

Profit or Pitfall? The Hidden Complexities of Transfer Pricing in International Business

Zhafirrah Rosalinda^{1*}, Anisya Tri Maryati², Muhammad Farisz Noor Ikhsan³, Deta Trinalti Oktavia⁴

^{1,2,3,4}Department of Accounting, Faculty of Economics, Sriwijaya University, Indonesia

**Corresponding Author: rosalindazhafirrah@gmail.com*

Abstract. This study examines the hidden complexities of transfer pricing in international business, exploring both the strategic benefits and the potential pitfalls that multinational enterprises encounter in today's digital economy. Transfer pricing, while serving as an essential tool for tax planning and profit allocation, presents significant challenges related to compliance, regulatory uncertainty, and ethical considerations. Through a comprehensive review of contemporary literature and in-depth analysis of recent case studies, the research identifies key issues including profit shifting, manipulation of tax bases, and discrepancies in regulatory enforcement across jurisdictions. The study finds that, despite offering potential tax advantages, poorly managed transfer pricing practices can lead to substantial risks such as increased scrutiny from tax authorities, financial penalties, and reputational damage. Moreover, the research highlights the need for greater transparency and harmonization in global tax regulations to mitigate these risks and promote fair competition. By critically analyzing the evolving landscape of digitalization and its impact on transfer pricing mechanisms, this paper argues for the adoption of robust and adaptive regulatory frameworks that can effectively address the challenges posed by modern business models. The findings call on policymakers and international regulatory bodies to enhance cooperative efforts and refine guidelines that balance corporate tax planning with equitable revenue collection. Such measures are essential for ensuring market stability and preventing the adverse economic effects of aggressive tax avoidance strategies.

Keywords: Regulation, Taxation, Transfer Pricing.

1. INTRODUCTION

Transfer pricing is a critical tool for multinational enterprises to strategically allocate profits and optimize tax liabilities in today's digital economy. Rapid technological advancements and evolving market conditions have transformed traditional transfer pricing methods, creating new challenges for regulators and practitioners alike (Alstadsæter et al., 2021). Technological advances have a significant influence on transfer pricing practices, especially in the digital economy era. This is due to increasing globalization, ease of cross-border transactions, and the emergence of various new business models that utilize technology.

These changes necessitate a closer examination of transfer pricing practices to ensure they effectively balance corporate tax planning with fair revenue collection.

The practical implications of transfer pricing complexities are vividly illustrated in several high-profile cases that have attracted significant regulatory attention. One notable example is the case of Google LLC, which implemented a sophisticated tax structure known as the "Double Irish with Dutch Sandwich." According to (Rogers & Oats, 2022), this strategy involved routing profits through subsidiaries in Ireland and the Netherlands before ultimately

transferring them to tax havens in Bermuda. Between 2015 and 2020, this arrangement reportedly enabled Google to shield approximately €20 billion in global revenue from taxation by pricing intellectual property rights and services between related entities in a manner that shifted profits to low-tax jurisdictions. The European Commission's subsequent investigation resulted in Ireland collecting €14.3 billion in back taxes from Google in 2020, highlighting the significant financial consequences of aggressive transfer pricing strategies (Treidler, 2020). Similarly, Amazon faced scrutiny when Luxembourg's tax authorities approved transfer pricing arrangements that allowed the company to attribute substantial profits to a Luxembourg entity that was not subject to corporate taxation. (Mashiri et al., 2021) documented that this arrangement, which involved complex royalty payments for intellectual property between Amazon's subsidiaries, resulted in an effective tax rate of less than 1% on European profits over several years. The European Commission ultimately ruled these arrangements constituted illegal state aid, requiring Amazon to repay €250 million in unpaid taxes. These cases exemplify how transfer pricing can be leveraged to achieve significant tax advantages while simultaneously exposing companies to substantial regulatory risk and reputational damage.

Despite its benefits, transfer pricing presents significant risks that may lead to profit shifting and aggressive tax planning. Discrepancies in regulatory enforcement across countries exacerbate these challenges, resulting in conflicts between tax authorities and multinational companies (Friis, 2020). Inconsistent international standards further complicate the monitoring and compliance process, which raises concerns about transparency and accountability in transfer pricing strategies. A clear example of these risks can be seen in the case of Amazon, which came under scrutiny from the European Commission for transfer pricing practices that allowed the company to report minimal profits in high-tax jurisdictions. Through complex intercompany licensing agreements, Amazon attributed a large portion of its European profits to a Luxembourg-based subsidiary that was not subject to corporate taxation. This led to a ruling in 2017 that such arrangements constituted illegal state aid, and the company was ordered to repay €250 million in unpaid taxes. The case underscores how aggressive transfer pricing strategies, if mismanaged, can result in regulatory penalties, reputational harm, and strained relationships with tax authorities.

