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# TRANSFER PRICING IN ALBANIA - METHODS AND ISSUES

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**Abstract**

*Tax rates in each country depend on the target revenue collection needed to implement government policies and also depend on local accounting concepts to adapt to the taxable income determination of entities. The tax rates of a given country have an impact on the strategy of multinational companies in determining: - Pricing within transactions within the group - Cost sharing agreements between different related ventures. Pricing within intragroup transactions, which is also referred to as transfer pricing is the cause of dispute between taxpayers and tax authorities. Transfer pricing is the price that a seller will usually apply to an outside customer or alternatively the price that the buyer will pay for the same good or service if he receives it from outside suppliers in the market. However, in reality, multinational corporations artificially regulate their transaction prices in such a way that entities within the jurisdiction with a higher tax rate will report lower profit and entities within the jurisdiction with lower tax rates will result in higher profit. (For example, to reduce the profitability of an entity goods or services will be supplied at a higher price or goods and services will be procured from it at a lower rate.) The study is a critical look at Transfer pricing regulations, on the subject of Transfer pricing. This study is done to shed light on the rules and issues related to Transfer pricing in Albania and to shed light on the regulatory framework. The study also addresses the concept of administrative costs set by the tax administration and the importance that international businesses operating in Albania give to this in determining profit tax and Transfer pricing issues in general.*

*Keywords: MNC, Transfer pricing, Albania, ALP, Tax*

 

## INTRODUCTION

Depending on the internal and external economic situations that exist in relation to intermediate products, as well as corporate pricing policies, a company may use one of several methods to set its transfer pricing. More important is the fact that it should not only be the transfer price to create an ideal medium for achieving the goals and harmonizing with the overall organizational objectives, but also the opportunity cost of the substance of the transaction under consideration should be presented more accurately.[1]. The choice of transfer pricing also reflects the intended autonomy of the divisions within the organization as a whole.

In short, the choice of which pricing policy to use will always be influenced by the company's business strategy, the overall level of internal autonomy, and ultimately the industry within which the company operates. A Transfer pricing policy with strong managerial tones tends to benefit the management of divisions but these benefits tend to occur at the expense of financial objectives.

For this reason, although most companies today act as a single Transfer pricing package, for these prices to be optimal, the main objectives of the Transfer pricing will be entirely managerial in nature. Therefore, the choice of which Transfer pricing method will be used should be determined by the extent to which each method is able to facilitate the achievement of the specific and general objectives of the company.

Whenever there is a market for the intermediate product, for the purposes of performance appraisal and decision making what is most advisable is that the transfer price be set at the same level as the pre-existing market price of the product in question[2]. The degree of flexibility of demand for the intermediate product in the overseas market will determine whether a single market price can be set for the product.

In a perfect market economy, where goods and services are homogeneous in nature and there is not a buyer or seller large enough to influence prices alone, there will normally be an uncompromising market price for the intermediate product. As such, whenever market-based Transfer pricing is used, shared profits are optimized.

- Comparative uncontrolled pricing method (CUP): a comparison of the value of a related party transaction with the value of a similar transaction between unrelated parties[3].

[1]Peter Atrill, Eddie McLaney, 2011. Accounting and Finance for Non-Specialists. Pearson, 7th Ed, pp. 307.
[2]Drury Colin, (2012). Management and Cost Accounting. Cengage Learning.
[3]Valerie Amerkhail, 2006. Function Analysis and Choosing the best Method. Practical Guide to US Transfer Pricing. F.5.

- Comparable uncontrolled pricing method for intangible assets (CUT): Same as above, except that it applies strictly to intangible goods / services [4].
- Resale Price Method (RPM): a comparison of the price at which a division of purchases will resell an intermediate product after its purchase by a division of sales in the same company, at the price at which that same product may bought and resold on the open market.
- Profit sharing method PSM: this is about splitting a portion of the transaction profit into two divisions, namely for the reflection sale and purchase of what would be received between the two unrelated parties.
- Net Margin Transaction Method (TNMM): this involves a comparison between the profit margin, using an appropriate basis such as the cost or sales that is observed in a transaction between similar divisions of a company, with a margin profit that would have been observed in a similar transaction between unrelated parties.

## RELATIONSHIPS AND DISPUTES WITH TA, TAX ADMINISTRATION

Due to the technological revolution, trade has crossed the barriers of nations' borders. The technological revolution has given easy access to various resources, which have been distributed in different parts of the world and which until now have remained unused. Technology, then, has reduced the world to a global village. On the one hand this development leads us to the concept of "one world, one economy", but on the other hand it has also raised various issues of concern which are of economic, social and political nature.

One of the important aspects of globalization is the emergence of multinational corporations. These MNCs undoubtedly play an important role in shaping the economies of developing countries through capital investment and also providing employment for the local population where they do business. But at the same time, they are always the subject of criticism such as:

(i) MNCs spoil the culture, ethical values, way of life and attitude of the society.

(ii) MNCs do not hesitate to ignore each country's best practices in environmental protection, pursuing their goal of efficient and low-cost production before preserving the environment.

(iii) MNCs create one-sided and unfair competition in small markets that cannot compete with them, leading to the exit of local firms from business.

[4] Ernst & Young. 2010. 2010 Global Transfer Pricing Survey, Addressing the Challenges of Globalization. F.13.

(iv) In order to maximize their profits, profits are directed to be avoided in places referred to as 'Fiscal Paradise' such as Bermuda, Ireland, Luxembourg, resulting in significant revenue losses in their place of operation.

Of all these issues mentioned above, many scholars propose to critically assess the issue of taxes associated with multinational corporations that change or evade due to cross-border transactions.

Statutory tax provisions vary from country to country. This aspect of taxation has two parts, policies and rates.

