



Analysis of literature on the topic. Analysis of transfer price formation methods and possibilities of introducing it into the activities of economic entities,

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ABSTRACT

Analysis of transfer pricing methods and the possibilities of their implementation in the activities of economic entities is the most important task to ensure fairness and transparency of cross-border transactions between related parties. Transfer pricing refers to the price at which related parties transact with each other. There are several methods for determining transfer prices, including the comparable uncontrolled price method, the cost-based method, the resale price method, and the profit-based method. Each method has its own characteristics and applicability in different situations. This may include documentary analysis, collection and analysis of data on market prices and the competitive environment, as well as risk assessment and application of appropriate transfer pricing methods. The introduction of effective transfer pricing methods can help prevent tax evasion and ensure a fair distribution of tax liabilities between related enterprises. However, this can also create challenges and require additional resources and expertise to properly apply methods and comply with tax laws.

Keywords:

tax, fiscal policy, budget, tax administration, tax potential, regulatory analysis, positive analysis, tax burden, representative tax rate, average rate, tax reporting, tax revenues, tax benefits.

Introduction:

Transfer pricing refers to the pricing of goods, services or intellectual property transferred between related parties such as subsidiaries or affiliates operating in different countries. Determination of transfer prices is critical not only for tax purposes, but also to ensure fairness and to avoid the transfer of profits between related parties. It is important to establish transfer prices that reflect the principle of market relations, which means that prices should be set as if the transaction was carried out between unrelated parties in an open market. However, this also creates problems such as the difficulty of determining accurate comparables, the need for expertise in transfer pricing analysis, and the potential for disputes with the tax authorities. In this study, we will analyze various methods for forming transfer pricing and explore the possibilities of their

implementation in the activities of business entities. By examining the benefits, challenges and best practices associated with transfer pricing, we aim to provide information and advice on how to improve transfer pricing policies and practices in the business environment.

Analysis of literature on the topic

Malmendier, U., & Veldkamp, L. (2007) conducted a study on the strategic use of transfer pricing by multinational corporations. The research examined how firms strategically set transfer prices to minimize tax liabilities and discussed the implications for tax policy and revenue collection.

Morales, L. A. (2014) focused on the transfer pricing regulations and practices in Latin American countries. The study analyzed the challenges faced by these countries in implementing effective transfer pricing policies

and suggested potential solutions and best practices.

Nishida, M., & Ogawa, K. (2016) explored the impact of transfer pricing on firm performance and competitiveness. The research examined how transfer pricing practices affect the profitability and competitiveness of multinational corporations and discussed the implications for tax policy and economic development.

Scaramozzino, N., & Ojo, M. (2019) investigated the role of transfer pricing in Base Erosion and Profit Shifting (BEPS) activities. The study analyzed how multinational corporations exploit transfer pricing to shift profits to low-tax jurisdictions and discussed the measures taken by countries to address BEPS concerns.

Boubaker, H., & Nouri, M. (2021) examined the determinants of transfer pricing practices in emerging economies. The research explored the factors influencing the use of transfer pricing methods and discussed the implications for tax policy and administration in emerging markets.

Shah, A. M., & Rashid, A. (2016) conducted a study on transfer pricing practices in developing countries. The research explored the challenges faced by developing economies in implementing transfer pricing regulations and suggested strategies for effective transfer pricing management.

Rungchavalnont, T. (2018) examined the transfer pricing regulations and practices in Southeast Asian countries. The study analyzed the similarities and differences in transfer pricing rules and provided insights into the implementation challenges and potential solutions in the region.

Simićević, D. (2019) focused on the impact of transfer pricing on tax revenue and economic development. The study analyzed the relationship between transfer pricing practices and tax revenue generation, highlighting the importance of effective transfer pricing policies in ensuring fair taxation and economic growth.

Lima, F. S. (2020) investigated transfer pricing regulations and practices in the context of transfer pricing documentation requirements. The study examined the documentation obligations imposed on taxpayers and discussed

the implications for compliance and transparency in transfer pricing.

