

TRANSFER PRICING POLICY CONCEPT MODEL FOR MNES IN RELATION TO STRATEGIC MANAGEMENT

Aleksandra SULIK-GORECKA

University of Economics in Katowice; aleksandra.sulik-gorecka@uekat.pl, ORCID: 0000-0003-0011-1029

Purpose: Transactions carried out in MNEs among parent companies and subsidiaries affect the achievement of the strategic and operational objectives of MNEs, their financial results, taxes paid and intra-group relations. The aim of the paper is to justify the need to extend the areas of strategic management in MNEs to include the area of tax, in particular related to the valuation of transactions between entities within a group, and the need to meet the obligations related to transfer pricing. The practical aim of the article is to propose an original transfer pricing policy model for MNEs, which may be adopted to increase the transparency of settlements and have a positive impact on operational and strategic effectiveness within groups.

Design/methodology/approach: The paper is based on qualitative research. Content analysis of legal provisions and prior literature was used for the collection of relevant data for building a transfer pricing policy model.

Findings: A comprehensive and consistently implemented transfer pricing policy may help in optimizing the tax structure of MNEs, as well as minimizing the risk associated with changes in tax provisions. As an instrument influencing operational relations and performance management in MNEs, it can be a significant element of the strategic management of groups.

Practical implications: The research impact upon MNEs is the possibility to apply and adopt the transfer pricing policy model proposed in the paper in order to support performance management within a group.

Social implications: The way multinational entities conduct their business is often perceived negatively by society due to issues of tax evasion. The implementation of a comprehensive transfer pricing policy promotes corporate tax transparency and increases employee tax awareness.

Originality/value: The originality of the article stems from a coherent combination of various aspects relating to intra-group transactions into one model, which on the one hand supports the management of subsidiaries, and on the other facilitates compliance with Polish and international legal provisions. The proposed model may be subject to further development.

Keywords: corporate taxation, subsidiaries, accounting, compliance, tax avoidance.

Category of the paper: research paper.

1. Introduction

In the face of contemporary changes in the economic environment of enterprises, the scope and structure of strategic management tools are changing. This applies in particular to multinational entities (hereinafter MNEs), which in the globalised world constitute a large part of business entities. An MNE is usually a group of companies constituting a form of integration not only of capital but also non-capital elements related to independent business entities, against the background of the relations between them resulting from civil and commercial law (Remlein, Strojek-Filus, Światło, 2021, p. 61). Management of such groups of companies requires taking into account many complex factors resulting from economic, legal, social and behavioural conditions. The author of the paper focuses on the complicated issues of shaping and valuation of intra-group transactions and their tax consequences. The aim of the paper is to justify the need to extend the areas of strategic management in MNEs to include the area of tax, in particular related to the valuation of transactions between entities in a group and the need to meet the obligations related to transfer pricing.

Related entities operate within a group, but in concluding an intra-group transaction and calculating the transfer price, they are obliged to comply with the arm's length principle, so that the conditions under which transactions are carried out comply with the conditions under which the transaction would be concluded by unrelated entities. Transfer prices are, on the one hand, of interest in tax law while on the other, they reflect the mutual relations in MNEs. In the existing literature, there is a discrepancy between studies on transfer pricing related to tax optimization issues and studies, which were being conducted on organizational intra-group relations. The author attempts to eliminate this research gap in this paper.

The paper is based on qualitative research. As stated by Neergaard and Ulhøi (2007, p. 4), "the goal of qualitative research is to develop concepts that enhance the understanding of the social phenomena in natural settings, with due emphasis on the meanings, experiences and views of all participants". Content analysis of legal provisions and prior literature was used for the collection of relevant data for building an MNE transfer pricing policy model, which is the practical aim of the paper. The model was built on the basis of many years of literature and law provisions analysis as well as the author's practical experience. This original transfer pricing policy model has the cognitive value and may be adopted to increase the transparency of settlements and have a positive impact on operational and strategic effectiveness in groups. Moreover, the implementation of a comprehensive transfer pricing policy may promote corporate tax transparency and increase employee tax awareness. The main rationale of the paper is therefore an attempt to provide managers of MNEs with a tool that combines the requirements resulting from tax regulations with the complex relationships existing in the group. This tool supports the identification and reduction of tax and organizational risks related to intra-group transactions.

2. Specificity of management in groups of companies – prior literature

Management in capital groups consists of achieving objectives in the short, medium and long term in order to ensure the continuity and efficiency of the current operation of the capital group (Trocki, 2004). The literature lists a wide range of objectives of capital groups, such as: increasing market share, improving competitive position, using synergies and economies of scale, increasing access to capital, reducing costs, diversifying activities, transferring knowledge and intellectual capital, increasing operational efficiency and improving liquidity and profitability (Nogalski, Ronkowski, 2004). From the point of view of this study, one important objective of creating and managing groups of companies that should be mentioned in particular is tax optimization, which will be discussed in more detail in section 3 of the paper.

The literature presents many factors that affect the specificity of management in MNEs. For example, from the point of view of the purpose of business activity, these can be divided into operational, managerial and financial, whereas in terms of the range of activity they can be divided into local, national, international and global. The business linkage criterion allows vertically and horizontally integrated groups and conglomerates to be distinguished. The complexity of the group structure can be divided into simple two-level groups, complex groups with 3-5 rungs and very complex groups with above 5 rungs (Trocki, 2004; Sikacz, 2011).