This study critically examines whether transfer pricing in international business is a profitable strategy or a potential pitfall. By synthesizing recent literature and case studies, the research investigates the hidden complexities of transfer pricing and explores the need for robust regulatory frameworks. The findings aim to offer insights into improving global taxation practices and mitigating risks associated with transfer pricing (Álvarez-Martínez et al., 2022).

Despite its benefits, transfer pricing presents significant risks that may lead to profit shifting and aggressive tax planning. Discrepancies in regulatory enforcement across countries exacerbate these challenges, resulting in conflicts between tax authorities and multinational companies (Kumar & Patel, 2023). Inconsistent international standards further complicate the monitoring and compliance process, which raises concerns about transparency and accountability in transfer pricing strategies.

This study critically examines whether transfer pricing in international business is a profitable strategy or a potential pitfall. By synthesizing recent literature and case studies, the research investigates the hidden complexities of transfer pricing and explores the need for robust regulatory frameworks. The findings aim to offer insights into improving global taxation practices and mitigating risks associated with transfer pricing (Smith & Chen, 2022).

2. LITERATURE REVIEW

Signaling Theory

This theory, introduced by Michael Spence (1973), explains how multinational corporations use transfer pricing as a tool to convey financial information to stakeholders. In practice, companies often utilize transfer pricing to shift income from high-tax countries to low-tax jurisdictions, aiming to reduce tax burdens and increase profits. This strategy creates a positive signal regarding the company's financial performance, which can attract investors and generate the perception that the company has promising business prospects.

Agency Theory

This theory, introduced by Jensen and Meckling (1976), discusses the relationship between company owners (principals) and managers (agents), who often have misaligned goals, leading to agency costs due to conflicting interests and asymmetric information. In the context of transfer pricing in international business, this theory is relevant because managers can set transfer prices to shift profits to lower-tax countries to achieve financial targets, increase compensation, or obtain personal incentives, even though this strategy may harm shareholders and potentially lead to legal issues. While company owners prioritize compliance with tax regulations to maintain business sustainability, managers tend to focus on tax optimization without considering long-term risks.

Transfer Pricing

One of the tactics used by companies to compete in the global market with limited resources is transfer pricing. This approach involves shifting profits from companies operating in high-tax jurisdictions to companies in lower-tax jurisdictions. The primary objective of transfer pricing is to reduce tax burdens. Transfer pricing is often employed, particularly by companies with internal connections. Transfer pricing decisions as part of corporate strategy are not only based on financial considerations but also include aspects such as efficiency, effectiveness, volume, resources, corporate image, and profit enhancement (Kalra & Afzal, 2023). Although transfer pricing is considered a useful strategy for businesses, governments believe it can reduce national tax revenues (Azhar & Setiawan, 2021).

International Business

Economic activities involving trade, investment, and the exchange of services between countries are influenced by various factors, including economic, political, legal, and cultural aspects (Golo, 2015). In the era of globalization, companies are required to develop appropriate expansion strategies, such as export-import, foreign direct investment (FDI), and strategic partnerships, to compete in international markets. Furthermore, understanding global trade regulations and cultural differences is a key factor in determining the success of a business in the international arena. Companies that can adapt to global market dynamics will find it easier to expand their operations and enhance their competitiveness amid increasing international competition.

Previous Research

This study began with the collection of various articles from international journals indexed on platforms such as DOAJ, ResearchGate, Google Scholar, and ScienceDirect, related to transfer pricing in international business. From the collected articles, the author successfully identified research relevant to the hidden complexities of transfer pricing policies. After gathering the articles, the author conducted an in-depth analysis to evaluate the impact of transfer pricing policies on multinational companies' financial reports, tax compliance, and their implications for the global economy. Based on these findings, the author formulated several conclusions highlighting the main challenges in the implementation of transfer pricing, the importance of transparency, and the need for stricter regulations to reduce the risk of transfer price manipulation.

The following presents a PRISMA diagram related to previous research that is relevant and selected by the author.

