Tax Regulation of Transfer Prices in Transnational Corporations in EU

Master's Thesis By
Artem Tuigunov
Supervisor:
Åsa Hansson

LUND UNIVERSITY SCHOOL OF ECONOMICS AND MANAGEMENT

2022

Table of contents

Abstract

This work provides an overview of transfer pricing itself, how the tax regulation of transfer pricing has changed in EU and the analysis of changes in revenue and profits of 5 different Transnational corporations from Denmark. The analysis was made by looking into annual reports of these corporations for more than a decade and comparing the result with the time of introduction of BEPS plan and the Multilateral Instrument. It turned out that most of the corporations actually tried to hide their true profits, but the implementation of the actions above helped to reveal it. The constant need to improve the tax control over transfer prices on the part of the states gives practical significance to the work.

Introduction

The current development of international business is characterized by the increasing influence of multinational corporations in the global economy. Transnational corporations (TNCs) today comprise more than 60 thousand major companies and more than 500 thousand of their foreign branches and affiliated companies operating around the world. Under the control of TNCs is 1/2 of industrial production, 2/3 of world trade, 4/5 of world patents, know-how, licenses; 10% of all employed in non-agricultural production.

With the increasing role of TNCs in the global market, tax regulation of the activities of TNCs is becoming increasingly important, both on the part of states and on the part of multinational corporations themselves.

The goal of corporate tax regulation is to minimize aggregate tax payments to generate more profit. One of the main mechanisms of tax regulation in TNCs is transfer pricing. The transfer pricing (TP) mechanism is used to transfer the profits of TNCs to countries with a lower level of taxation, which allows you to reduce taxable profits and accumulate them in the accounts of the underlying subsidiaries[1]. TP also avoids double taxations.

All of the above is made possible by the fact that the tax jurisdiction of each country extends to its sovereign territory. Since States treat each multinational corporation as a separate taxable unit, this allows TNCs to dilute the tax base, while diverting profits to jurisdictions with lower tax rates. Thus, the struggle of states for profit is becoming more acute. At the same time, fairly competitive countries that have exhausted their reserves to reduce tax rates in order to attract new investors and retain existing ones are subject to tougher tax competition. At this stage, those countries that use strict measures to combat tax minimization and the erosion of the tax base receive profit from taxation. However, the effect of this

1. Transfer pricing [Electronic resource] // URL: https://www.nexus.ua/transfertnoe-tsenoobrazovanie

practice may be just the opposite: taxpayers will look for new places to place their capital with more loyal tax legislation.

First, I will describe transfer pricing itself and difference of its methods, what regulates the activities of transnational corporations and what methods of transfer pricing are used in different countries. Next, I will look into EU and its ways of tax control over transfer prices, address the BEPS Plan, Inclusive Framework on BEPS and the Multilateral Instrument.

In the next part, I will analyze the annual income of 5 TNCs from different industries in Denmark for a 12-year period. This period will include the introduction of BEPS Plan and the Multilateral Instrument. This way it will be clear, how these actions may (or may not) have affected profit gaining of TNCs.

The purpose of this work is the analysis of tax regulation of transfer prices in EU by looking into Denmark and its TNCs. The relevance of this topic is due to the increasing role of transfer pricing in the activities of TNCs. The need to improve the tax control over transfer prices on the part of the states gives practical significance to the work.

Transfer pricing and its methods

Transfer pricing in the general sense is the process of setting internal prices (so-called transfer prices), in which goods, services, cash and other assets are transferred from one business unit to another, because of which the subsequent calculation of the financial result of each business unit is carried out taking into account these transfer prices. TP is an economic and legal tool that is used by economic entities to reduce the tax burden. Price manipulation can provide significant tax benefits to business entities if it is implemented within the framework of legislation.

Transfer pricing is one of the main mechanisms of the internal market of TNCs, which presupposes the establishment of individual (transfer) prices in the company, from personal to market, for transactions with mutual funds, as if they were part of the same holding structure. The established transfer prices in the domestic operations under the act are lower than the market prices, which allows the corporations to attract profit from the rising price in the market.

The activities of transnational corporations are regulated by the following international instruments:

- OECD Guidelines for Multinational Enterprises of 12 June 1976;
- Tripartite Declaration of the International Labor Organization of 16 November 1977 on principles concerning multinational enterprises and social policy;
- Draft United Nations Code of Conduct for TNCs, 1983;
- Draft Convention on the Responsibility of TNCs and Other Business Enterprises with respect to Human Rights, 2003.;
- Convention on Transnational Corporations of 6 March 1998.

The legislative regulation of the activities of TNCs is designed to ensure transparency in the conduct of business by multinational corporations, timely and reliable amount of tax payments in the home country, the inadmissibility of blurring the tax base, and much more.

Nevertheless, tax planning in TNCs is carried out considering their own transnational structure and the peculiarities of the national legislation in the country where they operate. Thus, corporations form their own intra-group market in each state, which makes it possible to successfully manage the available resources (primarily financial) and redistribute capital in such a way that the tax burden falls on countries with minimal tax rates.

Capital is redistributed between the three main areas of activity of TNCs:

- Country of origin;
- Host countries;
- "Tax havens".

Given that the tax jurisdictions of each State are exclusively national in nature, TNCs are adept at getting capital out of control in favor of those countries where tax rates are minimal. At this stage, international cooperation between countries in this area is usually limited to solving issues of eliminating double taxation and coordinating the activities of tax and law enforcement agencies, and there is no single international tax system.