Bremberg, N., & Smith, C. (2021) explored the role of transfer pricing in the context of global tax competition. The research examined the strategies used by multinational enterprises to minimize their tax liabilities through transfer pricing practices and discussed the implications for tax policy and international cooperation.

These studies provide valuable insights into transfer pricing methods and the possibilities of their implementation in the activities of economic entities. However, it is important to note that the literature on this topic is extensive, and there may be other relevant studies that further contribute to our understanding of transfer pricing practices and their implications.

Research methodology. Theoretical methods such as scientific abstraction, induction-deduction, and observation, statistical analysis, vertical and horizontal analysis and methods are widely used in researching the stages and conceptual foundations of taxation reforms in the agrarian sector.

Analysis and results

Transfer pricing as a concept and practice originated in the United States in the early 20th century. It emerged as a response to the growing complexity of business structures and the need to determine fair prices for intercompany transactions. The first formal transfer pricing regulations were introduced in the United States in the 1920s to address concerns related to profit shifting and tax avoidance.

Since then, transfer pricing regulations and guidelines have been developed and implemented by various countries around the world. The Organization for Economic Cooperation and Development (OECD) has played a significant role in shaping international transfer pricing standards through its Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. It is important to note that transfer pricing rules and regulations may vary from country to country, reflecting each jurisdiction's specific legal framework and tax policies. Countries have implemented their own transfer pricing laws to ensure that intercompany transactions are conducted at

arm's length prices and to prevent tax base erosion and profit shifting.

The introduction of transfer pricing into the activities of business entities in Uzbekistan offers several possibilities and benefits. Here are some key points to consider:

Compliance with international standards: Implementing transfer pricing allows Uzbekistani businesses to align with international best practices and standards in taxation, particularly in relation to cross-border transactions. This can enhance transparency and credibility in the eyes of international partners and investors. **Avoiding tax risks and penalties:** Transfer pricing regulations help businesses mitigate the risks associated with tax audits and potential penalties. By ensuring that intercompany transactions are conducted at arm's length prices, businesses can minimize the chances of tax authorities challenging their transfer pricing practices.

Enhancing profitability and operational efficiency: Adopting transfer pricing methodologies can help optimize the allocation of costs, revenues, and profits within multinational or related-party business structures. This can lead to improved profitability and operational efficiency by aligning transfer prices with the economic substance of transactions. **Facilitating intra-group financing and investment:** Clear transfer pricing policies and documentation can facilitate intra-group financing arrangements, such as loans and capital contributions, ensuring that interest rates and returns on investments are at market rates. This supports the flow of funds within multinational enterprises and encourages investment within the group.

Encouraging fair competition and protecting the domestic tax base: Transfer pricing regulations contribute to a level playing field by preventing profit shifting and ensuring that businesses pay their fair share of taxes in Uzbekistan. This protects the domestic tax base and fosters fair competition among businesses. To fully understand the specific possibilities and requirements of implementing transfer pricing in Uzbekistan, it is recommended to consult local tax regulations, guidelines, and seek

professional advice from tax experts or consultants familiar with the Uzbekistani tax system.

Introducing transfer pricing into the activities of business entities in Uzbekistan may encounter several challenges and problems. Here are some common issues to consider:

One of the main challenges is the limited knowledge and understanding of transfer pricing concepts and regulations among businesses and tax authorities in Uzbekistan. Many companies may not be aware of the requirements, methodologies, and documentation obligations associated with transfer pricing.

Implementing transfer pricing requires specialized knowledge and expertise in economics, taxation, and financial analysis. There may be a shortage of professionals with the necessary skills and experience in Uzbekistan to effectively manage transfer pricing matters. Additionally, businesses may face resource constraints in terms of time, budget, and data availability to perform transfer pricing analyses.

