

NEW

The International Transfer Pricing Module



What Is Transfer Pricing?

Globalization has become a strategic practice in Fortune 500 firms, both in terms of manufactured goods that have been produced offshore for more than two decades and the recent growth in offshored business services and intangibles. As a result, more than one-third of world trade in goods, services and intangible assets occurs between firms that are related to one another, for example, between two subsidiaries of a multinational enterprise (MNE). Trade between related firms is called *intrafirm trade*. The price of an intrafirm transaction, called a *transfer price*, affects the allocation of profits between the buyer and seller firms; a high transfer price shifts profits to the seller, a low price to the buyer. When intrafirm trade crosses national borders, it is called *international transfer pricing*, or simply *transfer pricing*. International transfer pricing is the valuation of cross-border transactions between units of a multinational enterprise.

Transfer pricing, by changing the value of cross-border transactions, can have huge impacts on the distribution of MNE worldwide profits among countries, and therefore on the division of national tax revenues, in addition to affecting trade flows, the balance of payments and national competitiveness. As a result, almost 50 national tax and customs authorities now regulate transfer prices. Transfer pricing issues involve many different professionals: economists, lawyers, accountants, auditors, financial officers, business managers, and government policy makers. Transfer pricing professionals are employed in government departments (e.g., US Treasury), MNEs with in-house transfer pricing groups, and firms that specialize in transfer pricing issues (e.g., legal, consulting and accounting firms). International organizations such as the Organization for Economic Cooperation and Development and the International Bureau of Fiscal Documentation also have transfer pricing staff.

The demand for transfer pricing professionals has escalated rapidly over the past ten years, driven not only by globalization, but also by the increasing number of governments and government regulations. Controversies surrounding the “right” transfer price or the “best” method for valuing intrafirm transactions have created enormous job opportunities. A September 2005 study of five websites (AOL Job Search with Career Builder, Monster.com, USA Jobs, Executive Registry and WSJ Career Journal) compared job openings in six areas (international development, international economics, international finance, international tax, international trade, and transfer pricing). Transfer pricing ranked second, after international taxation, in terms of the number of posted openings.



International Transfer Pricing Module

In Fall 2006, Texas A&M University is starting a new program, an **International Transfer Pricing Module (ITPM)**, to address the demand for more transfer pricing professionals. Modules or concentrations are small groups of courses, clustered in a single topic area, offering students the opportunity to specialize in an area of interest where they potentially might find employment after graduation. The ITPM may be taken as part of a regular

degree program, or as an add-on program, by graduate students at Texas A&M University. The program should be of particular interest to the following groups of masters students:

- Mays Business School: Masters in Business Administration (MBA), Professional Program in Accounting (PPA), other Masters degree programs.
- George Bush School: Masters in International Affairs (MPIA), Masters in Public Service and Administration (MPSA), Certificate in Advanced International Affairs (CAIA).
- Economics: Masters and PhD students in Economics who want a career in the private or public sector.
- Law: LLB students interested in specializing in international tax and/or transfer pricing law.

The Bush School's MPIA faculty met in Spring 2006 and agreed to introduce five modules starting in Fall 2006. Students must take at least three courses to fulfill the requirements of a module, including one core course. The ITPM is one of the new modules. The recommended program for ITPM is:

- BUSH 689 International Transfer Pricing (new course, offered Spring 2007 MW 2:20-3:35 in Wehner).
- BUSH 629/MGMT 667 Multinational Enterprises (offered Spring 2007 MW 9:35-10:50 in Allen Bldg).
- At least one course from the list below
 - ACCT: Course selection to be determined based on the student's background and interests.
 - BUSH 625 Advanced Trade Policy
 - BUSH 626 International Finance OR FINC 645 - International Finance
 - BUSH 632 Quantitative Methods II in Public Management
- MPIA and MPSA students are also strongly encouraged to take a summer internship in transfer pricing between their first and second year programs.



ITPM Coordinator

The coordinator for the new ITPM is Dr. Lorraine Eden, internationally recognized expert on transfer pricing. Lorraine Eden is Professor of Management and University Faculty Fellow at Texas A&M University, where she teaches undergraduate and graduate courses on multinational enterprises and the economics of international business. Prof. Eden's research focuses on the political economy of multinationals, specializing in transfer pricing, international taxation and regional integration. She has more than 100 scholarly publications, including journals such as *Academy of Management Review*, *Academy of Management Journal*, *Canadian Journal of Economics*, and *Journal of International Business Studies*. Her best-known book is *Taxing Multinationals* (University of Toronto Press, 1998). Her current research projects include strategic transfer pricing and empirical estimates of transfer price manipulation; foreign direct investment (FDI) in tax havens and corrupt economies; MNE strategies within NAFTA; and MNE strategies for coping with liability of foreignness. Professor Eden is Deputy Editor-in-Chief of the *Journal of International Business Studies*, and sits on several editorial boards. She has been a Fulbright Scholar, a Pew Fellow, and a receiver of multiple teaching, research and professional awards including election as a Fellow of the Academy of International Business (AIB) in 2004. She is the founder of WAIB (Women in the Academy of International Business), an organization with more than 500 members worldwide. Professor Eden runs executive training workshops and consults on transfer pricing and international taxation. Currently, she is working with the US Bureau of Labor Statistics to redesign the US export and import price indexes to more accurately reflect intrafirm transactions within MNEs. More information is available on her website <http://www.voxprof.com>.



Want to Learn More?

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