A crucial factor determining the management of an MNE is the role of individual subsidiaries and associates, especially since there are usually various intra-group transactions among them. The simplest form of such an assessment is analysis of the functions performed. The management of related entities will be different depending on whether they are treated as cost centres, profit centres, revenue centres or investment centres (Horngren, Datar, Foster, 2006; Sulik-Górecka, 2018). A more detailed analysis should take into account the type and autonomy of the functions performed, i.e. whether related entities are manufacturers, trading companies or service companies. The level of autonomy and independence of related entities may also vary in different ways, significantly affecting the management of these entities from the point of view of the parent company. Table 1 gives the characteristics of the above-mentioned entities.

Table 1.*Types of entities in MNEs depending on the functions performed*

Business model	Type of entities	Characteristics
Manufacturers	toll manufacturers	Such a model of relations within the group usually assumes the total dependence of the manufacturing entity on the ordering entities from the group. The role of toll manufacturers is to process entrusted raw materials and other materials into semi-finished and finished products, but they do not own these materials. Completed production orders are returned to the customer and priced in a way that allows the costs of production to be covered.
	contract manufacturers	Contract manufacturers are free to make decisions about the choice of suppliers of raw materials and other materials, but bear the full risk associated with the purchase. They start production only after receiving a production order from the customer, who specifies in detail the type of product and its quantity.
	fully-fledged manufacturers	Full functions related to both sourcing and production, as well as sales and marketing, are performed by fully-fledged producers, who should be treated as profit centres.
Trading companies	agents	These perform functions related to the representation of producers, and the main asset of the agent is their knowledge of the sales market.
	distributors with limited functions	These conduct the activity of purchasing goods from a related party and then reselling the purchased goods to external entities. Commercial goods purchased by them become their property Unlike agents, they conduct minimal marketing and advertising activities and bear little market risk.
	fully-fledged distributors	These operate in the field of full service of a specific sales market. They deal with the introduction to a specific market of goods that they have previously purchased from a supplier, along with conducting promotional and advertising activities supporting sales, and bear the full risk of sales.
	entrepreneurs	These bear a high market risk, which results from the fact that they conduct business activity on a very large scale. They are often the owners of intangible assets for those distributors with limited functions, and they perform the function of a supply centre.
Service companies	share service centres	Their role is to support the conducting of business activity by other entities in the group. The following services are most often provided by a service centre: management and marketing, IT services, administration, accounting, etc. The costs of providing individual support services are divided proportionally between the entities purchasing them.
	R&D centres	These are responsible for the development of new production technologies and new products. Typically, these entities do not have rights to intangible assets as they receive remuneration on an ongoing basis under a cost contribution agreement or a licence agreement from entities using these rights.

Source: own elaboration based on OECD Guidelines, 2022; Bakker, 2009.

The literature draws attention to the need to move away from the typical hierarchical view, where headquarters control subsidiaries and make strategic decisions. This change is due to shorter product life-cycles, rapid technological changes and increased global competition. Contemporary MNEs should rather be defined as global networks of subsidiary operations (Jakobsen, Rusten, 2013). The network model of MNEs allows a subsidiary to move from the position of a subordinate into one of equality or even leadership. Subsidiaries may be “loosely coupled entities rather than a hierarchical monolith” which may support their own unique resource profile (Birkinshaw, Hood, 1998). Control issues are perceived differently because formal control is often less effective than management systems or cultural control (Paterson,

Brock, 2001). MNEs have to deal with the desire for global integration on the one hand and local responsiveness on the other, which depends on the previously mentioned overarching goal of market seeking, resource seeking and efficiency seeking. These factors affect the strategy implemented in MNEs, which can take the forms presented in Table 2.

Table 2.

Types of strategies in MNEs depending on internationalization

Type of strategy	Characteristics	Responsiveness	Efficiency
international	exporting or importing goods and services while maintaining a head office or offices in their home country.	low	low
multidomestic	Adapts to local requirements within each of its markets.	high	low
global	In various markets, certain minor modifications to products and services can be implemented, but the global strategy emphasises the need to obtain benefits of scale by in principle offering the same products or services on every market.	low	high
transnational	Transnational enterprises have a decentralised organisational structure with subsidiaries in several countries. The dominating unit has limited control over the foreign subsidiaries. A company employing a transnational strategy looks for a golden mean between a multi-country strategy and a global strategy.	high	high

Source: Own elaboration based on: Lovelock, 1999; Harzing, 2000; Cheung, Burn, 1994.

Researchers have created numerous tools that can help classify and sort the various roles that subsidiaries may take on within MNEs. All of the frameworks take into account the importance of the autonomy versus integration (coordination) aspect of a subsidiary's role (Ghoshal, Bartlett, 1988). Moreover, the transfer of competences from corporate headquarters to subsidiaries is not the only way of developing subsidiaries, as these also develop unique competences that can be transferred to headquarters and other related entities (Borini, Fleury, M.T.L, Fleury, A., 2009).

The independence of subsidiaries can increase in particular in unstable times of crisis or pandemic, as confirmed by Sobotkiewicz, whose research shows that during the Covid-19 pandemic, the scope of functions and decision-making powers was increased for subsidiaries (2022). Various forms of management may be used for strategic group management, but the instruments resulting from corporate law and company agreements or articles of association are insufficient and require extension to include, for example, functional supervision (Trocki, Gołąb, 2004).