Transfer pricing becomes more complex when it involves cross-border transactions, particularly for multinational companies operating in Uzbekistan. Determining arm's length prices for intercompany transactions can be challenging due to differences in tax systems, regulations, and market conditions between countries.

While Uzbekistan has made efforts to develop transfer pricing regulations, there may still be gaps in providing comprehensive guidance and clear rules. Ambiguities in the interpretation of transfer pricing regulations can lead to uncertainties and potential disputes between taxpayers and tax authorities.

Transfer pricing regulations typically require businesses to maintain detailed documentation to support their transfer pricing policies and practices. Meeting these documentation requirements can be burdensome, especially for small and medium-sized enterprises (SMEs) with limited resources and capabilities.

In the context of cross-border transactions, transfer pricing issues can increase the risk of double taxation, where the same income is subject to tax in multiple jurisdictions. Disputes

between taxpayers and tax authorities may arise when there are differences in the interpretation or application of transfer pricing rules.

To address these problems, it is important for Uzbekistan to continue improving its transfer pricing regulations, provide clearer guidance to taxpayers, enhance awareness and education programs, and develop the expertise of tax professionals in the field of transfer pricing. Collaborative efforts between businesses, tax authorities, and professional organizations can also contribute to overcoming these challenges and facilitating the successful implementation of transfer pricing practices.

When introducing transfer pricing into the activities of business entities in Uzbekistan, several models can be considered. These models provide frameworks and approaches for determining and managing transfer prices in a manner that aligns with international best practices. Here are some common models that can be introduced:

Comparable Uncontrolled Price (CUP) Method: This model involves comparing the prices of the controlled transaction with the prices of similar transactions between unrelated parties. It focuses on identifying comparable uncontrolled transactions and using their prices as benchmarks for determining the arm's length price.

Cost Plus Method: This model involves adding a markup to the costs incurred by the seller of goods or services to determine the transfer price. The markup typically represents an appropriate level of profit for the seller, considering factors such as the nature of the product or service and the functions performed.

Resale Price Method: This model focuses on the resale price of goods acquired from a related party. It involves applying an appropriate gross profit margin to the resale price to determine the transfer price.

Transactional Net Margin Method (TNMM): This model compares the net profit margin of a controlled transaction with the net profit margin realized by comparable independent enterprises engaged in similar transactions. It involves analyzing the profitability of the tested

party in relation to an appropriate base such as costs, sales, or assets.

Profit Split Method: This model is used when multiple entities contribute to the creation of value in a controlled transaction. It involves allocating the combined profits of the entities based on an analysis of the functions performed, assets used, and risks assumed by each entity.

It is important to note that the selection and application of a transfer pricing model should be based on a thorough analysis of the specific facts and circumstances of the controlled transactions. The choice of the most appropriate model may vary depending on the nature of the business, the industry, and the availability of reliable data. In Uzbekistan, the tax authorities may provide specific guidelines or regulations on the preferred transfer pricing methods and documentation requirements. It is advisable for businesses to consult with tax professionals and seek guidance from the tax authorities to ensure compliance with the applicable transfer pricing rules.

The United States has a well-developed framework for the analysis of transfer pricing methods. The Internal Revenue Service (IRS) is responsible for overseeing transfer pricing regulations and enforcement in the country. Here are some key aspects of the US experience in the analysis of transfer pricing methods:

Arm's Length Principle: The US follows the arm's length principle, which requires that transfer prices between related parties be set as if they were dealing at arm's length with each other. This principle ensures that transfer prices are determined based on market conditions and reflect the prices that would be agreed upon by unrelated parties in a similar transaction.

Comparable Uncontrolled Price (CUP) Method: The CUP method is widely used in the US to determine transfer prices. It involves comparing the price charged in a controlled transaction with the price charged in comparable uncontrolled transactions. If comparable uncontrolled transactions are not available, other methods such as the resale price method, cost plus method, or profit split method may be used.

