

DISCLOSURE OF TRANSFER PRICING METHOD IN INDIAN ANNUAL REPORTS

MANU KALIA

ASSISTANT PROFESSOR,
LOVELY PROFESSIONAL UNIVERSITY, PHAGWARA.

ABSTRACT

Transfer price is the price which is charged by the transnational corporations for their related party transactions or inter-segment sales. This price can be based on the market price as charged to the third party or the arm's length price. It can also be fixed on the basis of the cost of the goods/services transferred from one division of the company to another or the company may plan for a cost plus margin method. Besides this, the transfer price for inter-segment sale can also be negotiated amongst the related parties to avoid argumentative situations. The present study focuses on identification of the transfer pricing method used by 40 NSE listed companies over a period of three years. The study also focuses on the most prevalent method of transfer price over past three years. It concludes that the most widely used method is market price method which is most widely used by the sample companies in the year 2010-11, 2011-12 & 2012-13. It has also identified the prevalence of arm's length method and cost plus method amongst 40 sample companies. Besides this it has also come to notice that in the year 2011-12, five companies have not disclosed their transfer pricing method in their annual reports. These companies are Bafna pharmaceutical ltd., Pidlite, Bombay Dyeing, Sumeet Industries & Vaibhav Global Ltd. Besides that even in the financial year 2010-11, eight companies have not disclosed their transfer pricing method in their annual reports. These companies are Bafna pharmaceutical ltd., Bombay Dyeing, Sumeet Industries, Jocil Ltd, Chemfeb Alkalis Ltd, Dishman pharmaceutical, Tata Chemicals & Vaibhav Global Ltd. That shows Bafna Pharmaceuticals Ltd, Bombay dyeing, sumeet enterprises and vaibhav Global Ltd have not been showing their method of pricing their inter segment transactions in the annual reports . But in the year 2012-13 they have started projecting their transfer price method in their annual reports showing more transparency to gain public trust.

Executive Summary

Modern businesses follow decentralized mechanism of operations and hence the modern corporations are divided into various segments called strategic business units. When these SBUs transact with each other in the form of sale or purchase of goods and/or services, they charge a price, this price is called transfer price. Transfer price is a charge for goods and services between controlled legal entities within an enterprise. It is a profit allocation method used to attribute a multinational company's net profit or loss before tax to countries where it does business. Transfer pricing results in the setting of price amongst divisions for pricing their inter-segment sales. There are different methods to price inter-segment sales like Market price method, cost based transfer price, cost plus transfer price, negotiated transfer price and arm's length transfer pricing method. The purpose of this research study is to identify the transfer pricing method used by a sample of forty NSE listed companies over a period of three years. I have identified the

transfer pricing method used by these companies in past three financial years and have also identified the most prevalent transfer pricing method used by the companies these days.

The research has concluded that the most prevalent method amongst the sample companies is Market price method. In the year 2010-11, only 38% companies were using market price method, in FY 2011-12 that increased to 45 per cent and in FY 2012-13 that has further increased to 49 percent.

Besides this it has also come to notice that in the year 2011-12, five companies have not disclosed their transfer pricing method in their annual reports. These companies are Bafna pharmaceutical ltd., Pidlite, Bombay Dyeing, Sumeet Industries & Vaibhav Global Ltd. Besides that even in the financial year 2010-11, eight companies have not disclosed their transfer pricing method in their annual reports. These companies are Bafna pharmaceutical ltd., Bombay Dyeing, Sumeet Industries, Jocil Ltd, Chemfeb Alkalis Ltd, Dishman pharmaceutical, Tata Chemicals & Vaibhav Global Ltd. That shows Bafna Pharmaceuticals Ltd, Bombay dyeing, sumeet enterprises and vaibhav Global Ltd have not been showing their method of pricing their inter segment transactions in the annual reports . But in the year 2012-13 they have started projecting their transfer price method in their annual reports showing more transparency to gain public trust .Another problem is that the method of transfer pricing has been misused by the companies these days to evade tax.

KEY WORDS: Market price method, arm's length method, tax evasion, inter-segments sales, cost plus method.

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