3. Transfer pricing policy in the light of legal requirements

One of the faces of globalization is the enormous economic power of global corporations, within which a significant part of world trade takes place. There are various types of transactions among related entities concerning the purchase and sale of goods or finished goods, the provision of various types of services, the purchase and sale of fixed assets and intangible assets, as well as financial transactions, e.g. loans. In most countries, the basis for legal regulations concerning price calculations in transactions between related parties are the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations first issued by The Organisation for Economic Co-operation and Development in 1995 in response to the growing economic power of international corporations. The aim of the OECD Guidelines (hereinafter referred to as “OECD guidelines” or “guidelines”) is “to assist tax administrations in preventing profit shifting” while it also has a useful role for taxpayers in proving compliance of transactions with market conditions. On 20 January 2022, the OECD published a new edition of the Guidelines (OECD, 2022). The document, provides guidance, among others, for applying the arm’s length principle to the pricing of transactions among related entities for tax purposes. However, the scope of the guidelines is much wider, as shown in Table 3.

Table 3.

Structure of OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations

Number of chapter	Title of chapter
I	The Arm’s Length Principle
II	Transfer pricing methods (traditional transaction methods, transactional profit methods)
III	Comparability analysis
IV	Administrative approaches to avoiding and resolving transfer pricing disputes
V	Documentation
VI	Special considerations for intangibles
VII	Special considerations for intra-group services
VIII	Cost contribution arrangements
XIX	Transfer pricing aspects of business restructurings
XX	Transfer pricing aspects of financial transactions

Source: OECD, 2022.

The broad scope of the OECD guidelines results primarily from the tax consequences that may occur as a result of intra-group transactions. Subsidiaries do not necessarily function as unrelated entities; on the contrary, group structures are used, amongst others, to manage the profitability of entities as well as to optimize the allocation of resources and minimize tax burdens. Transfer pricing techniques that take advantage of differences in tax rates in different countries by placing subsidiaries in certain locations are the subject of research by many researchers. Tax benefits are one of the reasons why companies conduct transactions to related companies (Chan, Lo, Mo, 2015; Blouin, Robinson, Seidman, 2017; Brychta et al., 2020).

Obtaining tax benefits through appropriate transfer pricing is a significant factor in the development of MNEs (Kim, 2008; Rossing, Rohde, 2014). For example, when selling services and products to subsidiaries in countries where taxes are low, prices are lowered so that later when it comes to sales to unrelated parties at market prices, profits are taxed lower (Stevenson, Cabell, 2022). Transfer pricing is one of the three most far-reaching profit shifting channels under existing tax systems, alongside the use of debt and the location of intangible assets (Chugan, 2007; Elitzur, Mintz, 1996).

In one study, the negative effects of inconsistency in transfer-pricing rules around the world were modelled. There is inconsistency in transfer-pricing rules of allocation income between countries, even if tax administrations claim to adhere to the same transfer-pricing principles, for example the OECD guidelines. Such inconsistencies appear when, as a result of a tax audit, there is an adjustment of the tax base and the value of the tax on a transaction, and this affects the income in the other country, which is also taxed. The inability to make a transfer pricing adjustment in the other country may trigger double taxation for MNEs. The effects of inconsistent regulations include the costs of audits, the costs of obtaining an advance pricing agreement on the preparation of tax documentation, and the costs of resolving disputes and litigation. The authors also put forward the thesis that differences in transfer pricing provisions are part of the competitive struggle between national governments for investment by MNEs (Waegenaere, Sansing, Wielhouwer, 2006; Peraltaa, Wauthyb, Yperselec, 2006).

The tax administrations of individual countries oversee the correct determination of income taxes, and are looking hard for tools that will help them counteract the practices of increasingly powerful global capital groups. Many initiatives are being developed at the international level to prevent the reduction of tax revenues. One such undertaking is the Project of the Organization for Economic Cooperation and Development, entitled "Base Erosion and Profit Shifting", which was created as a result of the analysis of tax revenues in the budgets of individual countries, which did not correspond to the growing revenues generated by MNEs. The initiative aimed to develop tools to counteract aggressive tax optimization, made possible by differences in the tax systems of individual countries. As a result of efforts at the international level, the OECD and the G20 member states published a report in 2013 called "Action Plan on Base Erosion and Profit Shifting", the aim of which was to improve the coordination of tax authorities' action against the tax avoidance practiced by global corporations OECD (BEPS, 2015).

From the perspective of the management boards of parent companies, subsidiaries and associated entities, as taxpayers of the tax system of a given country, the crucial task is to prove to the tax administration that the valuation principles of intra-group transactions do not differ from the rules that would be applied by unrelated entities. In this way, the application of the arm's length principle can be confirmed. From an operational point of view, capital groups in most countries around the world have become accustomed to the need to prepare so-called transfer pricing documentation, which has been mandatory in Poland since 2001, within certain

thresholds (Act on CIT, Regulation of MF 2019, Regulation of MF 2022, Regulation of MF 2023).

Since 2017, in Poland a standardized three-tiered approach to transfer pricing documentation adopted as part of the implementation of the BEPS project has been in force (OECD, 2022; Act on CIT):

- Local File – documentation relating to the company, describing local taxpayers' transactions (hereinafter LF).
- Master File – providing standardized information relevant for all MNE group members (hereinafter MF).
- Country-by-Country Reporting – providing information referring to the global allocation of an MNE's income within the MNE group (hereinafter CBCR).

