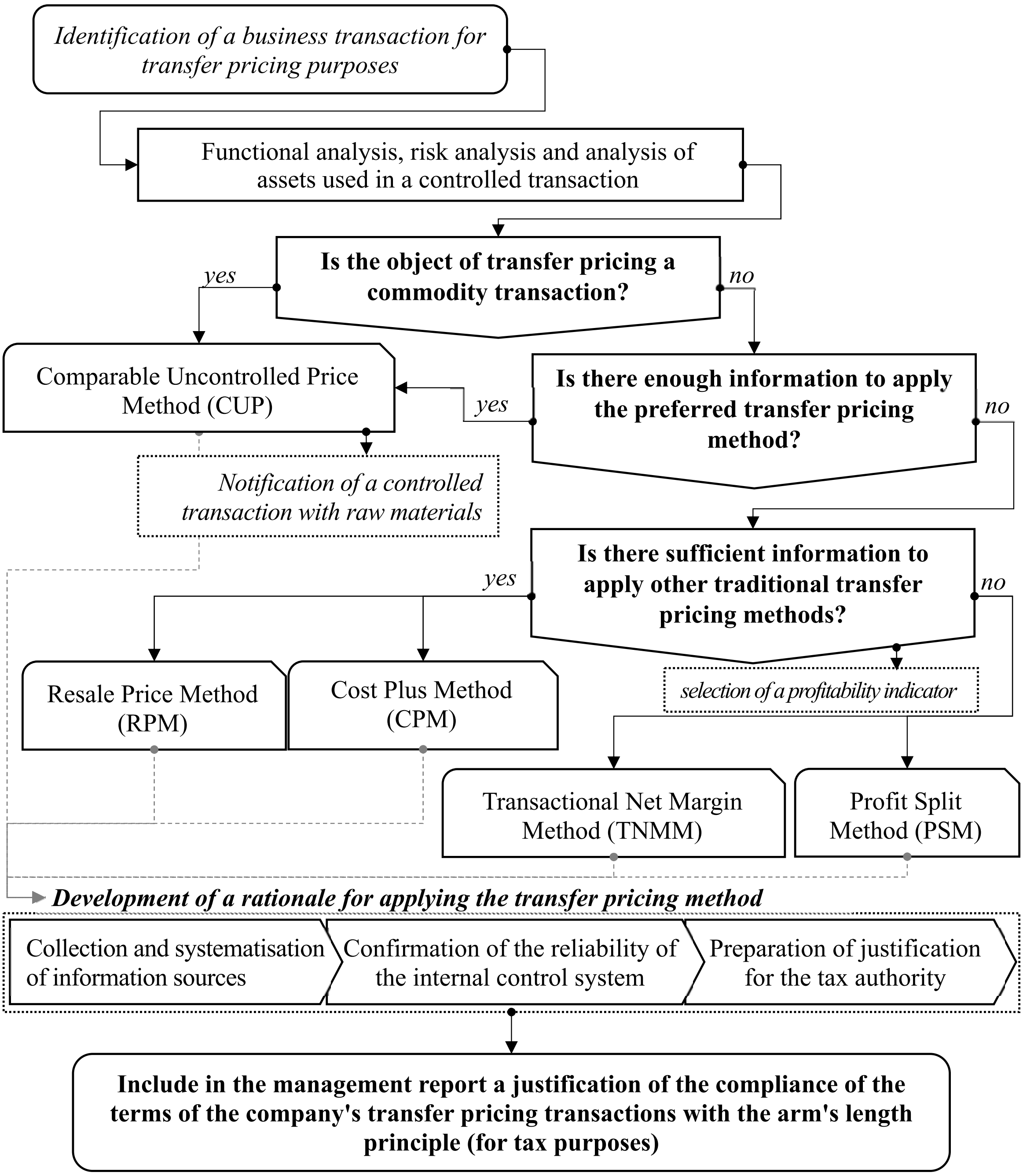

Figure 7 Scheme of managerial decision-making in the field of methodological support of transfer pricing operations management

Source: compiled by the author

it should be considered that the priority application of the comparative uncontrolled pricing method is the basis for building trust between enterprises and tax authorities. However, if it is not possible to apply it, it is necessary to stress the need to develop a system of justification for the company's choice of another transfer pricing method that would satisfy the tax authorities' requirements in terms of reporting and subsequent control. This justification should be implemented in internal management reporting and detailed by transaction, term and method.

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