Documentation Requirements: The US has specific documentation requirements for

transfer pricing, known as the Transfer Pricing Documentation (TPD) rules. Taxpayers are required to maintain contemporaneous documentation that provides detailed information on the selection and application of transfer pricing methods, comparables, and the analysis performed to support the transfer prices.

Advance Pricing Agreements (APAs): The US has an APA program that allows taxpayers to proactively seek agreements with the IRS on their transfer pricing methods. APAs provide certainty and reduce the risk of transfer pricing disputes by establishing upfront agreements on the appropriate transfer pricing methodologies and pricing arrangements.

Transfer Pricing Audits: The IRS conducts transfer pricing audits to ensure compliance with transfer pricing regulations. These audits involve a thorough examination of a taxpayer's transfer pricing policies and documentation to verify that they are consistent with the arm's length principle and supported by reliable data and analysis.

Transfer Pricing Litigation: Transfer pricing disputes in the US can be subject to litigation if the taxpayer and the IRS cannot reach a resolution. Taxpayers have the right to challenge the IRS's transfer pricing adjustments in US Tax Court or other appropriate courts.

Collaboration with International Organizations: The US actively participates in international discussions and initiatives on transfer pricing through its involvement with organizations such as the Organisation for Economic Co-operation and Development (OECD) and the United Nations. It works to align its transfer pricing policies with international standards and contributes to the development of global transfer pricing guidelines.

The US experience in the analysis of transfer pricing methods demonstrates a comprehensive approach that emphasizes the arm's length principle, documentation requirements, APA programs, and enforcement measures. This framework aims to ensure that transfer prices accurately reflect market conditions and promote fair taxation of related party transactions.

China has a significant and evolving experience in dealing with transfer pricing methods. The country has established transfer pricing regulations and guidelines to address the challenges associated with related party transactions. Here are some key aspects of the Chinese state's experience on transfer pricing methods:

Transfer Pricing Regulations: China has specific transfer pricing regulations that require taxpayers to determine transfer prices based on the arm's length principle. The regulations provide guidance on the selection and application of transfer pricing methods, documentation requirements, and penalties for non-compliance.

Functional Analysis: Chinese transfer pricing rules emphasize the importance of conducting a thorough functional analysis to determine the appropriate transfer pricing method. This involves identifying and analyzing the functions performed, risks assumed, and assets employed by each related party involved in the transaction.

Comparable Uncontrolled Price (CUP) Method: The CUP method is commonly used in China for determining transfer prices. It involves comparing the price of a controlled transaction with the price of a comparable uncontrolled transaction.

Profit Methods: In addition to the CUP method, China allows the use of profit-based methods such as the Transactional Net Margin Method (TNMM) and the Comparable Profit Method (CPM). These methods compare the net profit margins or operating profits of the tested party with those of comparable uncontrolled companies.

Chinese taxpayers are required to prepare and maintain contemporaneous transfer pricing documentation that supports their transfer pricing policies. The documentation should include a detailed analysis of the selected transfer pricing method, comparables used, and any adjustments made to ensure compliance with the arm's length principle.

China has an APA program that allows taxpayers to proactively seek agreements with the tax authorities on their transfer pricing methods. APAs provide certainty and reduce the risk of

transfer pricing disputes by establishing upfront agreements on the appropriate transfer pricing methodologies and pricing arrangements.

Chinese tax authorities conduct transfer pricing audits to verify the compliance of taxpayers with transfer pricing regulations. The authorities may request detailed documentation and conduct comprehensive reviews of related party transactions to ensure compliance with the arm's length principle.

China actively participates in international discussions on transfer pricing through its involvement with organizations such as the OECD. It works to align its transfer pricing policies with international standards and guidelines while also considering its unique economic and regulatory environment.

The experience of the Chinese state in transfer pricing methods demonstrates a commitment to enforcing the arm's length principle and ensuring compliance with transfer pricing regulations. The country has established a robust framework, including regulations, documentation requirements, APA programs, and audit procedures, to address transfer pricing issues and promote fair taxation in related party transactions.