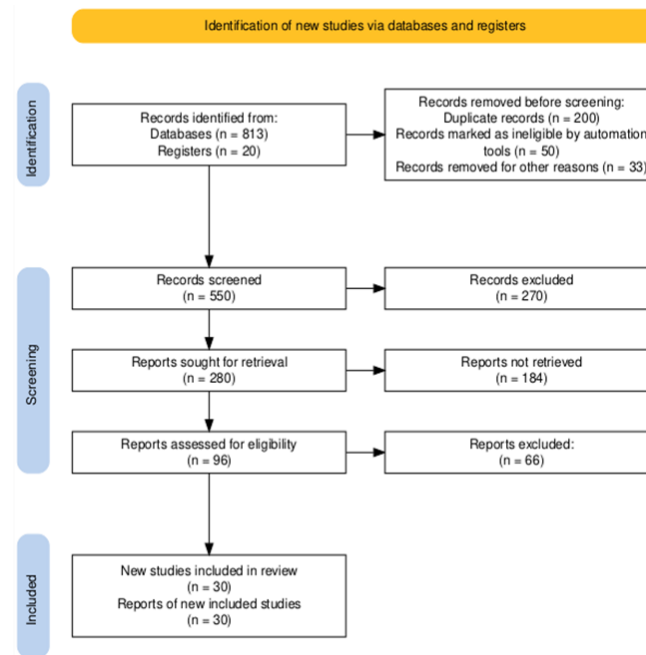


Figure 1. PRISMA Diagram

Table 1. Previous Research on Transfer Pricing in International Business

Author (Year)	Results Research
Ade Yulita Sihombing et al. (2024), Tiolina Evi et al. (2023), Mahlet Kesete (2024), Adebiyi (2023), Jean-Edouard Colliard et al. (2021), Abdellah Benhabib et al. (2024), Hety Devita, Loso Judijanto, Renika Hasibuan, Dwi Koerniawati, and Irwan Musriza Harahap (2023), Jay Pil Choi, Taiji Furusawa, Jota Ishikawa (2020)	(+)
Arooj Basharat (2024), Septian Adiguna & Ferdiansyah Ritonga (2024), Arif Dwi Nugroho et al. (2024), Dede Marlina et al. (2022), Muhamad Ammar Muhtadi & Okevanrianus Putra Hernat (2023), Hanik Devita & Badingatus Sholikhah (2021), Sandra Aulia (2024), Akash Kalra & Munshi Afzal (2023), Helen Rogers & Lynne Oats (2022), Eva Huslyanti et al. (2023), Oktagiari Dwi Putri & Efrizal Syofyan (2023), Pratikto Winardi Bakhram et al. (2021), Mujtaba Saeed (2024), Siska Liana et al. (2020), Javier Garcia-Bernardo & Petr Janský (2023), Mutiara Syalwa et al. (2024), Fadilla Nurhaliza & Bambang Sutopo (2024), Alessandro Ferrari et al. (2024), Wikan Isthika et al. (2024), Akin Akinrinde (2024), Ferry Irawan, Annisa Kinanti, Maman Suhendra (2020), Eukeria Mashiri, Shewangu Dzomira, Dzingirai Canicio (2021)	(-)
(+) shows a positive impact (-) shows a negative impact	

Of the 30 articles collected in this study, there are several studies that show contradictory results regarding the influence of transfer pricing practices on company performance and its implications on the global tax system. (Colliard et al., 2020) examined the complexity of taxes and the application of transfer pricing to multinational companies, finding that compliance with OECD guidelines can help companies avoid tax sanctions while still optimizing their tax structure. This study shows that strategically implemented transfer pricing

has a positive impact on tax efficiency without violating international regulations. In line with these findings, (Choi et al., 2020) Analyzing the relationship between transfer pricing regulations and tax competition between countries, concludes that transparent transfer pricing practices can create a fair and profitable tax ecosystem for both companies and tax authorities, proving the positive value of the implementation of responsible transfer pricing.

Nevertheless, the majority of the studies studied show a critical perspective on transfer pricing practices. (Ferrari et al., 2022) conducted a thorough analysis of profit shifts through transfer pricing and its impact on international tax reform, finding that this practice has resulted in significant erosion of the tax base in various jurisdictions. The study revealed that multinational corporations systematically use regulatory loopholes to shift profits to countries with low tax rates, resulting in global tax revenue losses of about \$240 billion annually. (Garcia-Bernardo & Janský, 2024) reinforcing these findings through a comprehensive analysis of data on profit shifts by multinational corporations around the world, identifying systematic patterns of tax evasion through transfer price manipulation. Their study revealed that 40% of multinational corporations' international profits are diverted to low-tax jurisdictions, supporting the argument that transfer pricing practices are often abused for tax avoidance purposes.