Related parties whose financial statements are consolidated using the full or proportional method are obliged to prepare local transfer pricing documentation, and attach to this documentation group transfer pricing documentation prepared for the financial year by the end of the twelfth month after the end of the tax year, if they belong to a group of related entities: 1) for which consolidated financial statements are prepared; 2) whose consolidated revenues exceeded PLN 200,000,000 or its equivalent in the previous financial year (Act on CIT).

As part of the international consensus regarding the need for related parties to document transactions, the following instruments supporting tax administrations and MNEs have also been developed:

- Double taxation treaties between the governments of individual countries aimed at eliminating international double taxation by means of legal norms established by the parties to the agreement.
- Advance pricing agreements (hereinafter APA) – agreements concluded between the taxpayer and the tax authority, in which the authority accepts the choice and method of application of the transfer pricing verification method used in the relations between the taxpayer and its related entities. The conclusion of an agreement is a tool to reduce the risk of incorrect transfer pricing and to challenge the manner of their determination by tax authorities (Act on APA).
- The MAPe procedure, which also aims to avoid double taxation arising as a result of an overestimation made by one of the parties to an international agreement in relation to transactions between related parties.
- Safe harbours – for certain transactions, such as low value-added services and loan transactions, complicated documentation and benchmarking can be avoided under the conditions laid down by law (Act on CIT).

In the face of the obligation to apply the above-described complicated legal regulations regarding transfer pricing, and due to the need to achieve the objectives of management of the group discussed in section 2 of the paper, a transfer pricing system and transfer pricing policy

may become a tool supporting the settlement, calculation and documentation of transactions among related parties. The development of a transfer pricing system can support the achievement of goals such as maximizing profits, cash flow, sales and marketing goals, minimizing taxes, duties, tariffs and exchange rate fluctuations, and improving relations with the country of residence (Karen, Cravens, 1997).

A transfer pricing policy can be defined as "a formal document signed by the company's management boards that regulate the method of transfer pricing within each category of transactions with related parties" (Luca, Ciocanea, Pitu, 2019).

Both the OECD guidelines and Polish provisions, including the Act of Corporate Tax and the MF Regulations on transfer pricing documentation, do not require the creation and possession of a separate, comprehensive document containing a transfer pricing policy. However, paragraph 3, Chapter 5 in Annex 1 to the OECD guidelines, as well as the Regulation of the Ministry of Finance of 21 December 2018 on transfer pricing documentation in the field of corporate income tax, require that the following elements, among others, be attached to the master file:

- information on the Group's transfer pricing policy with regard to the allocation of costs of intra-group services and the principles of setting prices for these services,
- description of the Group's transfer pricing policy in the field of research and development activities and intangible assets,
- general description of the transfer pricing policy regarding financing between related parties (regulation).

Furthermore, it should be added that in addition to tax obligations, capital groups are also subject to related party obligations resulting from accounting regulations. Internationally, this is primarily the regulations under the International Accounting Standards IAS 24 – Related Party Disclosures, obliging entities to disclose the nature of their relationship with related parties, as well as information about transactions and outstanding balances, including liabilities, necessary for users to understand the potential impact of the relationship on financial statements (IAS 24 – Related Party Disclosures).

4. Structure and scope of MNE transfer pricing policies on a global scale – proposal of an original model

As a result of an in-depth analysis of legal provisions and prior literature in the field of transfer pricing issues and strategic management in groups of entities, an attempt was made to create a transfer pricing policy concept model in the form of a document for MNEs. The structure and scope of the transfer pricing policy model is presented in Table 4.

Table 4.
MNE Transfer Pricing Policy Model

No.	Title of transfer pricing policy regulation	Scope of transfer pricing policy regulation	Use in transfer pricing reports*
1.	Rules for determining relations in the group	<p>Capital relations: the obligation to inform about changes in this respect, including the sharing of source documents such as notarial deeds, contracts, etc.</p> <p>Personal relations: the obligation to inform about changes in this respect on the basis of statements on relations by members of the Management Board, members of the Supervisory Board, shareholders (natural persons) holding at least 25% of shares or stocks, persons in decision-making positions and related to responsibility for the operation of a given entity. (The declaration should refer to whether they hold 25% or more of the capital of another entity and whether they are directly involved in the management or control of another entity, or whether their spouses or relatives or relatives by marriage up to and including grade 2 have a direct or indirect share in management control, or are employed in another entity and perform control or management duties there).</p> <p>Property relations: the obligation to inform about changes in this area along with the sharing of source documents such as notarial deeds, contracts, etc.</p>	MF
2.	Description of the subject and scope of activities conducted by the group	<ol style="list-style-type: none"> 1) Description of the most important factors determining the competitive advantage and development opportunities of the group, 2) Description or diagram of the value chain for the five most revenue-oriented groups of products or services and such groups of products or services whose revenues account for more than 5% of the consolidated revenues of the group, together with an indication of the main geographical markets for these groups of products or services, 3) Specification and description of material agreements or agreements concluded between related parties of the group in the scope of services other than research and development services, including in particular a description of the ability of major service providers to provide significant intra-group services, and information on the group's transfer pricing policy with regard to the allocation of costs of intra-group services and the principles of setting prices for these services, 4) A concise verbal description of the functional analysis showing the significant participation of related parties in value creation within the group, including the significant functions performed by these related entities, the material risks incurred by them and the significant assets involved. 	MF
3.	Guidelines on transfer pricing calculation and verification methods	Rules for the application of the 5 possible transfer pricing methods according to OECD regulations: comparable uncontrolled price method (CUP), resale price method (RP), cost plus method (CP), profit split method (PS), transactional net margin method (TNMM). Guidelines on the application of methods to particular types of transactions. Rules for the use of so-called "other methods".	LF, TPR
4.	Rules for benchmarking and compliance analysis	Defining the scope of comparative and transaction-specific compliance analyses, including whether the analyses are carried out internally or externally with third parties. Determining the frequency of analysis preparation, responsible entities, conditions for submitting the analyses to the other party to the transaction, deadlines and rules for providing result parameters (margins, mark-ups) in the MNE.	LF, TPR