Considering the above facts, TNCs build their domestic market in the following way: corporations build a cross-branched quasi-market contract system that simulates the state of market competition. Relations between TNC units are carried out based on settlement contracts, which allows corporations to manage prices in the domestic market, setting them at a certain level. TNCs also use various forms of transactions to reallocate resources in a profitable manner.

Transfer pricing methods fall into two general categories:

1. Traditional transaction methods - the method of comparable market prices (CUP); the Cost plus method and the method of the subsequent sale price, i.e. Resale Price;
2. Methods of transactional profit (non-traditional methods) – the method of comparable profitability (Transactional Net Margin Method) and the method of profit distribution (Profit Split Method).

Now let's talk about these methods in details:

1) Comparable Uncontrolled Price (CUP)

This method is a priority to use if there are comparable transactions on the market, as well as sufficient information about the prices of these transactions. The essence of the method is that the price of goods, works or services in a controlled transaction is compared with the price of similar goods, works or services in economically comparable transactions between independent persons. The key aspect in this method is comparable transactions that comply with the "arm's length" principle[2].

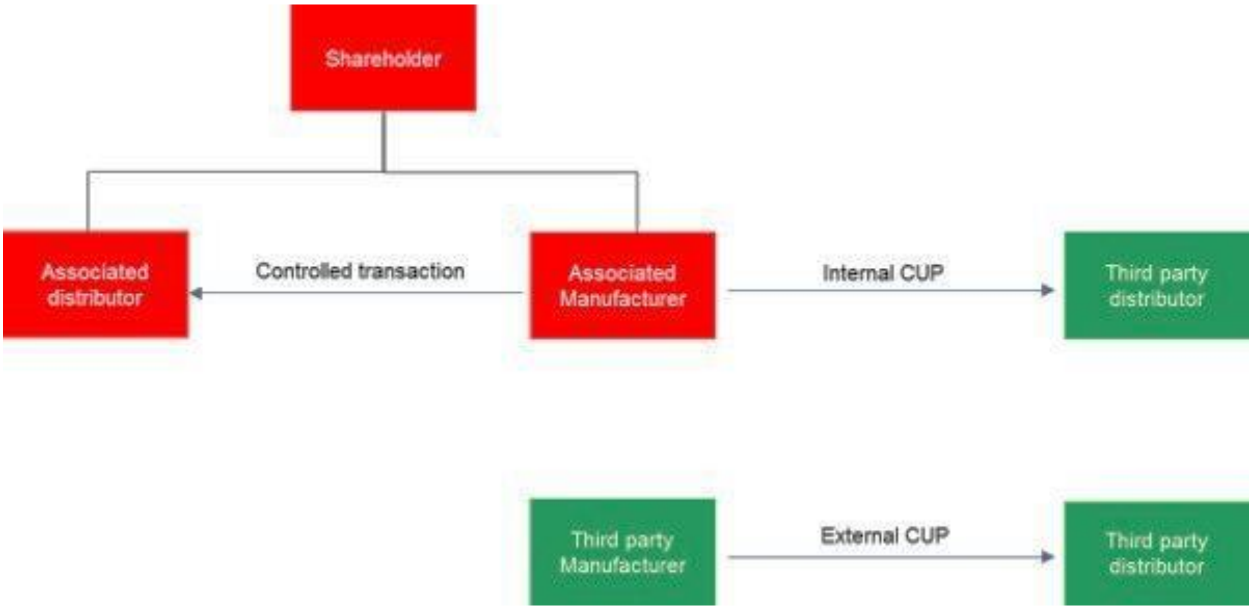

Figure 1 Schematic view on CUP method

2) Resale price method

If there are no grounds for applying the comparable price method (there is no information about prices), the cost method is used. The essence of this method is to set the price of a product that was purchased from an interdependent party and then resold to an independent person. The price of a transaction in which a product is resold to an independent entity is called the resale price. Next, you need to determine the gross price margin – the resale price required by the party reselling

---

[2] Five Transfer Pricing Methods With Examples [Electronic resource] // URL: https://transferpricingasia.com/2017/03/17/five-transfer-pricing-methods-examples/

the product. The resale price includes the cost of the costs associated with the sale and operating costs. In other words, the resale price margin is the amount that the seller needs to make a fair profit, considering the functions it performs (including the assets used and the perceived risks). The margin of the gross resale price is deducted from the resale price. The amount that remains after deducting the margin and making fair adjustments (for example, expenses such as customs duties have been taken into account) is the price of the original transaction between the related entities.