(Kalra & Afzal, 2023) provides an important perspective on the impact of transfer pricing practices on developing countries' tax revenues. Their research shows that developing countries suffer disproportionate tax revenue losses due to transfer price manipulation, with an estimated annual loss of 5-8% of total tax revenue. The lack of technical capacity and a strong regulatory framework makes these countries more vulnerable to the aggressive practices of multinational corporations. Meanwhile, (Rogers & Oats, 2022) Exploring the evolution of views on transfer pricing in the context of the changing digital economy landscape. Their research identified significant gaps between existing regulatory frameworks and the realities of digital business models, allowing tech companies to capitalize on these mismatches in their tax planning strategies.

(Akinrinde, 2024) examined the effectiveness of transfer pricing regulations in Nigeria, revealing the specific challenges faced by emerging economies in implementing and enforcing international transfer pricing standards. This research highlights the importance of local capacity building and harmonization of regulatory frameworks to address transfer price manipulation. These studies collectively underscore the complexity of transfer pricing in contemporary international business, emphasizing the urgency of balancing business interests with the fairness of the global tax system. This comprehensive understanding of the literature

provides an important basis for analyzing whether transfer pricing is a profitable strategy or harbors hidden risks that can threaten the financial stability of companies and the integrity of the global tax system.

From the 30 articles collected, 8 articles indicate that transfer pricing has a positive impact on tax efficiency and profit allocation for multinational enterprises. Transfer pricing can be utilized as a tax optimization strategy that enhances profitability and global market competitiveness. With proper implementation and compliance with international regulations, transfer pricing can help companies manage tax obligations efficiently and attract investment.

However, 22 other articles suggest that transfer pricing can also have negative effects, particularly in the context of tax avoidance and profit manipulation. Regulatory imbalances between countries allow companies to exploit legal loopholes to shift profits to low-tax jurisdictions, potentially reducing tax revenues for the home country and triggering conflicts with tax authorities. Additionally, non-transparent transfer pricing practices may pose reputational risks for companies and increase the likelihood of sanctions and litigation from international tax regulators.

The relationship between transfer pricing and corporate financial stability largely depends on the credibility and transparency of its application. If transfer pricing is implemented with ethical business practices and in accordance with regulations, it can provide benefits to companies while maintaining global economic stability. However, if it is merely used as a tool for tax avoidance without clear compliance, the legal risks and negative consequences may outweigh the benefits gained. Therefore, global tax regulation, harmonization and stricter oversight are essential to minimize the misuse of transfer pricing in international business.

3. METHODS

This research adopts a systematic literature review (SLR) methodology to comprehensively analyze prior studies on transfer pricing, international taxation, and associated compliance risks in multinational enterprises. Drawing insights from a range of empirical and theoretical research, the review focuses on identifying the hidden complexities within transfer pricing practices and the regulatory challenges that accompany them. The main objective of the SLR is to address the research problem: Does transfer pricing serve as a profitable strategy or does it conceal pitfalls that undermine financial performance and regulatory compliance in international business?

4. RESULTS AND DISCUSSION

The Hidden Complexities of Transfer Pricing

Transfer pricing is a pricing method for transactions between companies that have a special relationship, especially in the context of multinational corporations (MNCs). This practice has become increasingly important with globalization, where MNCs seek to optimize their tax liabilities by strategically managing intercompany transactions. According to Sihombing et al. (2024), transfer pricing can affect a company's financial structure and tax liabilities, making it a major focus area for tax authorities worldwide.

Transfer pricing plays a significant role in determining the profitability of MNCs by influencing the allocation of revenues and costs across subsidiaries. The use of an effective transfer pricing strategy can result in significant tax savings, improving overall financial performance. A study by Benhabib et al. (2024) showed that MNCs with effective transfer pricing strategies reported higher profit margins than their counterparts that did not implement the practice. However, tax avoidance through transfer pricing is a major concern for policymakers and tax authorities. MNCs often take advantage of differences in tax rates between countries by shifting profits to low-tax countries, which raises ethical concerns and undermines the integrity of the international tax system.