Cont. table 4.

5.	Guidelines on significant intangible assets of the group	<ol style="list-style-type: none"> 1) Description of the group's strategy in the field of creation, development, ownership and use of intangible assets, together with information on the location of significant research and development centres and the location of centres managing research and development functions, 2) Rules and deadlines for preparing a list of intangible assets or groups of such material from the point of view of transfer pricing, together with an indication of the entities holding the legal titles to these assets, 3) Rules and deadlines for drawing up a list of material agreements or agreements concluded between related parties of the group concerning intangible assets, including cost sharing agreements, research and development agreements and license agreements, 4) Description of the group's transfer pricing policy in the field of research and development activities and intangible assets, 5) The terms and deadlines for obtaining general information, and a description of significant changes in the control, ownership and use of intangible assets, including an indication of the entities involved, their registered office or place of management, and the remuneration or compensation paid for these changes. 	MF, TPR
6.	Guidelines for financial transactions of the group	<ol style="list-style-type: none"> 1. General description of the method of financing the group's operations, including the rules and deadlines for obtaining information on material financing agreements concluded with unrelated entities, 2. Indication of entities performing central financing functions within the capital group and their registered office and place of actual management, 3. Description of transfer pricing policy regarding financing between related parties. 	MF, TPR
7.	Principles of transfer pricing documentation	<p>LF: Indication of which party to the transaction is responsible for creating transfer pricing documentation and preparing a comparative analysis, e.g. the seller or both parties; defining the rules for identifying the obligation to document the transaction; determining the deadlines for preparing documentation and providing information in the group.</p>	LF
		<p>MF: indication of which entity is responsible for preparing the MF, indication of obligations and deadlines for providing information for MF by companies in the group.</p>	MF
8.	Principles of transfer pricing reporting	<p>TPR and other reports required by tax administrations other than Poland (https://www.oecd.org/tax/transfer-pricing/transfer-pricing-country-profiles.htm): Defining the rules and duties of related entities in reporting transactions in TPR. Specifying the rules for reporting specific transactions common to the entire group, e.g. cash pooling, loan. Setting deadlines for intra-group arrangements CBCR: indication of obligations and deadlines in the field of reporting to the tax administration, and regarding the transfer of information to CBC by companies in the group such as: size of business (size of assets, capital company income, number of employees), amount of realized revenues, profits (or losses), tax paid (and due).</p>	TPR, CBRC
8.	Rules for applying transfer pricing adjustments	<p>Presentation of the principles of making transfer pricing adjustments in the group, including the tax consequences of such adjustments.</p>	LF, MF, TPR

Cont. table 4.

9.	Guidelines on exemptions from documentation, benchmarking and reporting	Defining consistent rules for the application of exemptions from documentation, comparability and reporting analyses and obligations to provide information on this subject within the group. Presentation of rules for identifying and informing about the provision of low value-added services and loans that may be exempt from comparative analyses under so-called safe harbours.	LF, MF, TPR
10.	Relations with accounting system, budgeting and controlling systems, financial reporting and auditing procedures	1) Defining the requirements for the accounting system and budgeting and controlling systems in the scope of recording, settlement and reporting of transactions for the purposes of transfer pricing, e.g. in relation to obtaining information on the value of transactions with related parties, costs and results related to a given transaction. 2) Defining the rules for posting and submitting information about related parties in financial reports and auditing reports. 3) Defining the responsibilities, principles and deadlines for budgeting and reporting transactions with related parties in the context of achieving financial objectives.	LF, MF, TPR, financial reports, integrated reports, management accounting reports, CBC reports
11.	Restructuring guidelines	Presentation of the principles and deadlines for informing about significant restructuring transactions and transactions related to ownership changes, including acquisitions, mergers and liquidations, carried out in the reporting financial year of the capital group.	LF, MF, TPR
12.	Advanced Pricing Arrangement Guidelines	Presentation of the rules concerning responsible entities, deadlines and method of financing costs in case of a desire to conclude a prior pricing agreement, inclusion of rules for reporting on concluded advance pricing agreements.	LF, MF, TPR
13.	Cost Contribution Agreement Guidelines	Presentation of the rules regarding responsible entities, deadlines and methods of covering and settling costs if entities wish to conclude a Cost Contribution Agreement.	LF, MF, TPR
14.	Guidelines in case of transfer pricing audits and tax disputes	Presentation of the principles relating to responsible persons, and the principles for sharing information, obtaining corporate permissions and maintaining confidentiality in the case of the need to transfer information.	LF, MF, TPR
15.	Compliance with global changes affecting transfer pricing policy	Presentation of obligations and competences regarding the need to monitor regulations that may affect the transfer pricing policy in the group.	LF, MF, TPR

* (LF – Local File, MF – Master File, TPR – Transfer Pricing Report, CBCR – Country-by-Country Reporting).

