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Tax Control System of Transfer Pricing With the Beps Plan

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Abstract. The aim of this research was to design a model for tax control system of transfer pricing with the BEPS plan. In this research, an analytical method has been used. At first, violations of transfer pricing were identified and then, based on the basic erosion model and profit shift (BEPS), strategies for preventing them were identified and ultimately, the identified factors were included in a conceptual model. Finally, the structure and relation of the concepts and variables of this model were corrected based on structural equation analysis and the final model was obtained.

Keywords: transfer pricing, tax control, tax base, Base Erosion and Profit Shifting plan, reporting, system.

1. INTRODUCTION

In general, corruption is "abusing the power given to personal gain." Corruption can be broken down by the amount of money lost, and the part where corruption took place, divided into three large, small and political categories. Large corruption consists of acts committed at the highest levels of government, impairing the state's core policies and practices, and enabling leaders to profit from the cost of harming public good. Corruption refers to the daily exploitation of the power given to general and low-level public employees in dealing with ordinary citizens who are often trying to access goods or services in places like hospitals, schools, police departments, and other organizations. Fraud Affects the community in many ways [1,2].

Economically, corruption leads to the destruction of national wealth. Corrupt politicians invest rare common resources on projects that are more in line with their own pockets, not society's, and to projects such as dams, power plants, pipelines and refineries, more than major projects and infrastructure such as schools, hospitals and roads. Corruption is disturbing the development of fair market structures and competition, which also causes investment problems. One of the ways of economic corruption is the transfer of multinational benefits abroad to tax evasion. Basic erosion and change in profit (BEPS) refer to the erosion of the national tax base and the process in which this occurs. This process occurs when multinational corporations transfer profits made in one country to and from the country where their financial centers have a lower or zero tax, and thus minimize their tax burden. This is a legal act, but, apart from the tax base erosion of the countries in which the profits are derived, this practice creates an uneven playing field because small and medium-sized enterprises usually do not have access to these profit-sharing schemes and pay more taxes than multinational corporations [3,4]

It is necessary to take measures to prevent the tax evasion of multinational corporations [5,6]. Accordingly, the present study aims to establish a strategic model based on the base erosion and profit shift (BEPS) of the action to provide an executive plan for tax control system of transfer pricing.

2. METHODS

In this research, an analytical method has been used. At first, violations of transfer pricing were identified and then, based on the basic erosion model and profit shift (BEPS), strategies for preventing them were identified and ultimately, the identified factors were included in a conceptual model.

3. RESULTS AND DISCUSSION.

Based on a more detailed analysis of the tax control practice for transfer pricing in foreign countries, the tax control system includes:

- Market price (derived from the reference)
- transfer pricing;
- Mechanism of penalties for violation of the law on tax control On 10.05.2015 the Organization for Economic Cooperation and Development has developed a package to combat the erosion of the taxable base and the withdrawal of profits from taxation - the Base Erosion and Profit Shifting (Base Erosion and Profit Shifting) plan, according to which transfer pricing is controlled through the following activities [7]:
- questions of a parity of financial results with creation of cost in a supply chain are disclosed;
- the approach to the formation of reporting on transfer pricing at the international level is regulated.

As a result, the main provisions were set out in para.8-10 of the Base Erosion and Profit Shifting plan on 05.10.2015 [8]:

- Guidance on transactions with commodities
- control of transfer pricing in transactions with intangible assets, and intercompany transactions with low added value;

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- Transnational Companies and Tax Administrations, relating to cost sharing agreements;
- Directions for improving the application of the profit distribution method.

According to measures # 13 of the Base Erosion and Profit Shifting Plan, the three-level standard approach to tax control over transfer pricing includes the preparation and submission to the tax authorities of the following documentation since 01/01/2016 [7,9,10], which should allow the tax authorities to separate the added value creation chains in the transnational company, and also transfer of the tax base to the jurisdictions with a more favorable tax regime.

Taxpayers are also advised to provide the tax authorities with more complete information on pricing in transactions with raw commodities, which include [8]:

- The methods of pricing used;
- Discounts, surcharges to the price of primary commodities;
- Agreements of third parties with final buyers;
- The date on which commodity prices are set (in the event that the date of fixing prices is unknown, the application of the "anticipated date" for determining the price is applied);
- Information on the raw commodity supply chain.

It is assumed that this information will be used by tax authorities to find comparisons and make adjustments to ensure compliance with the approved transfer pricing methods.