The phenomenon of tax avoidance through transfer pricing practices by multinational corporations (MNCs) has been the focus of significant research in the international tax literature. Empirical studies show that this practice results in substantial erosion of the tax base in various jurisdictions, with serious implications for state revenues and the integrity of the global tax system. The Apple Inc. case provides a comprehensive illustration of how MNCs can take advantage of differences in the tax system between countries. Apple uses a structure known as the "Irish Double" to divert a substantial portion of its global revenue. This structure makes use of entities in Ireland that, although registered in the country, are not considered tax residents in any jurisdiction. Through royalty arrangements and licensing payments between subsidiaries, Apple managed to divert around €110 billion of revenue from Europe, the Middle East and Africa to this "stateless company" between 2018-2021. As a result, Apple pays an effective tax rate of less than 2% on non-American income, well below the OECD's average corporate tax rate of 21.5%. A European Commission investigation resulted in a ruling that this practice violated EU state aid rules, which require Apple to pay €13 billion in outstanding taxes to the Irish government.

A similar mechanism can be observed in the case of Starbucks Corporation, which leveraged a transfer pricing strategy through royalty payments and transfer prices for coffee

beans. (Garcia-Bernardo & Janský, 2024) analyzed that although Starbucks posted significant revenue in the UK between 2019-2022, the company reported consistent losses in its financial statements. This is possible through a structure whereby Starbucks' UK subsidiaries pay substantial royalties to affiliated entities in the Netherlands for the use of intellectual property, while also purchasing coffee beans at a premium price from subsidiaries in Switzerland. These payments effectively shift profits from high-tax jurisdictions (the UK with a 19% corporate tax rate) to jurisdictions with more favorable tax regimes. Their study revealed that between 2020-2022, Starbucks UK paid royalties and licensing fees of £160 million to the Netherlands and £90 million to Switzerland for the purchase of coffee beans, resulting in estimated tax savings of £47.5 million (Garcia-Bernardo & Janský, 2024).

Aggressive transfer pricing practices have also been identified in the digital technology sector. Research by (Nurhaliza & Sutopo, 2024) shows how Microsoft Corporation uses a "Sandwich Bermuda" structure involving entities in Ireland, Singapore, and Puerto Rico. In this structure, Microsoft transfers intellectual property rights to a subsidiary in Bermuda that has a 0% corporate tax rate. Although most of Microsoft's technology development took place in the United States, an analysis of the company's financial data revealed that about 55% of its global profits were allocated to low-tax jurisdictions between 2019-2021. This strategy allowed Microsoft to accumulate more than \$142 billion in U.S. tax-exempt overseas revenue during the period, resulting in estimated tax savings of \$44.5 billion. An investigation by the U.S. Internal Revenue Service (IRS) resulted in settlements worth \$3.3 billion in 2022, but this amount remains well below the potential tax liability it should have (Nurhaliza & Sutopo, 2024).

The pharmaceutical sector also showed a similar pattern of profit shifts. Research by (Bakhram, 2018) examined the transfer pricing strategy used by Pfizer Inc. between 2018-2022. Their research revealed that Pfizer implements a multi-level intellectual property structure that allocates primary patent ownership to subsidiaries in Ireland, while research and development costs mostly occur in the US and UK. Their analysis of profit margins in various jurisdictions revealed significant disparities: Pfizer's subsidiaries in high-tax jurisdictions reported an average profit margin of 10.5%, while entities in low-tax jurisdictions recorded profit margins of 37.2%. This margin difference cannot be explained by substantive economic factors and is seen as evidence of a systematic profit shifting strategy. Their estimates suggest that this strategy results in global tax savings of about \$2.1 billion annually.

(Ponte, 2022) Provide a comprehensive analysis of the collective impact of the practice of profit shifting through transfer pricing. Their research reveals that OECD countries lose an average of 4-10% of annual corporate tax revenue due to profit-shifting strategies, with global losses estimated at \$240-650 billion annually. Developing countries are disproportionately impacted, with losses amounting to 6-13% of their total tax revenues due to weaker tax administration infrastructure and greater reliance on corporate tax revenues. The study highlights that while transfer pricing practices may be technically legal, there is a fundamental misalignment between the location of substantive economic activity and reported profit allocation, leading to a systematic erosion of the tax base. In response to these challenges, the OECD/G20 Base Erosion and Profit Shifting (BEPS) initiative has recommended strengthening transfer pricing regulations, stricter reporting obligations, and the concept of a global minimum tax as a mechanism to address the injustices of the international tax system (Shenkar et al., 2021).

These cases collectively illustrate how MNCs systematically exploit differences in tax rates between countries and loopholes in international tax regulations to shift profits to low-tax jurisdictions. These practices, while often within the bounds of legality, raise significant ethical concerns regarding the fairness of the global tax system and the contribution companies make to the societies in which they operate. The long-term implications of this practice include the erosion of the national tax base, competitive inequality between MNCs and domestic businesses, and challenges in financing public services. Without harmonization and strengthening of the international tax regulatory framework, this phenomenon is likely to continue to threaten the integrity of the global tax system and result in an unfair distribution of tax burdens between multinational and domestic businesses (Sharma et al., 2022).