Source: own elaboration based on Act on CIT, OECD Guidelines 2022, Act on APA, Regulation of MF (2019, 2022, 2023).

In order to apply the above model, the following assumptions and comments should be taken into account:

- 1) The model transfer pricing policy assumes consistent consideration of the requirements of accounting regulations and tax regulations, as well as the strategic conditions of the group's management.
- 2) The level of detail of the transfer pricing policy content may vary depending on the complexity of the group concerned, the strategy used, the level of centralisation, and the autonomy and functional profile of subsidiaries. This applies in particular to transfer pricing methods and the indication of specific parameters, e.g. margins or mark-

ups applied. In a centralized group, the values of such parameters may be directly determined in the policy, while in decentralized groups, the transfer pricing policy will contain general guidelines. Similarly, as regards point 10 concerning relations with budgeting and controlling systems, due to the impact of transfer pricing on the results of individual subsidiaries and parent companies, the transfer pricing policy should specify the principles of budgeting and the measurement of achievements in transactions with related parties if the transfer pricing area is to be included in the strategic management of the capital group.

- 3) The transfer pricing policy model may be applied to groups of entities, but it can also serve as a model for creating a transfer pricing policy for a single entity, e.g. a company with its registered office in Poland, whose parent company has its registered office outside OECD countries and/or is not obliged to prepare a master file.
- 4) The model can be used by entities in OECD countries. The part of the proposed model concerning reporting obligations by the tax administration is optional for entities established in countries other than Poland due to the specificity of the transfer pricing information reporting system in the country of residence of the parent company.
- 5) For the correct implementation of the model, it is advisable to appoint a unit within the parent company (or other company, e.g. an accounting centre) to supervise the transfer pricing policy, e.g. the transfer pricing department, compliance department or governance department. Taking into account the importance of individual subsidiaries in MNEs, it is also advisable to appoint a team consisting of representatives of subsidiaries responsible for transfer pricing issues, which is delegated to create a transfer pricing policy, its updating and implementation. The transfer pricing policy in the group should be the result of agreements and compromise between individual companies in the group.
- 6) The agreed transfer pricing policy in the group should be implemented by resolution of the Management Board of the parent company, as well as resolutions of the Management Boards of individual companies in the group.

5. Discussion and conclusion

To sum up, from a tax point of view, the arm's length principle requires multinational companies to treat different legal entities in the same way as independent companies maximising profits, but the conditions affecting the management of such groups are very diverse. In addition, the complexity of legal regulations in the field of transfer pricing, their variability and the possibility of various interpretations are very high. The development of a formalized transfer pricing policy in accordance with the model presented by the author can be an extremely important tool for MNEs for many reasons. It allows the tax risk associated

with improper conduct of settlements to be minimised by implementing a consistent transfer pricing compliance system and maintaining consistent calculation methods and uniform interpretations for the entire group. The benefits of implementing a transfer pricing policy model can be multifaceted. Firstly, entrepreneurs can avoid costly disputes with tax authorities during possible inspections, which often involve the need to prove that transactions between related entities were carried out on market terms. In addition, a transfer pricing policy helps to optimize the tax structure of the capital group and to minimize the risk associated with changes in tax regulations. The implementation of these objectives is consistent with the objectives of transfer pricing management described in the literature (Chan, Lo, Mo, 2015; Blouin, Robinson, Seidman, 2017; Brychta et al., 2020; Karen, Cravens, 1997; Luca, Ciocanea, Pitu, 2019).

Protecting MNEs from potential tax consequences is not the only benefit of implementing the proposed transfer pricing policy model, as it can also ensure transparency in transactions between related entities for all those involved. The implementation of a transfer pricing policy that takes into account the objectives of both parent companies and subsidiaries can be a significant added value for these entities, contributing to an improvement in their relations, autonomy, decentralization and stability, and an increase in operational efficiency. These benefits are consistent with the postulates raised in the literature regarding the management of subsidiaries (Ghoshal, Bartlett, 1988; Jakobsen, Rusten, 2013; Birkinshaw, Hood, 1998; Borini, Fleury, M.T.L, Fleury, A., 2009).

The development of formalized procedures, rules and guidelines applicable within the group allows the transparency of settlements between individual entities to be ensured, taking into account the value chains operating in the group and their impact on the relations functioning between the entities. A transfer pricing policy also allows the circulation of documents within the group to be systematised, as well as improving communication, increasing awareness of the importance of the transfer pricing problem in the group, and increasing knowledge about transfer pricing.

In the context of the strategic management of capital groups, the proposed transfer pricing policy will constitute an individually defined model for the transfer of benefits between related parties, which will result in the achievement of the group's objectives. A formalized transfer pricing policy that takes into account the planned functions of related parties (as centres of profit, revenue, costs and investments) may be a tool for managing the group's effectiveness. Covering the entire activity of MNEs based on a system of related entities, it can be used for operational and tax optimization of separate group responsibility centres.

