

(Section 4)

**International Accounting
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**Chapter 12
International Transfer Pricing**

Exercises and Problems

15. Akku Company

	a. \$1.50 transfer price			b. \$1.80 transfer price		
	<u>Germany</u>	<u>U.S</u>	<u>Total</u>	<u>Germany</u>	<u>U.S</u>	<u>Total</u>
Sales price	\$1.50	\$4.50	\$4.50	\$1.80	\$4.50	\$4.50
Production cost	1.00	1.50	1.00	1.00	1.80	1.00
Shipping cost	0.20	0.00	0.20	0.20	0.00	0.20
Import duty	<u>0.00</u>	<u>0.15</u>	<u>0.15</u>	<u>0.00</u>	<u>0.18</u>	<u>0.18</u>
Pre-tax income	\$0.30	\$2.85	\$3.15	\$0.60	\$2.52	\$3.12
Tax	<u>0.12</u>	<u>1.00</u>	<u>1.12</u>	<u>0.24</u>	<u>0.88</u>	<u>1.12</u>
Net income	<u>\$0.18</u>	<u>\$1.85</u>	<u>\$2.03</u>	<u>\$0.36</u>	<u>\$1.64</u>	<u>\$2.00</u>
Total tax and import duty			<u>\$1.27</u>			<u>\$1.30</u>

c. The lower transfer price (\$1.50 vs. \$1.80) results in the smaller amount of total income tax and import duty because less pre-tax income is reported in Germany, the higher tax country, and a smaller amount of import duty is paid in the United States.

18. ABC Company

This problem can be solved by determining the relative amount of income taxes and import duties that will be paid at a low, e.g., \$10.00, and a high, e.g., \$13.00, transfer price for each of the six intercompany transactions.

Sale from X to Y. Strategy: transfer at a relatively high price.

	Low price: \$10.00			High price: \$13.00		
	X	Y	Total	X	Y	Total
Sale	10.00	15.00		13.00	15.00	
Cost	10.00	10.00		10.00	13.00	
Duty rate		10%			10%	
Import	<u>0.00</u>	<u>1.00</u>	1.00	<u>0.00</u>	<u>1.30</u>	1.30
Pre-tax	0.00	4.00		3.00	0.70	
Tax rate	20%	30%		20%	30%	
Tax	0.00	1.20	<u>1.20</u>	0.60	0.21	<u>0.81</u>
			2.20			2.11

Sale from X to Z. Strategy: transfer at a relatively high price.

Low price: \$10.00				High price: \$13.00			
	X	Z	Total		X	Z	Total
Sale	10.00	15.00		Sale	13.00	15.00	
Cost	10.00	10.00		Cost	10.00	13.00	
Duty rate		0%		Duty rate		0%	
Import	<u>0.00</u>	<u>0.00</u>	0.00	Import	<u>0.00</u>	<u>0.00</u>	0.00
Pre-tax	0.00	5.00		Pre-tax	3.00	2.00	
Tax rate	20%	40%		Tax rate	20%	40%	
Tax	0.00	2.00	<u>2.00</u>	Tax	0.60	0.80	<u>1.40</u>
			2.00				1.40

Sale from Y to X. Strategy: transfer at a relatively low price.

Low price: \$10.00				High price: \$13.00			
	Y	X	Total		Y	X	Total
Sale	10.00	15.00		Sale	13.00	15.00	
Cost	10.00	10.00		Cost	10.00	13.00	
Duty rate		20%		Duty rate		20%	
Import	<u>0.00</u>	<u>2.00</u>	2.00	Import	<u>0.00</u>	<u>2.60</u>	2.60
Pre-tax	0.00	3.00		Pre-tax	3.00	(0.60)	
Tax rate	30%	20%		Tax rate	30%	20%	
Tax	0.00	0.60	<u>0.60</u>	Tax	0.90	(0.12)	<u>0.78</u>
			2.60				3.38

Sale from Y to Z. Strategy: transfer at a relatively high price.

Low price: \$10.00				High price: \$13.00			
	Y	Z	Total		Y	Z	Total
Sale	10.00	15.00		Sale	13.00	15.00	
Cost	10.00	10.00		Cost	10.00	13.00	
Duty rate		0%		Duty rate		0%	
Import	<u>0.00</u>	<u>0.00</u>	0.00	Import	<u>0.00</u>	<u>0.00</u>	0.00
Pre-tax	0.00	5.00		Pre-tax	3.00	2.00	
Tax rate	30%	40%		Tax rate	30%	40%	
Tax	0.00	2.00	<u>2.00</u>	Tax	0.90	0.80	<u>1.70</u>
			2.00				1.70

Sale from Z to X. Strategy: transfer at a relatively low price.

Low price: \$10.00				High price: \$13.00			
	Z	X	Total		Z	X	Total
Sale	10.00	15.00		Sale	13.00	15.00	
Cost	10.00	10.00		Cost	10.00	13.00	
Duty rate		20%		Duty rate		20%	
Import	<u>0.00</u>	<u>2.00</u>	2.00	Import	<u>0.00</u>	<u>2.60</u>	2.60
Pre-tax	0.00	3.00		Pre-tax	3.00	(0.60)	
Tax rate	40%	20%		Tax rate	40%	20%	
Tax	0.00	0.60	<u>0.60</u>	Tax	1.20	(0.12)	<u>1.08</u>
			2.60				3.68

Sale from Z to Y. Strategy: transfer at a relatively low price.

Low price: \$10.00				High price: \$13.00			
	Z	Y	Total		Z	Y	Total
Sale	10.00	15.00		Sale	13.00	15.00	
Cost	10.00	10.00		Cost	10.00	13.00	
Duty rate		10%		Duty rate		10%	
Import	<u>0.00</u>	<u>1.00</u>	1.00	Import	<u>0.00</u>	<u>1.30</u>	1.30
Pre-tax	0.00	4.00		Pre-tax	3.00	0.70	
Tax rate	40%	30%		Tax rate	40%	30%	
Tax	0.00	1.20	<u>1.20</u>	Tax	1.20	0.21	<u>1.41</u>
			2.20				2.71

Summary of strategy: X should always transfer at a high price; Z should always transfer at a low price; Y should transfer to X at a low price and to Z at a high price.