According to Saeed (2024), profit shifting by MNCs can result in significant revenue losses for developing countries, which often lose potential tax revenues due to this practice.

Developing countries face unique challenges in managing transfer pricing. They often seek to attract foreign investment by offering attractive tax incentives, but must also protect their domestic tax base. To address the risk of tax avoidance caused by aggressive transfer pricing practices, many developing countries have adopted or strengthened transfer pricing regulations in line with international standards, such as those set by the OECD (2020).

Case studies of companies such as Google and Starbucks illustrate how transfer pricing practices can pose regulatory and reputational challenges. Google, for example, used the "Double Irish with a Dutch Sandwich" strategy to minimize its tax liabilities, drawing significant attention from tax authorities (Benhabib et al., 2024). Starbucks, on the other hand,

is facing an investigation by the European Commission regarding transfer pricing practices that allow them to report minimal profits in the UK. All things considered, MNCs use transfer pricing as a key instrument to manage tax obligations and intercompany transactions. But there are also serious moral and legal issues with this treatment. To guarantee compliance and prevent reputational problems, MNCs must implement clear transfer pricing procedures that adhere to international standards. Businesses can steer clear of potential future costs by comprehending the nuances concealed in transfer pricing.

The Impact of Transfer Pricing on Profitability and Tax Liabilities

Transfer pricing significantly affects the profitability and tax obligations of multinational corporations (MNCs). By strategically setting prices for intercompany transactions, MNCs can reallocate revenues and costs across different tax jurisdictions, typically with the aim of minimizing overall tax liabilities and maximizing reported profits. According to Sihombing et al. (2024), firms that effectively implement transfer pricing techniques often report higher profit margins compared to those that do not, demonstrating its role as a financial optimization tool.

From the perspective of signaling theory, these inflated profit margins can serve as a positive signal to investors and other stakeholders. Higher reported profits—especially in low-tax jurisdictions—can project an image of operational efficiency and financial strength, thereby boosting investor confidence and potentially increasing stock valuations. However, such signals can be misleading if the reported profitability is not supported by substantial economic activity but is instead driven by tax-motivated profit shifting.

In contrast, agency theory offers a more critical view. It suggests that managers (agents), often incentivized by short-term financial targets or bonus schemes, may exploit transfer pricing to shift profits and reduce tax burdens without considering the long-term consequences for the company or its shareholders (principals). This misalignment of interests can result in agency costs, such as reputational damage, regulatory sanctions, and potential legal liabilities. For instance, transfer pricing decisions driven by managerial incentives rather than compliance could expose the company to investigations by tax authorities, as seen in cases involving Amazon and Apple.

In the context of international business, transfer pricing refers to the pricing of transactions between companies that have a special relationship, such as between a parent company and a subsidiary. This practice allows MNCs to allocate revenues and costs through strategies in various ways, which can affect their financial statements and tax liabilities. One

of the main advantages of transfer pricing is its ability to increase profitability. By setting favorable prices for goods and services sold between subsidiaries, MNCs can maximize reported income in countries with lower tax rates. Sihombing et al. (2024) noted that companies that implement effective transfer pricing strategies can report higher profit margins compared to their peers that do not use this practice. This suggests that transfer pricing is not only a tool for managing tax liabilities, but also a strategy for improving overall financial performance.

However, even though transfer pricing may have financial advantages, there are hazards associated with tax obligations. Tax authorities worldwide are very concerned about tax avoidance through transfer pricing. MNCs sometimes use tax rate differences to move earnings to low-tax jurisdictions, which can cause the nations in which they operate to lose a substantial amount of money. Saeed (2024) highlighted that developing nations, who frequently depend on corporate taxes to finance infrastructure and public services, may suffer large revenue losses as a result of MNCs' pursuit of profits. Strict transfer pricing regulations can also affect MNCs' business strategies. Countries have begun to adopt international guidelines, such as those set by the OECD, to ensure that prices set in intercompany transactions reflect fair market value. This aims to prevent aggressive tax avoidance practices and ensure that MNCs pay their fair share of taxes in the countries where they operate (OECD, 2020). Thus, while transfer pricing can provide benefits in terms of profitability, companies must be careful to ensure that their practices comply with applicable regulations to avoid sanctions and bad reputations. MNCs can effectively manage their tax obligations and profitability through the use of transfer pricing. Companies must, however, take into account the risks and difficulties involved in this approach. MNCs may create more moral and efficient international business practices by knowing how transfer pricing affects tax obligations and profitability.