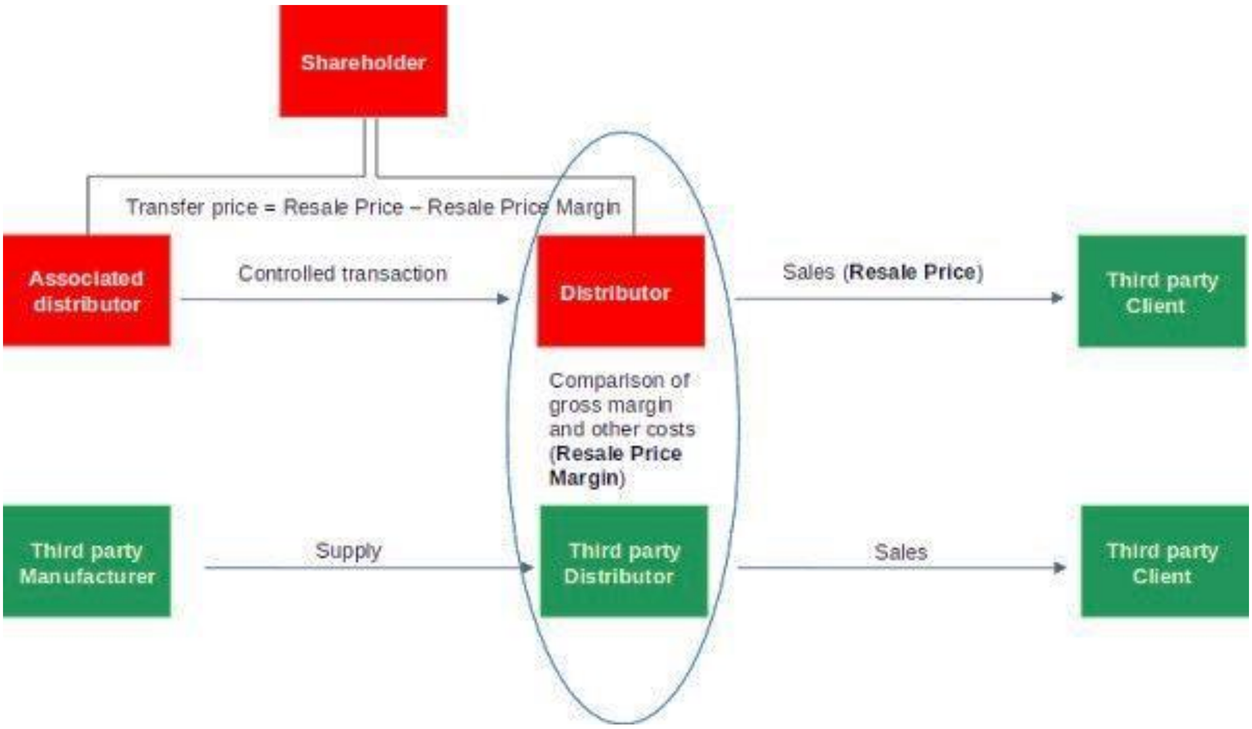

Figure 2 Schematic view on Resale price method

3) Cost plus method

This method is used if it is not possible to apply the method of comparable market prices (there is not enough information about comparable transactions) and the resale price method (the buyer does not resell the product). The cost plus method is used, in particular, to determine the transfer price for the work/services performed, when performing trading operations on the foreign exchange market, on the securities market, as well as when selling raw materials or semi-finished products to related parties.

The Cost-plus method compares gross profit with the cost of sales.

Step 1. Under the controlled transaction, the costs incurred by the supplier in the sale of goods, works/services to an interdependent party are determined.

Step 2. An appropriate premium must be added to the sale price, which is necessary for the seller to receive a fair profit, considering the functions performed by him. Next, the price is analyzed for compliance with the "arm's length" principle.

To do this, the gross cost margin for the controlled transaction is calculated, which is compared with the market margin interval.

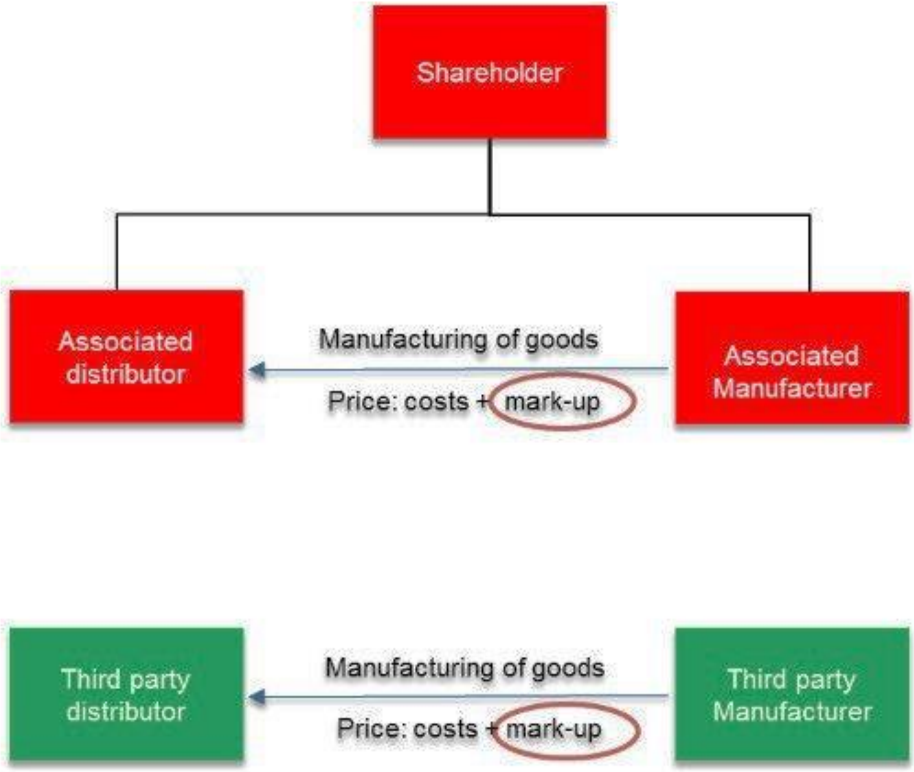

Figure 3 Schematic view on Cost plus method

4) Transactional net margin method (TNMM)

The essence of the method is to determine the level of income (profit, revenue) received from the sale of goods, works, and services between related parties for tax purposes. To do this, the company's operating margin is compared with the market range of operating margins in comparable transactions. In other words, you need to determine the net profit on a controlled transaction for a company that sells goods to an interdependent party, and then compare this figure with the net profit in comparable transactions, the parties of which are represented by independent enterprises. The profitability of the company that performs fewer functions, carries fewer risks, and does not own intangible assets that would have a significant impact on the level of profitability is compared with the market interval.