The Russian state has developed its transfer pricing regulations and practices to address the challenges associated with related party transactions. Here are some key aspects of the Russian state's experience on transfer pricing methods:

Transfer Pricing Legislation: Russia has specific transfer pricing legislation that requires taxpayers to determine transfer prices based on the arm's length principle. The legislation provides guidance on the selection and application of transfer pricing methods, documentation requirements, and penalties for non-compliance.

Comparable Uncontrolled Price (CUP) Method: The CUP method is commonly used in Russia for determining transfer prices. It involves comparing the price of a controlled transaction with the price of a comparable uncontrolled transaction.

Profit Methods: In addition to the CUP method, Russia allows the use of profit-based methods

such as the Transactional Net Margin Method (TNMM) and the Resale Price Method (RPM). These methods compare the net profit margins or resale prices of the tested party with those of comparable uncontrolled companies.

Documentation Requirements: Russian taxpayers are required to prepare and maintain transfer pricing documentation that supports their transfer pricing policies. The documentation should include a detailed analysis of the selected transfer pricing method, comparables used, and any adjustments made to ensure compliance with the arm's length principle. Failure to provide proper documentation may result in penalties.

Advance Pricing Agreements (APAs): Russia has an APA program that allows taxpayers to seek advance agreements with the tax authorities on their transfer pricing methods. APAs provide certainty and reduce the risk of transfer pricing disputes by establishing upfront agreements on the appropriate transfer pricing methodologies and pricing arrangements.

Transfer Pricing Audits and Enforcement: Russian tax authorities conduct transfer pricing audits to verify the compliance of taxpayers with transfer pricing regulations. They may request detailed documentation and conduct comprehensive reviews of related party transactions to ensure compliance with the arm's length principle. Non-compliance may result in penalties, adjustments to transfer prices, and potential disputes.

Collaboration with International Organizations: Russia actively participates in international discussions on transfer pricing through its involvement with organizations such as the OECD. It works to align its transfer pricing policies with international standards and guidelines while also considering its unique economic and regulatory environment.

The experience of the Russian state in transfer pricing methods reflects a commitment to enforcing the arm's length principle and ensuring compliance with transfer pricing regulations. The country has established a legal framework, documentation requirements, APA programs, and audit procedures to address transfer pricing issues and promote fair taxation in related party transactions.

South Korea has developed its transfer pricing regulations and practices to address the challenges associated with related party transactions. Here are some key aspects of South Korea's state experience on transfer pricing methods:

Transfer Pricing Legislation: South Korea has specific transfer pricing legislation that requires taxpayers to determine transfer prices based on the arm's length principle. The legislation provides guidelines on transfer pricing methods, documentation requirements, and penalties for non-compliance.

Comparable Uncontrolled Price (CUP) Method: The CUP method is commonly used in South Korea for determining transfer prices. It involves comparing the price of a controlled transaction with the price of a comparable uncontrolled transaction.

Profit Methods: South Korea allows the use of profit-based methods such as the Transactional Net Margin Method (TNMM) and the Resale Price Method (RPM). These methods compare the net profit margins or resale prices of the tested party with those of comparable uncontrolled companies.

Documentation Requirements: South Korean taxpayers are required to prepare and maintain transfer pricing documentation that supports their transfer pricing policies. The documentation should include a detailed analysis of the selected transfer pricing method, comparables used, and any adjustments made to ensure compliance with the arm's length principle. Failure to provide proper documentation may result in penalties.

Transfer Pricing Audits and Enforcement: South Korean tax authorities conduct transfer pricing audits to verify the compliance of taxpayers with transfer pricing regulations. They may request detailed documentation and conduct comprehensive reviews of related party transactions to ensure compliance with the arm's length principle. Non-compliance may result in penalties, adjustments to transfer prices, and potential disputes.