5. CONCLUSION

This study highlights the hidden complexities of transfer pricing in international business, which serves as a profit allocation strategy while also posing potential risks for multinational enterprises. Transfer pricing offers tax advantages and operational efficiency, but poorly managed practices can lead to strict scrutiny from tax authorities, financial penalties, and reputational risks. The study finds that regulatory uncertainty and discrepancies in tax standards across countries further complicate the implementation of transfer pricing. Therefore, greater transparency and the harmonization of global tax regulations are needed to mitigate risks and promote fair competition.

In the context of signaling theory, transfer pricing is used as a tool to build a positive financial image in the eyes of investors by reporting higher profits. Meanwhile, agency theory explains that company managers may exploit transfer pricing for personal gain, potentially harming shareholders. Considering both perspectives, this study recommends a more transparent and adaptive transfer pricing policy in response to the evolution of digital business. Strict regulations and international cooperation are essential to ensure that transfer pricing is not merely a tool for tax avoidance but also contributes to global economic stability.

To reduce tax avoidance practices through transfer pricing and promote fairer business competition in the global market, it is essential to increase transparency and harmonize international tax regulations. Multinational corporations should adopt adaptive transfer pricing policies grounded in the principle of transaction fairness to minimize the risk of financial sanctions and long-term reputational harm. Furthermore, policymakers at both national and international levels must enhance cooperation in formulating transfer pricing guidelines that strike a balance between optimizing corporate tax obligations and safeguarding state revenue interests.

REFERENCES

- Adebiyi, O. O. (n.d.). *Taxation in the digital age: An examination of the necessity, feasibility, and implications of taxing virtual infrastructures* [PDF document].
- Adiguna, S., & Ritonga, F. (2024). The effect of transfer pricing and profitability on tax avoidance: Empirical study in industrial sector companies. *Jurnal Ilmiah Akuntansi Kesatuan*, 12(3), 421–430. <https://doi.org/10.37641/jiakes.v12i3.2718>
- Akinrinde, A. (2024). Transfer pricing regulations and international tax compliance in Nigeria. *SSRN Electronic Journal*, 1–13. <https://doi.org/10.2139/ssrn.4690619>
- Aulia, S. (2024). Comparative studies of tax administration on transfer pricing. *Journal of Governance and Administrative Reform*, 5(1), 39–51. <https://doi.org/10.20473/jgar.v5i1.57398>
- Basharat, A., Pricing, T., Competition, I. T., Optimization, T., & Frameworks, R. (n.d.). Emerging economies and transfer pricing: Navigating the challenges of international tax competition. In *International Tax Review*, 125–131.
- Benhabib, A., Benali, K., & Tkiouat, M. (2024). The effectiveness of transfer pricing in multinational corporations: A global perspective. *Journal of International Taxation*, 23–29.
- Challoumis, C. (2019). Transfer pricing methods for services and the policy of fixed length principle. *Economics and Business*, 33(1), 222–232. <https://doi.org/10.2478/eb-2019-0016>