Unlike other transfer pricing methods, the TNMM method states that prices for comparable transactions must be "broadly similar" to the prices for the controlled transaction. "Broadly similar" in this context means that the transactions being compared do not have to be exactly the same as in the controlled transaction. This condition increases the number of cases when this method can be applied.

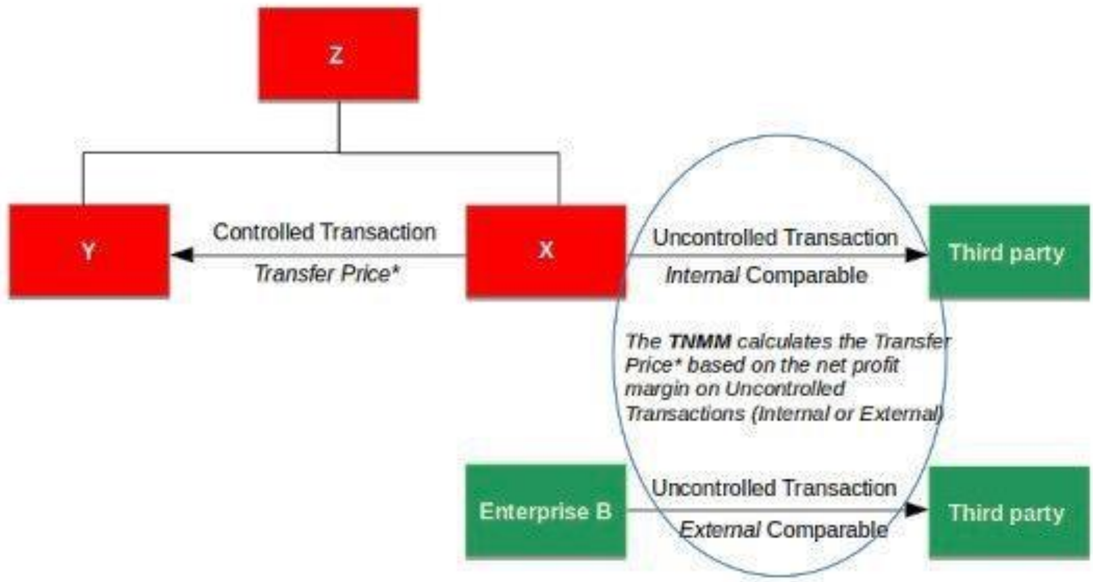

Figure 4 Schematic view on TNMM method

5) Profit split method

If there is a close relationship between the associated enterprises when entering a transaction, the associated enterprises share the profits among themselves. The use of this method is due to the situation when the parties of the analyzed transaction (groups of homogeneous analyzed transactions) are simultaneously parties to homogeneous transactions involving their interdependent persons. The method is also used if the parties of the analyzed transaction own the rights to intangible assets that have a significant impact on the level of profitability.

There are two main ways to distribute profits:

I. Actual profit: Total profit is divided based on the relative value of the functions performed by each of the related units in the controlled transaction (considering the assets used and the risks assumed).

II. Residual profit: the total profit is divided into two stages. First, each entity is allocated compensation for its functions and contribution to the controlled transaction. Secondly, any remaining profit or loss after the first stage is divided based on an analysis of the facts and circumstances of the transaction.

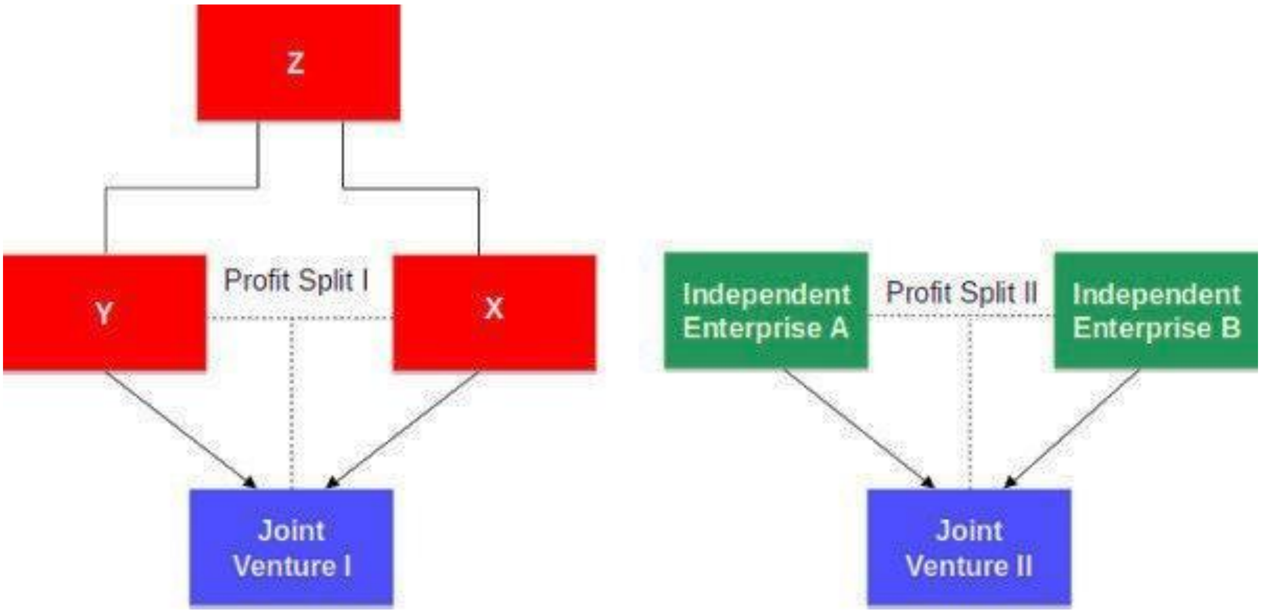

Figure 5 Schematic view on Profit split method

In the table below we can see what methods of transfer pricing are used in different countries:

- Numbers from 1 to 6 indicate the order in which methods must be used in the country (Israel, Mexico, Turkey).
- The “+” sign indicates that these methods have equal power and can be used in the most in the most appropriate order.
- The “-” sign indicates that these methods are not used in listed countries at all.

