

TRANSFER PRICING

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Transfer pricing is setting of the price for goods and services sold between controlled (or related) legal entities within an enterprise. For instance, if a subsidiary company sells goods to a parent company, the price of the goods paid by the parent to the subsidiary is the transfer price.

Transfer pricing can be used as a profit allocation method to attribute a multinational corporation's net profit (or loss) before tax to subsidiaries in countries where taxation is low (for example, tax havens). Transfer pricing results in setting prices among divisions within a group of companies.

Generally, transfer price should match either what the seller would charge an independent, arm's length customer, or what the buyer would pay an independent, arm's length supplier.

Transfer pricing can be used as a tool of corporate tax avoidance. The OECD (Organization for Economic Co-operation and Development) adopted fairly comprehensive transfer pricing guidelines. These guidelines have been adopted with little modification by many countries. The United States and Canada have adopted rules, which depart in some material respects from the OECD guidelines, generally by providing more detailed rules. As for our country, Belarus is not a member of the OECD. However, in keeping with the OECD guidelines an article on transfer pricing was included in the Tax Code of the Republic of Belarus.

On January 1, 2016 transfer pricing rules were changed significantly in Belarus. New requirements for transfer pricing and setting the price level in controlled transactions were introduced.

The key stages of transfer pricing in Belarus are as follows.

Primarily, it is necessary to define the parties of transfer pricing. Transfer pricing takes place only in transactions between interdependent parties (members of a group of companies, multinational corporations, or multinational banks). A parent company is a company, which owns not less than 20 percent of its subsidiary's assets. They both become parties of transfer pricing. Examples of multinational corporations' branches in Belarus are Coca-Cola, Alutech, Gazprom. Examples of multinational banks branches are Priorbank (Raiffeisen International Bank-Holding),

VTB Bank, BSB Bank. All these companies and banks can potentially be involved in transfer pricing process.

However, not all transactions involved in transfer pricing are regulated by a tax agency. Since January 1, 2016 the following transactions have been recognized as controlled for transfer pricing purposes in the Republic of Belarus:

1. Transactions with real estate;
2. Foreign trade transactions;
3. Transactions with the residents of Republic of Belarus, who are free from income tax payment, use a simplified system of taxation, operate in a free economic zone or in the Park of high technologies.

Such transactions are controlled only if their annual profit exceeds 100 thousand roubles (52 thousand dollars) and their price deviates from the market level by more than 20 percent.

Each multinational corporation has its own pricing methodology. If a chosen methodology does not follow the OECD transfer pricing guidelines, risks of double taxation will appear.

Companies must analyze similar transactions (similar goods or services) of independent companies and compare their own level of prices with current market prices to avoid penalty charging.

If these requirements are observed, the OECD arm's length principle is realized. It means that the company runs business according to fairly comprehensive transfer pricing rules.

Nowadays transfer pricing in Belarus is strictly regulated by the Ministry of Taxes and Tax Collection. If tax authorities find out that the prices in controlled transactions do not correspond to the required standards, additional profit taxation is imposed. That is why it is so important today for all the parties involved in such activity to have a clear idea about transfer pricing, its rules and methods.

NEURAL NETWORKS IN BUSINESS

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Artificial neural networks (ANN) are parallel information processing systems consisting of a number of simple neurons, organized in layers and connected by links.