Particular attention is paid in the Base Erosion and Profit Shifting plan to transactions with intangible assets, the definition of which was absent in the OECD Transfer Pricing Guide for transnational companies and tax administrations. In the Base Erosion and Profit Shifting plan, an intangible asset is something that is not a tangible or financial asset than can be owned and used in commercial transactions, and when it is transferred in transactions between independent entities under comparable conditions, a payment would be executed for (patents, trademarks, know-how, information constituting a commercial secret) [8].

Based on what was said, we have proposed a conceptual framework for the semantic communication of the mentioned concepts. On the basis of logical consolidation and interconnection of the basic elements of the tax control system for transfer pricing, the authors of the paper offered their schematic model (Figure 1) which includes both a block for taxpayers and a state unit regarding tax control over transactions between interdependent entities.

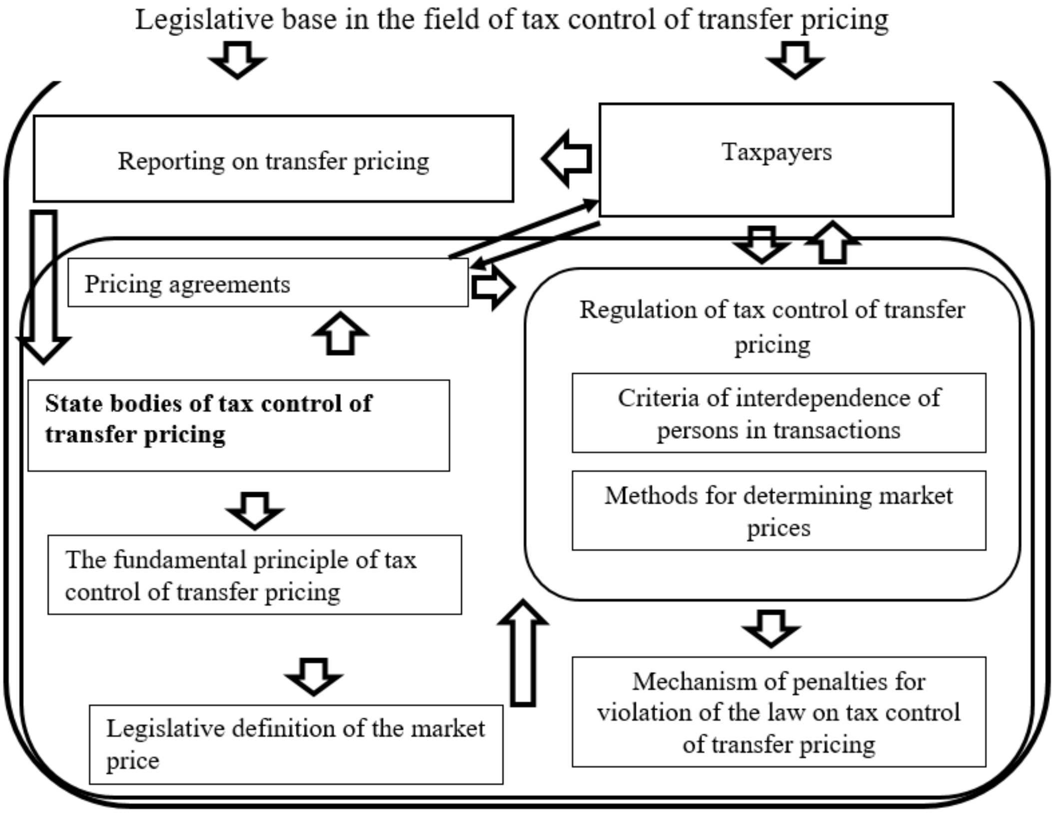

Fig. 1 - Tax control system for transfer pricing

The specified above scheme of the tax control system for transfer pricing, taking into account innovations under the Base Erosion and Profit Shifting plan, needs to be finalized and separate block of interaction with the state control authorities should be provided in the form of presenting them a local file, a report on the countries and a master file for more complete and correct control of transactions (Fig. 1). In this scheme, the documentation block is separated from the state block of tax control transactions between interdependent entities within the implementation of the Base Erosion and Profit Shifting plan, as it is part of the international tax exchange between countries.

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4. CONCLUSIONS

The Base Erosion and Profit Shifting plan is one of the strategic directions for the development of the Russian tax legislation in accordance with the "Main Directions of the Tax Policy of the Russian Federation for 2016 and the Planning Period of 2017 and 2018", therefore considerable attention is paid to the development of the exchange of information on financial transactions with foreign countries for the purposes of tax control over the transfer pricing. Further research is seen by the authors of the paper in the consideration of instruments of tax control over transactions between interdependent entities in the Russian Federation.

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