Government policy to tax a particular class of person (both individual and corporate) varies from country to country. It depends on the different sources of income available, welfare plans designed for the overall development of society at large and citizens in particular. These policies of different governments have an impact on the decisions of multinational companies regarding their strategy, such as:

(a) Location of subsidiaries.

(b) Funding from or of branches.

(c) Creating economies of scale.

## METHODOLOGY

The study adopted a descriptive research design, In a sample of 62 international businesses and firms part of a larger study, the Administrative Cost Hypothesis set by AT was tested, as seen and welcomed by international companies, MNCs. This study is based on primary data which were taken in the Albanian market in the years 2000 to 2020. The total number of the sample taken is 62, which is quite representative for a small country such as Albania.

*Hypothesis: The concept of administrative cost set by the TA will have important links with the method of determining and profit tax in the subsidiary entity.*

To test the hypothesis:

*H0: The correlation between companies that favor the concept of cost and entity tax is not statistically significant.*

*H1: The correlation between companies that favor the concept of cost and entity tax is not statistically significant*

## ANALYSIS AND FINDINGS

Before proceeding with the test, a normality test should be performed to understand the distribution of both variables if they are normal or if they have a significant deviation from the normal distribution and thus seek other tests that are more appropriate for the existing data.

The normality tests of the two variables are as follows:

Table 1 Data Distribution for H2

**Tests of Normality**

| | Kolmogorov-Smirnova | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| 19. When most MNCs have offshore branches (Captive Unit) and profit is decided on the cost of services. Should the tax administration formulate the concept of 'cost' in this case? | , 271 | 62 | , 000 | , 803 | 62 | , 000 |
| 18. In determining the ALP Market Price, would it be better and easier a tax on income earned by the Entity in Albania? | , 229 | 62 | , 000 | , 838 | 62 | , 000 |

a. Lilliefors Significance Correction

As it results from the tests for normality it is seen that in both tests Shapiro-Wilk and Kolmogorov-Smirnov has a statistical value of .803 and .271 respectively. If the significance indicator is seen a very small figure will be taken, .000 and .000 respectively. This shows that for the first variable the distribution is different from the normal distribution at a statistically significant value, and thus if the null hypothesis is that the observed distribution does not differ from the normal one, it can be discarded, and in this case the alternative hypothesis will be accepted.

The same is shown by the distribution and tests of the second variable, ie in the Kolmogorov-Smirnov and Shapiro-Wilk tests the value of the statistics is .229 and .838 respectively. If the coefficient of significance is taken it will be seen that there are very small values close to 0 at the levels .000 and .000 respectively.

This shows that the null hypothesis which states that there is no statistically significant difference between the normal distribution and the observed distribution in all categories of the variable does not stand. So even in the case of the second variable the alternative hypothesis will be accepted.

It can be seen from these tests that the data do not follow normal distributions, therefore non-parametric tests would be more appropriate to assess the correlation between the variables and derive the robustness of the hypothesis.

In this case a non-parametric test will be taken and will test the correlation between the two. For this reason the Spearman test is used which is more suitable than Pearson or others for more suitable or normally distributed data.

Table 2 Spearman for H2

**Tests of Normality**

| | Kolmogorov-Smirnova | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| 19. When most MNCs have offshore branches (Captive Unit) and profit is decided on the cost of services. Should the tax administration formulate the concept of 'cost' in this case? | , 271 | 62 | , 000 | , 803 | 62 | , 000 |
| 18. In determining the ALP Market Price, would it be better and easier a tax on income earned by the Entity in Albania? | , 229 | 62 | , 000 | , 838 | 62 | , 000 |

a. Lilliefors Significance Correction

What can be said by reading the data of the table of test results is that these two variables, just as Hypothesis 2 has raised the assumption and as we expected based on the literature and case studies of the Balkan region, have a relationship, hence positive correlation but not a very strong correlation.

However, the correlation that these two variables have is statistically significant, and it can be concluded that there is a statistically significant correlation between the two and a weak positive correlation.

So the hypothesis stands.

## CONCLUSION

According to the data of this study there is a uniform request from taxpayers to improve the standards of documentation maintenance. The documentation has certain limitations when it comes to demonstrating the ALP Market Price for transactions for Intangible or Intangible Goods and Services. It was also found from the data collected and studied that in most cases companies are not willing to share complete information regarding Transfer pricings. More work needs to be done in this regard, because from the comments the companies are not convinced that providing excessive information will help them better determine and better demonstrate the market price accepted by the tax administration. When companies offer revenue and pay taxes according to the norms of the respective industries,

It follows from this paper that a concept of administrative cost would be determinant by businesses in setting their prices according to the market price principle and the consequent controls and disputes regarding this pricing. According to the hypothesis presented and tested in businesses in Albania, it was observed that MNCs consider very important the establishment of the concept of Administrative Cost by the tax administration and are convinced that this affects the profit tax rates in their subsidiaries in Albania.

## SCOPE FOR FURTHER RESEARCH

This research was conducted with the MNC businesses in Albania throughout the years 2016-2020. These businesses have either a branch or are resident or even a representing unit in Albania. They are companies that use the transfer pricing methods and have helped Albania through the application of procedures and laws to further the regulatory laws and their application in transnational transactions and their debated prices.

The limits of the study are obvious as the market for such companies is small, i.e. Albania, and a larger sample of businesses could include for instance other board, or coastline cities that are in border with other neighboring countries, such as Vlora, Shkodra, Korca or Saranda. In these cities also there is room for study whether the customs are holding on to the transfer pricing methods even in goods as well as services. Another scope of further study would be to include also a large study for the other regional countries, Kosovo, Montenegro, North Macedonia, Greece and conduct a comparative study in their practices, regulations and their application.

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