	Transfer pricing methods						
	CUP	Resale price	Cost plus	TNMM	Profit split	Residual profit split	Other methods
Australia	1	+	+	+	+	-	-
Austria	1	+	+	+	+	-	-
Argentina	1	+	+	+	+	-	-
Belgium	1	+	+	+	+	-	-
Great Britain	1	+	+	+	+	-	-
Hungary	1	+	+	+	+	-	-
Germany	1	+	+	+	+	-	-
Denmark	1	+	+	+	+	-	-
Israel	1	3	3	2	2	-	-
India	1	+	+	+	+	-	+
Irish	1	+	+	+	+	-	-
Spain	1	2	3	4	4	-	-
Italy	1	+	+	+	+	-	-
Canada	1	+	+	+	+	-	-
China	1	+	+	+	+	-	-
Colombia	+	+	+	+	+	+	-
Luxembourg	1	+	+	+	+	-	-
Malaysia	1	+	+	+	+	-	-
Mexico	1	2	3	4	5	6	-
Netherlands	1	+	+	+	+	-	-
New Zealand	+	+	+	+	+	+	-
Norway	1	+	+	+	+	-	-
Poland	1	+	+	+	+	-	-
Portugal	1	1	-	2	2	-	2
Russia	1	+	+	+	+	-	+
Singapore	1	+	+	+	+	-	-
USA	+	+	+	+	+	+	+
Turkey	1	1	1	2	2	-	3
Finland	1	+	+	+	+	-	-
France	1	+	+	+	+	-	-
Czech	1	+	+	+	+	-	-
Chile	1	-	1	-	-	-	-
Switzerland	1	+	+	+	+	-	-
Sweden	1	+	+	+	+	-	-
Estonia	1	+	+	+	+	-	-
South Korea	+	+	+	+	+	+	+
Japan	+	+	+	+	+	+	-

Table 1 Transfer pricing methods used in different countries

Methods of tax control over transfer prices in the EU

In the EU, the regulation of transfer pricing is carried out by three main structures:

- Organization for Economic Cooperation and Development (OECD);
- European Commission (EC);
- the United Nations (UN).

Within these organizations, there are the following divisions that specialize directly in the issues of transfer pricing:

- The transfer pricing Department of the OECD Tax Affairs Committee (the Committee actively cooperates with the OECD Tax Policy and Administration Center);
- Joint Forum on transfer pricing of the European Commission EU;
- Subcommittee of the UN Committee of Experts on International Cooperation in Tax Matters (the Committee is a subsidiary unit of the UN Department of Economic and Social Affairs).

The main documents that establish and explain the methodology, procedure and features of the implementation of the regulation and control of the transfer pricing are:

1) Within the OECD:

- OECD recommendations on transfer prices for multinational companies and tax authorities;
- The OECD Modular (Model) Convention on Taxes on Income and Capital;
- methodological recommendations for the development of legislation in the field of transfer pricing, aimed at harmonizing the approach used (OECD Transfer Pricing Legislation).

2) Within the EU:

- Convention on the Elimination of Double Taxation in Connection with the Adjustment of Profits Between Associated Enterprises;

- Code of Conduct on transfer pricing documentation for associated enterprises in the European Union;
- Code of conduct for the effective implementation of the Convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises;
- Guidelines for Advance Pricing Agreements within the EU;
- Guidelines on Low Value Adding Intra-Group Services.

3) Within the UN:

- United Nations Practical Manual on Transfer Pricing for Developing Countries;
- United Nations Model Double Taxation Convention between Developed and Developing Countries;
- United Nations Handbook on Selected Issues in Administration of Double Tax Treaties for Developing Countries.

In 2013, the OECD launched one of its most important initiatives – the Action Plan on Countering Tax Base Erosion and Profit-Shifting (BEPS). The plan was published in July 2013. A 40-page action plan that was agreed and prepared with the active participation of the OECD member States. The project contained 15 separate points of work, some of which were later further broken down into specific actions or results. Each item includes proposals in a separate area of taxation, as well as norms recommended for implementation in national laws of countries and international treaties. This is the most extensive update of the recommendations since their publication in 1979 — significant changes have affected almost all sections. The initiative was approved by G20 leaders and finance ministers at a summit in St. Petersburg in September 2013.

The basic idea behind this plan was that corporate profits are taxed at the place of their main business activity, and not at the place of registration of subsidiaries and multi-level chains of legal entities in low-tax jurisdictions.

In 2016, a wide range of countries, including non-OECD members formed the so-called "inclusive framework" and committed to follow the "BEPS minimum standard", which includes following actions:

- countering harmful tax practices;
- preventing abuse of tax agreements;
- country reports;
- dispute resolution.