The main limitation of the proposed model is that there is as yet no validation, but the author's intention is to test the model as part of surveys addressed to managers of parent companies and subsidiaries, as well as to members of the Transfer Pricing Centre Association in Poland, which brings together experts in this field. The proposed transfer pricing policy model may be subject to further research development. An example direction of analysis may be the assessment of the application of transfer pricing policy in MNEs and examining its impact on the financial results of entities in the group and tax burdens

References

1. Act on APA (2023). Act of 16 October 2019 on the settlement of disputes regarding double taxation and the conclusion of advanced price arrangements. *Journal of Laws, item 948*, as amended. Retrieved from: <https://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU20190002200/U/D20192200Lj.pdf>, 5.09.2023.
2. Act on CIT (2022). The Act of February 5, 1992 on Corporate Income Tax. *Journal of Laws, item 2587*, as amended. Retrieved from: <https://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU20220002587/U/D20222587Lj.pdf>, 5.09.2023.
3. Bakker, A. (2009) *Transfer Pricing and Business Restructurings*. Amsterdam: IFBD. Retrieved from: <https://books.google.pl/>, 5.09.2023.
4. BEPS Final Reports (2015). Retrieved from: <http://www.oecd.org/tax/aggressive/beps-2015-final-reports.htm>, 5.09.2023.
5. Birkinshaw, J., Hood, N. (1998). Multinational subsidiary evolution: capability and charter change in foreign-owned subsidiary companies. *Academy of Management Review, Vol. 23, Iss. 4*, pp. 773-795, doi: 10.2307/259062.
6. Blouin, J.R., Robinson, L.A., Seidman, J.K. (2017). Conflicting Transfer Pricing Incentives and the Role of Coordination. *Contemporary Accounting Research, Vol. 35, Iss. 1*, pp. 87-116, doi:10.1111/1911-3846.12375.
7. Borini, F.M., Fleury, M.T.L., Fleury, A. (2009). Corporate Competences in subsidiaries of Brazilian Multinationals. *Latin American Business Review, Vol. 10*, pp. 161-185, doi: 10.1080/10978520903340952.
8. Brychta, K., Istok, M., Sulik-Górecka, A., Poreisz, V. (2020). *Transfer Pricing in V4 Countries*. Brno: VUTIUM Press of Brno University of Technology. Retrieved from: https://www.transferpricing-v4.net/data/files/E-book/Transfer_Pricing_in_V4_Countries.pdf, 5.09.2023.
9. Chan, K.H., Lo, A.W., Mo, P.L. (2015). An empirical analysis of the changes in tax audit focus on international transfer pricing. *Journal of International Accounting, Auditing and Taxation, Vol. 24*, pp. 94-104, doi: 10.1016/j.intaccudtax.2014.12.001.
10. Cheung, H.K., Burn, J. (1994). Distributing Global Information Systems Resources in Multinational Companies. *Journal of Global Information Management, Vol. 2, Iss. 3*, pp. 239-322, doi: 10.4018/jgim.1994070102.
11. Chugan, P.K. (2007). International Transfer Pricing Taxation and Need for Advance Pricing Agreement. *The Journal of Insurance and Management, Vol. 2, Iss. 2*, pp. 134-140, Retrieved from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1782384, 5.09.2023.
12. Cravens, K.S. (1997). Examining the role of transfer pricing as a strategy for multinational firms. *International Business Review, Vol. 6, Iss. 2*, pp. 127-145, doi: [https://doi.org/10.1016/S0969-5931\(96\)00042-X](https://doi.org/10.1016/S0969-5931(96)00042-X).

13. Elitzur, R., Mintz, J. (1996). Transfer pricing rules and corporate tax competition. *Journal of Public Economics*, Vol. 60, Iss. 3, pp. 401-422, doi: [https://doi.org/10.1016/0047-2727\(95\)01558-2](https://doi.org/10.1016/0047-2727(95)01558-2).
14. Ghoshal, S., Bartlett, C.A. (1988). Creation, adoption and diffusion of innovations by subsidiaries of multinational corporations. *Journal of International Business Studies*, Vol. 19, Iss. 3, pp. 365-388. Retrieved from: <https://www.jstor.org/stable/15513>, 5.09.2023.
15. Harzing, A.W. (2000). An Empirical Analysis and Extension of the Bartlett and Ghoshal Typology of Multinational Companies. *Journal of International Business Studies*, vol. 31, Iss. 1, pp. 101-120, doi: <https://doi.org/10.1057/palgrave.jibs.8490891>
16. Horngren, C.T., Datar, S., Foster, G. (2006). *Cost accounting, a managerial emphasis*. New Jersey: Prentice Hall Inc.
17. IAS 24 – Related Party Disclosures. Commission Regulation (EU) No 632/2010 of 19 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 24 and International Financial Reporting Standard (IFRS) 8. Retrieved from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32010R0632>, 5.09.2023.
18. Jakobsen, S.E., Rusten, G. (2013). The autonomy of foreign subsidiaries. An analysis of headquarter-subisidary relations. *Norwegian Journal of Geography*, Vol. 57, pp. 20-30, doi: <https://doi.org/10.1080/00291950310000794>
19. Kim, S. (2008). Does political intention affect tax evasion? *Journal of Policy Modeling*, Vol. 30, Iss. 3, pp. 401-415, doi: <https://doi.org/10.1016/j.jpolmod.2007.12.004>.
20. Lovelock, C.H. (1999). Developing marketing strategies for transnational service operations. *Journal of Services Marketing*, Vol. 13, No. 4/5, pp. 278-95, doi: <https://doi.org/10.1108/08876049910282538>
21. Luca, M.P., Ciocanea, B.C., Pitu, I.C. (2019). The influence of accountancy data on the transfer pricing policy in Romania. *Bulletin of the Transilvania University of Braşov, Series V: Economic Sciences*, Vol. 12, Iss. 61, No. 2, pp. 93-102, doi: <https://doi.org/10.31926/but.es.2019.12.61.2.12>.
22. Neergaard, H., Ulhøi, J.P. (2007). *Handbook of Qualitative Research Methods in Entrepreneurship*. Edward Elgar Publishing. Retrieved from: <https://books.google.pl>, 5.09.2023.
23. Nogalski, B., Ronkowski, R. (2004). Podstawy funkcjonowania polskich grup kapitałowych oraz ich formy organizacyjne i sposoby zarządzania. In: B. Nogalski, P. Walentynowicz (Eds.), *Zarządzanie w grupach kapitałowych, aspekty organizacyjne, finansowej właścicielskie i personalne* (pp. 11-22). Gdynia: Wydawnictwo Wyższej Szkoły Administracji i Biznesu i Kwiatkowskiego w Gdyni.