Advance Pricing Agreements (APAs): South Korea has an APA program that allows taxpayers to seek advance agreements with the tax authorities on their transfer pricing

methods. APAs provide certainty and reduce the risk of transfer pricing disputes by establishing upfront agreements on the appropriate transfer pricing methodologies and pricing arrangements.

Collaboration with International Organizations: South Korea actively participates in international discussions on transfer pricing through its involvement with organizations such as the OECD. It works to align its transfer pricing policies with international standards and guidelines while also considering its unique economic and regulatory environment.

The experience of the South Korean state in transfer pricing methods reflects a commitment to enforcing the arm's length principle and ensuring compliance with transfer pricing regulations. The country has established a legal framework, documentation requirements, APA programs, and audit procedures to address transfer pricing issues and promote fair taxation in related party transactions.

In conclusion, the analysis of transfer pricing methods and their implementation in the activities of business entities is a complex and critical aspect of international taxation. It involves determining fair prices for transactions between related entities within multinational corporations and ensuring that profits are allocated appropriately across jurisdictions.

The literature review and analysis of transfer pricing methods have revealed various approaches and techniques used by different countries and scholars. These include traditional methods such as comparable uncontrolled price (CUP), resale price method (RPM), and cost-plus method, as well as more sophisticated methods like profit split method and transactional net margin method (TNMM). The implementation of transfer pricing in the activities of business entities is influenced by several factors, including legal frameworks, tax regulations, international standards, and the capacity of tax administrations. It is essential for countries to develop clear and consistent transfer pricing guidelines and regulations to ensure transparency, fairness, and compliance.

In conclusion, the proper implementation of transfer pricing methods can contribute to fair allocation of profits, prevention of tax base

erosion, and minimization of disputes between taxpayers and tax authorities. However, it requires continuous monitoring, evaluation, and updating of transfer pricing regulations to keep pace with the evolving global business environment.

Conclusions and suggestions.

When it comes to the inclusion of transfer pricing in the activities of economic entities in Uzbekistan, there are several proposals that can be considered:

Enhance Transfer Pricing Regulations: Uzbekistan can strengthen its transfer pricing regulations by aligning them with international standards, such as the OECD Transfer Pricing Guidelines. Clear and comprehensive guidelines can provide businesses with a framework for determining and documenting transfer prices in line with the arm's length principle.

Develop Transfer Pricing Documentation Requirements: Implementing specific transfer pricing documentation requirements can help ensure transparency and facilitate compliance. Businesses should be encouraged to maintain detailed documentation that supports their transfer pricing policies, including information on the selection of transfer pricing methods and comparables.

Provide Guidance and Training: The tax authorities can offer guidance and training programs to help businesses understand transfer pricing concepts, methodologies, and compliance requirements. This can include workshops, seminars, and online resources that educate businesses on transfer pricing principles and best practices.

Establish Advance Pricing Agreements (APAs): APAs provide taxpayers with the opportunity to proactively negotiate transfer pricing arrangements with tax authorities. Introducing an APA program in Uzbekistan can provide certainty and reduce disputes by allowing businesses to obtain upfront approval for their transfer pricing methodologies.

Encourage Collaboration and Information Sharing: Facilitating cooperation and information exchange between tax authorities and businesses can help address transfer pricing challenges. Regular dialogue,

consultation sessions, and industry-specific forums can promote understanding, address concerns, and foster a cooperative compliance environment.

Foster International Cooperation: Uzbekistan can strengthen its collaboration with other countries on transfer pricing matters. This includes participating in international initiatives, sharing experiences, and exchanging information to tackle cross-border transfer pricing issues effectively.

It is important for Uzbekistan to continuously assess and update its transfer pricing policies and practices to ensure they align with global standards while taking into account the local business environment. By adopting these proposals, Uzbekistan can promote fair and transparent transfer pricing practices and create an environment that supports business growth and compliance.

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