The ability of corporations to use tax havens and offshore centers as part of their strategy to "optimize" taxation directly contradicts the principle of fair competition and corporate responsibility. According to a study conducted by the OECD at the end of 2008, tax havens attracted $ 5,000 - $ 7,000 billion in assets worldwide, but the exact amount of capital transferred is difficult to determine, since a certain degree of confidentiality is regulated in these jurisdictions (OECD Annual Report 2008).

According to a report by the Economic and Monetary Affairs Committee in 2009, international tax evasion has led to the following specific situations:[3]

- about a third of the 700 largest corporations in the United Kingdom paid no corporation taxes in 2005 and 2006;
- 25% of US companies that own assets of more than US $ 250 million or income of more than US $ 50 million per year are not paid. Income tax was also not paid from 1998 to 2005;
- the largest French corporations at the end of 2009 paid a tax of 8% on the average of real benefits, although the official corporate tax rate is about 33%.

Moreover, the 2010 OECD study "Promoting Transparency and Information Sharing for Tax Purposes" estimated that corporate tax evasion practices lead to

[3] Kreidich T. V. Trends in the transnationalization of the world economy in the context of globalization// Bulletin of the Moscow State Technical University. -2010. - Vol. 13. No. 1.

tax revenue losses of about $ 100 billion for the US economy and several billion euros for many EU countries.

The European Commission estimated in 2001 that the cost of meeting the transfer pricing requirements of European companies was between $ 4 million and $ 5.5 million per year, i.e. 1.9% of the corporate income taxes payable (European Commission, 2005)[4]. The estimates were made based on an analysis of 700 companies from 14 countries. Other authors found that these expenses accounted for 2 to 4% of the corporate income tax paid by companies (Lanno, Kevin, 2002). A 2008 study by Ernst & Young on a sample of international corporations found that 52% of companies had been investigated by the fiscal authorities for transfer pricing over the past six years, and 27% of them had been forced to adjust transfer prices. In this context, 53% of representatives of these corporations said that in recent years, the cost of complying with the transfer pricing rules has increased significantly.

Since many issues related to transfer pricing are obstacles to operations in the domestic market, limiting efficiency, efficiency, transparency and simplicity, the European Commission in 2005 proposed a set of rules to partially resolve the difficulties European companies face in preparing transfer pricing documentation.

For example, in 2006, the EU adopted a Code of Conduct on the documentation that subsidiaries in member countries must prepare in relation to transfer prices used in intra-group transactions. This code is intended to standardize the documentation that corporations must submit to the tax authorities when verifying the way prices are determined for cross-border intra-group transactions. In February 2007, the European Commission issued a statement summarizing the activities of the Joint Forum on Transfer pricing, supplementing the Code of Conduct, clarifying procedures for the avoidance of disputes and guidelines for advance pricing agreements within the European Union.

[4] CODE OF CONDUCT on transfer pricing documentation for associated enterprises in the EU [Electronic resource] // URL: https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0543:FIN:EN:PDF

These measures partially help to reduce corporate compliance costs for transfer pricing documentation, but they do not completely solve the problem of transfer pricing. For this reason, the European Commission has repeatedly reiterated the need to consolidate the corporate income tax base as a solution to the transfer pricing problem. At the same time, the Commission pointed to the need to ensure good governance in tax matters between Member States as an important tool to combat cross-border tax evasion and fraud and to provide a financial base for public spending.

In June 2017, representatives of 67 States signed the Multilateral Convention in Paris in order to prevent tax evasion in international relations. In scientific sources, it is more often referred to as the Multilateral Instrument (MLI). The Multilateral Convention covers the following mechanisms for countering BEPS:

- measures to neutralize hybrid structures;
- measures aimed at preventing abuse of tax agreements;
- clarification of the definition of permanent representation;
- improvement of the procedure of mutual agreement and arbitration.

Let's consider the main features of a Multilateral convention. Its main advantage can be expressed by the formula "one negotiation, one signature, one ratification" formulated by the OECD in a Legal Note on the Operation of the MLI in accordance with public international law. Instead of bilateral negotiations on the harmonization of the provisions of thousands of tax agreements on the avoidance of double taxation and the passage of numerous domestic procedures, a one-time signing of a contract and one domestic procedure are proposed for each of the parties in order to express consent to be bound by a Multilateral Convention, which will allow modification of all existing tax agreements of a certain state at once.

Analysis of Revenues and Profits of TNCs in EU

For my analysis of tax regulation of transfer prices, I chose 5 TNCs from different industries in Denmark, as it's part of EU. I decided to observe their revenues and profits in a 12-year period (2010-2021) to see how it may (or may not) have changed because of the introduction of BEPS Plan and Multilateral Instrument. This period, in my opinion, can clearly show, if there were some sudden changes in the profits. The data for the analysis is taken from these TNCs' annual reports for 2010 – 2021 respectively. All revenues are presented in millions DKK.

The first TNC is A.P. Moller – Maersk – a shipping company, active in ocean and inland freight transportation and associated services, such as supply chain management and port operation. Its revenues and profits are presented in Table 2. (All of the tables are split in half, so that the data is easy to read). Even without the line chart it is already obvious that in 2015 there was a sudden drop in profit, which later lead to a loss in 2016 - 2017. The huge rise of profit in 2021 is not connected with the analysis because the reason for that was the impact of the Covid-19 pandemic that caused disruptions in supply chains worldwide.