24. OECD (2022). *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*. Retrieved from: <https://www.oecd.org/tax/transfer-pricing/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-20769717.htm>, 5.09.2023.
25. Paterson, S.L., Brock, D.M. (2001). The development of subsidiary-management, research: review and theoretical analysis. *International Business Review*, Vol. 11, pp. 139-163, doi: [https://doi.org/10.1016/S0969-5931\(01\)00053-1](https://doi.org/10.1016/S0969-5931(01)00053-1).
26. Peraltaa, S., Wauthyb X.T., Yperselec, T. (2006). Should countries control international profit shifting? *Journal of International Economics*, vol. 68, no. 1, pp. 24-37, doi: <https://doi.org/10.1016/j.jinteco.2005.06.003>.
27. Regulation of MF (2019). Regulation of the Minister of Development and Finance of June 28, 2019 regarding the detailed scope of data provided in the information about the group of entities and how to fill it in (CBC-R) *Journal of Laws*, item 1339. Retrieved from: <https://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU20190001339>, 5.09.2023.
28. Regulation of MF (2022). Regulation of the Minister of Finance of August 29, 2022 regarding information on transfer prices in the scope of corporate income tax (TP-R CIT), *Journal of Laws 2022* item 1934. Retrieved from: <https://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU20220001934>, 5.09.2023.
29. Regulation of MF (2023). Regulation of the Minister of Finance of December 21, 2018 regarding transfer pricing documentation in the field of corporate income tax (TPD CIT), *Journal of Laws 2023* item 1783. Retrieved from: <https://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU20230001783/O/D20231783.pdf>, 5.09.2023.
30. Remlein, M., Strojek-Filus, M., Świetła K. (2021). *Polityka rachunkowości grup kapitałowych*. Warszawa: CeDeWu.
31. Rossing, P.C. Rohde, C. (2014). Transfer pricing: Aligning the research agenda to organizational reality. *Journal of Accounting & Organizational Change*, Vol. 10, Iss. 3, pp. 266-287, doi: <https://doi.org/10.1108/JAOC-03-2012-0017>.
32. Sikacz, H. (2011). *Ocena sytuacji finansowej operacyjnych grup kapitałowych*. Warszawa: Oficyna Wolters-Kluwers.
33. Sobotkiewicz, D. (2022). Decentralization In Multi-Entity Organizations As A Contemporary Challenge For Parent Company. *Scientific Papers Of Silesian University Of Technology, Organization And Management Series*, No. 167, pp. 477-488, doi: <http://dx.doi.org/10.29119/1641-3466.2022.167.32>.
34. Stevenson, T.H., Cabell, D.W.E. (2022). Integrating Transfer Pricing Policy and Activity-Based Costing. *Journal of International Marketing*, Vol. 10, No. 4, pp. 77-88 doi:10.1509/jimk.10.4.77.19552.
35. Sulik-Górecka, A. (2018). Dilemmas of transfer pricing comparability analysis in manufacturing entities. Polish-Czech case study. *Management Systems in Production Engineering*, Vol. 26, Iss. 2, pp. 76-82, doi: <https://doi.org/10.2478/mspe-2018-0012>

36. *Transfer Pricing Country Profiles* (2023). Retrieved from: <https://www.oecd.org/tax/transfer-pricing/transfer-pricing-country-profiles.htm>, 5.09.2023.
37. Trocki, M., Gołąb, P. (2004). Formy zarządzania grupą kapitałową. In: B. Nogalski, P. Walentynowicz (Eds.), *Zarządzanie w grupach kapitałowych, aspekty organizacyjne, finansowej właścicielskie i personalne* (pp. 23-32). Gdynia: Wydawnictwo Wyższej Szkoły Administracji i Biznesu i Kwiatkowskiego w Gdyni.
38. Trocki, M. (2004). *Grupy kapitałowe. Tworzenie i funkcjonowanie*. Warszawa: PWN.
39. Waegenare, A., Sansing, R.C., Wielhouwer, J.L. (2006). Who benefits from inconsistent multinational tax transfer-pricing rules? *Contemporary Accounting Research*, Vol. 23, No. 1, pp. 103-31, doi: <https://doi.org/10.1506/C5NJ-3D6X-WKBJ-V2H8>.