

Proposal of a New Approach for the Profit Split Method and Costs Sharing between Associated Enterprises in the Automotive Industry

Oliver Diez¹
Thomas Prosch²
Emilio Larrodé³
Victoria Muerza⁴
Luis Navarro-Elola⁵

Abstract

Multinational enterprises set the transfer prices for the different transactions. These must be governed by the arm's length principle on the basis of the international laws and regulations of the Organization of Economic Co-operation and Development (OECD), and in the example of this paper as well as the corresponding European regulations agreed by European Union (EU) member states. Besides, each EU member state has its own legislative and regulatory framework, which it must observe. This paper presents a procedure to apply the arm's length principle on the basis of the comparable uncontrolled price method (CUP) in companies of the automotive auxiliary industry. Transfer prices so calculated are used to identify the production processes that need improvement to increase competitiveness. The model of methodology presented in this work is completely new and can be seen in one of the sections of this paper.

Keywords: Transfer pricing; arm's length principle; comparable uncontrolled price method; cost-/ profit-splitting; automotive industry.

JEL Codes: D23, F23, H25

¹ Polígono Industrial Can Illa, Av. Millenari de Catalunya, Spain

² Polígono Industrial Can Illa, Av. Millenari de Catalunya, Spain

³ University of Zaragoza, Spain

⁴ Instituto de Investigación en Ingeniería de Aragón, Spain

⁵ University of Zaragoza, Spain