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Revenue	315,5618	322,6406	342,2114	266,3572	330,1289	279,7375
Profit before tax	54,4096	50,4538	42,5422	37,1984	36,85834	10,04218
Tax	26,1638	32,4792	19,1544	18,1828	20,62568	3,62268
Annual profit	28,2458	18,1134	23,3878	21,2364	36,0533	6,4195

2016	**2017**	**2018**	**2019**	**2020**	**2021**
246,1202	214,7583	270,7919	269,8966	275,7956	428,8018
-5,85042	1,735	1,65172	6,71098	22,95058	129,9862
7,31476	1,51986	2,67884	3,17852	2,82458	4,83718
-13,1652	-8,07816	22,35374	-3,0536	19,779	125,149

Table 2 The Revenues and Profits (Losses) of A.P. Moller – Maersk (2010-2021) in millions DKK

The second TNC is Novo Nordisk - a leading global healthcare company. Its revenues and profits are presented in Table 3. There isn't too much that can be said about this company as its profits (even after taxation) gradually rose from 2010 to 2021. This means that Novo Nordisk didn't try to hide its true profits or avoid taxation in any way.

	2010	2011	2012	2013	2014	2015
Revenue	60,776	66,346	78,026	83,572	88,806	107,927
Profit before tax	18,286	21,925	27,811	32,539	34,096	43,483
Tax	3,883	4,828	6,379	7,355	7,615	8,623
Annual profit	14,403	17,097	21,432	25,184	26,481	34,86

2016	2017	2018	2019	2020	2021
111,78	111,696	111,831	122,021	126,946	140,8
47,798	48,68	47,615	48,553	53,13	59,08
9,873	10,55	8,987	9,602	10,992	11,323
37,925	38,13	38,628	38,951	42,138	47,757

Table 3 The Revenues and Profits of Novo Nordisk (2010-2021) in millions DKK

The third TNC is Ørsted - the global-leader in offshore wind power, and supplies large-scale and cost-competitive offshore wind energy, onshore wind energy, and solar energy solutions. Its revenues and profits are presented in Table 4. Ørsted had a rough time from 2012 to 2014 and in 2015 its profit was significantly lower than before. The cause of this may very well be the introduction of BEPS Plan, which could have had an effect on this company for 4 years.

	2010	2011	2012	2013	2014	2015
Revenue	58,498	58,437	65,86	72,199	71,829	74,387
Profit before tax	7,461	7,904	-4,177	-0,576	1,826	-5,929
Tax	2,997	3,654	0,949	1,015	4,136	3,524
Annual profit	4,464	4,52	-5,126	-1,591	-2,31	-9,453

2016	2017	2018	2019	2020	2021
57,393	59,709	75,52	70,398	50,151	77,673
12,182	15,099	21,966	10,392	17,324	13,277
1,715	1,778	3,7	3,101	1,776	2,39
7,935	19,425	18,276	7,235	15,537	10,887

Table 4 The Revenues and Profits (Losses) of Ørsted (2010-2021) in millions DKK

The fourth TNC is The Carlsberg Group - brewing corporation, third after Anheuser-Busch InBev and Heineken in volume production of beer. Its revenues and profits are presented in Table 5. There was a slight drop in profits on 2013 - 2014 with a loss in 2015 and 2017. The same logic goes for this company – implementation of BEPS Plan and Multilateral Instrument can be the cause of these changes.

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenue	60,054	63,561	66,468	64,35	64,506	91,012	86,957	85,789	88,97	65,902	58,541	66,634
Profit before tax	7,845	7,53	8,106	7,782	6,686	-1,733	7,249	3,523	8,519	10,228	9,041	10,228
Tax	1,885	1,838	1,861	1,833	1,748	0,849	2,392	1,458	2,386	2,751	2,233	2,219
Annual profit	5,96	5,692	6,245	5,949	4,938	-2,582	4,857	2,065	6,133	7,477	6,808	8,009

Table 5 The Revenues and Profits (Losses) of The Carlsberg Group (2010-2021) in millions DKK

The fifth and the last TNC is The Lego Group - toy production company, which manufactures Lego-brand toys, consisting mostly of interlocking plastic bricks. Its revenues and profits are presented in Table 6. This company didn't have any sudden drops or rises in its profits, just some slight variations which are perfectly normal for any company. This means that The Lego Group can be described as quickly adaptable to any changes in taxation regulation.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	16,014	18,731	25,382	23,095	28,578	35,78	37,934	34,995	36,391	38,544	43,656	55,294
Profit before tax	4,889	5,542	8,239	7,522	9,491	12,148	12,391	10,201	10,51	10,752	12,5	17,005
Tax	1,171	1,382	2,12	1,909	2,466	2,974	2,955	2,395	2,434	2,446	2,584	3,72
Annual profit	3,718	4,16	6,119	5,613	7,025	9,174	9,436	7,806	8,076	8,306	9,916	13,285

Table 5 The Revenues and Profits of The Lego Group (2010-2021) in millions DKK

We can now look at the line charts of the Revenues and Taxed profits of these 5 TNCs (Figure 6 and Figure 7). The drop in Profits for A.P. Moller – Maersk can be partially explained by the drop in Revenue itself, but, in my opinion, it wouldn't be as bad of a situation for this company, if BEPS Plan and Multilateral Instrument weren't implemented. Still, even such huge drops didn't affect the company that much, as its Revenues are on whole different level in comparison with other 4 TNCs.

Ørsted and The Carlsberg Group overall had a reasonable situation with their revenues, however Profits show a different story. As it is seen in the charts The Carlsberg Group had a rise in Revenue in 2014 - 2015, but at the same time its profits dropped. The same can be said about Ørsted – Revenues and Profits show different pictures in 2012 – 2015. With that being said, for me it is clear that 3 companies above had some ways of shifting their profits and avoiding the correct taxation, but with the help of BEPS Plan or Multilateral Instrument (or both) their true profits were revealed, which lead to severe losses for several years.