- Choi, J. P., Furusawa, T., & Ishikawa, J. (2020). Transfer pricing regulation and tax competition. *Journal of International Economics*, 127, 103367. <https://doi.org/10.1016/j.jinteco.2020.103367>
- Colliard, J.-E., Eden, L., & Georg, C.-P. (2021). Tax complexity and transfer pricing blueprints, guidelines, and manuals. *Tax Management International Journal*, 50(2), 1–15.
- Devita, H., & Sholikhah, B. (2021). The determinants of transfer pricing in multinational companies. *Accounting Analysis Journal*, 10(2), 17–23. <https://doi.org/10.15294/aa.v10i2.45941>
- Devita, H., Judijanto, L., Hasibuan, R., Koerniawati, D., & Harahap, I. M. (2023). Transfer pricing and multinational corporations: An in-depth analysis of transfer pricing policies and their impact on taxation in Indonesia. *International Journal of Society Reviews (INJOSER)*, 1(2), 323–337.
- Evi, T. (2023). An analysis of factors influencing transfer pricing. *Journal of Accounting Science*, 7(2), 183–200. <https://doi.org/10.21070/jas.v7i2.1702>
- Ferrari, A., Laffitte, S., Parenti, M., & Toubal, F. (2022). Profit shifting frictions and the geography of multinational activity. *arXiv preprint*. <http://arxiv.org/abs/2211.04388>
- Garcia-Bernardo, J., & Janský, P. (2024). Profit shifting of multinational corporations worldwide. *World Development*, 177, 106527. <https://doi.org/10.1016/j.worlddev.2023.106527>
- Huslyanti, E., Khaddafi, M., & Iswadi, I. (2023). Transfer pricing at multinational corporate: A literature review approach. *J-MIND (Jurnal Manajemen Indonesia)*, 8(2), 151. <https://doi.org/10.29103/j-mind.v8i2.14215>
- Isthika, W., Aryani, Y. A., & Setiawan, D. (2024). Transfer pricing in Indonesia: Literature analysis. *Media Riset Akuntansi, Auditing & Informasi*, 24(2), 175–192. <https://doi.org/10.25105/v24i2.18727>
- Juli, N., Sihombing, A. Y., Ardella, P., Ayuni, Q. S., & Marpaung, L. D. (2024). Studi kasus transfer pricing pada perusahaan multinasional di sektor teknologi. *Jurnal Rumpun Manajemen dan Ekonomi*, 1(3), 889–897.
- Kalra, A., & Afzal, M. N. I. (2023). Transfer pricing practices in multinational corporations and their effects on developing countries' tax revenue: A systematic literature review. *International Trade, Politics and Development*, 7(3), 172–190. <https://doi.org/10.1108/itpd-04-2023-0011>
- Kesete, M. (2024). *Navigating transfer pricing challenges in the digital economy* (Master's thesis, Comparative and International Tax Law). Uppsala University.
- Liana, S., Poulus, S., & Pratama, A. (2020). The effect of share ownership concentration and company operation complexity towards transfer pricing decisions. *Journal of Accounting Auditing and Business*, 3(1), 52–61. <https://doi.org/10.24198/jaab.v3i1.25686>

- Mufidah, D., Zubaidah, S., & Abdurrahman. (2023). The effect of transfer pricing and profit management on tax avoidance. In *Proceeding Medan International Conference Economics and Business*, 1(January), 2094–2108.
- Muhtadi, M. A., & Hernat, O. P. (2023). Dampak perubahan peraturan perpajakan internasional terhadap praktik akuntansi pajak multinasional pada perusahaan manufaktur di Jawa Barat. *Jurnal Akuntansi dan Keuangan West Science*, 2(03), 222–230. <https://doi.org/10.58812/jakws.v2i03.645>
- Nugroho, A. D., Agung Sasangka, L. W., & Reskino, R. (2024). Pengaruh moderasi profitabilitas pada hubungan multinasionalitas dan transfer pricing terhadap penghindaran pajak. *Jurnal Akuntansi dan Bisnis*, 24(1), 102. <https://doi.org/10.20961/jab.v24i1.1208>
- Nurhaliza, F., & Sutopo, B. (2024). Political connection and tax avoidance: A systematic literature review and future research direction. *Jurnal Pajak dan Bisnis*, 8(12), 137–153.
- Nurhaliza, F., & Widarjo, W. (2023). Corporate social responsibility and tax avoidance: A systematic literature review. *International Journal of Economics, Business and Management Research*, 7(7), 201–218. <https://doi.org/10.51505/ijebmr.2023.7715>
- Pricing, T., For, S., & Shifting, P. (2012). Transfer pricing. In *The Complete CFO Handbook* (pp. 405–425). Wiley. <https://doi.org/10.1002/9781119198055.ch13>
- Putri, O. D., & Syofyan, E. (2023). Pengaruh tax avoidance, multinationality, dan profitability terhadap keputusan perusahaan melakukan transfer pricing. *Jurnal Eksplorasi Akuntansi*, 5(2), 801–815. <https://doi.org/10.24036/jea.v5i2.742>
- Rogers, H., & Oats, L. (2022). Transfer pricing: Changing views in changing times. *Accounting Forum*, 46(1), 83–107. <https://doi.org/10.1080/01559982.2021.1926778>
- Saeed, M. (2024). The influence of transfer pricing on international tax competition: A case study of emerging economies. *International Journal of Financial Studies*, 7, 1–9.
- Widya Anggraini, Herawati, R., Hapsari, D. I., & Chasanah, A. N. (2023). Pengaruh pajak, kepemilikan asing, dan ukuran perusahaan terhadap transfer pricing. *Journal of Business, Finance, and Economics (JBFE)*, 4(2), 393–405. <https://doi.org/10.32585/jbfe.v4i2.4777>