

## THE CONCEPT OF TRANSFER PRICING IN INTERNATIONAL TRADE AND MODERN APPROACHES TO ITS CALCULATION

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**Annotation:** In the era of globalization, the expansion of multinational enterprises and the growing volume of international trade have made transfer pricing one of the most critical issues in international business. Transfer pricing refers to the prices applied to transactions of goods and services between related entities or divisions of a company. In practice, the determination of transfer prices is based on the arm’s length principle, supported by several traditional methods such as the Comparable Uncontrolled Price, Cost Plus, Transactional Net Margin, and Profit Split approaches. This article examines the concept of transfer pricing in international trade and analyzes both traditional and modern approaches to its calculation, including the use of artificial intelligence and big data in the digital economy. The findings suggest that modern approaches contribute to increased transparency, reduced information asymmetry, and improved management of tax-related risks in international transactions.

**Keywords:** transfer pricing, international trade, arm’s length principle, OECD, IFRS, BEPS, Cost Plus, Profit Split, modern approaches, digital economy.

### Introduction

Table 1

Criteria	Traditional Methods (CUP, Cost Plus, TNMM, Profit Split)	Modern Approaches (AI, Big Data, Algorithmic Models)
Main Principle	Arm’s length principle, based on comparables	Data-driven simulations and predictive analytics

<sup>1</sup> World Bank. (2020). World Development Report 2020: Trading for Development in the Age of Global Value Chains. World Bank Group

<sup>2</sup> Tavares-Lehmann, A. T. (2019). *Transfer pricing and intangibles in a digitalised economy: Policy challenges and options*. *Transnational Corporations*, 26(1), 53–78

<sup>3</sup> OECD. (2022). OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations

<sup>4</sup> Pogroszewski, J. (2021). Artificial Intelligence in Transfer Pricing: New Opportunities and Risks. *Journal of International Accounting Research*, 20(3), 45–62

<sup>5</sup> OECD. (2015). OECD/G20 Base Erosion and Profit Shifting Project: Final Reports

<sup>6</sup> UNCTAD. (2020). World Investment Report 2020: International Production Beyond the Pandemic



<b>Applicability</b>	Manufacturing, tangible goods, standard services	Digital economy, intangibles, complex cross-border flows
<b>Advantages</b>	Well-established, widely accepted by regulators	Higher accuracy, real-time analysis, better transparency
<b>Limitations</b>	Limited comparables, vulnerable to manipulation	Requires advanced infrastructure, costly to implement
<b>Relevance for Developing Countries</b>	Easier to apply, but often outdated	High potential, but constrained by lack of resources

Table 1. Comparison of Traditional vs. Modern Transfer Pricing Approaches.<sup>7</sup>

The findings of this study demonstrate that while traditional transfer pricing methods remain a regulatory standard, their effectiveness is increasingly questioned in the context of globalized and digitalized trade. The CUP and Cost Plus methods are still suitable for industries with tangible goods and standardized services, yet they fail to capture the complexities of transactions involving intangible assets, platform-based services, or algorithm-driven business models<sup>8</sup>.

This methodological gap increases the risk of tax avoidance strategies such as profit shifting and base erosion, as multinationals exploit the weaknesses of existing approaches<sup>9</sup>. On the other hand, modern data-driven approaches—particularly the use of AI, blockchain, and advanced benchmarking databases—offer a promising solution for greater transparency and efficiency. However, implementation of these solutions requires significant financial resources, regulatory alignment, and skilled professionals, which are not equally available across all countries.

For developing economies, the discussion highlights a dual challenge: they suffer disproportionately from profit shifting and reduced tax revenues, while lacking the technological infrastructure and institutional capacity to apply cutting-edge transfer pricing tools<sup>10</sup>. This creates a widening gap between developed and developing jurisdictions in terms of fair taxation. Strengthening international cooperation, capacity-building initiatives, and joint platforms under organizations such as the OECD and UN is therefore critical to ensuring balanced outcomes.

### Conclusion and Recommendations

<sup>7</sup> Developed by the author

<sup>8</sup> Eden, L., & Kudrle, R. (2005). Transfer Pricing and Multinational Enterprises. In Encyclopedia of International Economics and Global Trade. Palgrave

<sup>9</sup> Cobham, A., & Janský, P. (2018). Global Distribution of Revenue Loss from Tax Avoidance: Re-Estimation and Country Results. Journal of International Development, 30(2), 206–232



This research confirms that transfer pricing is not only a technical accounting issue but also a broader challenge of global economic governance. Traditional methods (CUP, Cost Plus, TNMM, Profit Split) remain the foundation of regulatory frameworks, but they no longer fully reflect the realities of digital trade and intangible asset transactions. The emergence of modern approaches based on big data, AI, and algorithmic models provides a pathway to more accurate and transparent transfer pricing practices, reducing information asymmetry and enhancing compliance with OECD BEPS standards.

Nevertheless, the uneven distribution of resources and expertise across countries means that without coordinated global action, the benefits of these innovations will remain concentrated in developed economies. Therefore, the study concludes that a balanced integration of traditional and modern methods, combined with international cooperation, technological investment, and training programs, is necessary to achieve fairer taxation and sustainable global trade.

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