As said before, Novo Nordisk's and The Lego Group's Revenues and Profits had a rather normal situation without any sudden falls or rises and they show basically the same picture. So, for these TNCs it can be concluded that BEPS plan and Multilateral Instrument didn't have an effect on them and these companies didn't try to hide their true profit or avoid taxation in any known way.

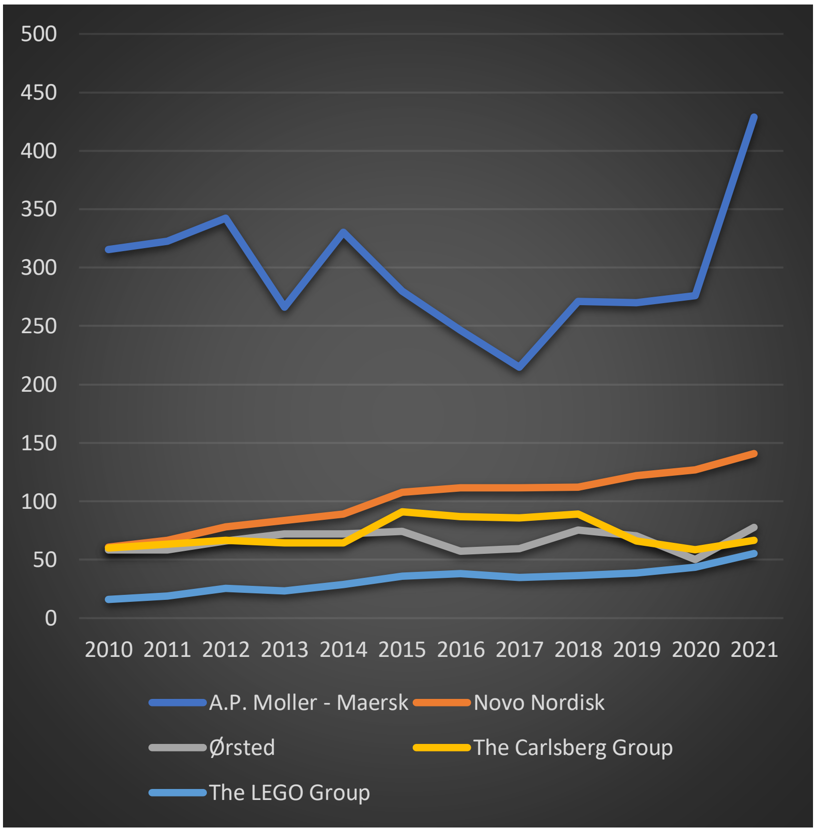

Figure 6 Revenues of 5 TNCs (2010-2021) in millions DKK

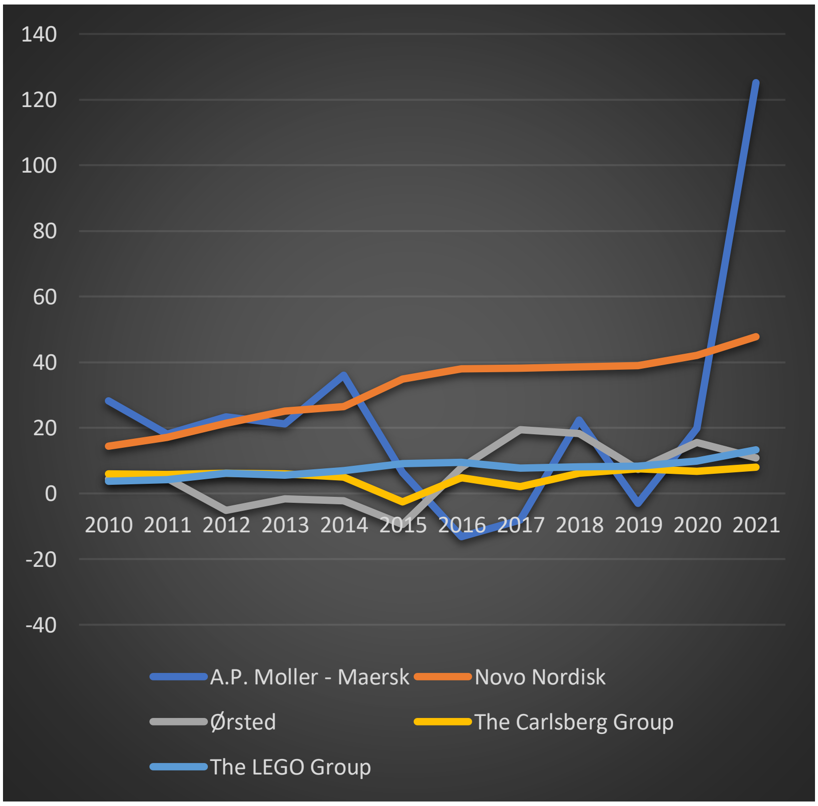

Figure 7 Taxed profits of 5 TNCs (2010-2021) in millions DKK

Conclusion

The current state of the competitive environment and the quality of the investment climate is one of the most important factors hindering the rapid development of the potential of the economy of multinational companies[5]. This circumstance determines the high importance of measures aimed at ensuring equal competitive conditions for various groups of economic entities.

Multinational businesses are specifically regulated by transfer pricing. With the increasing role of multinational business corporations in the global market, tax regulation of TNCs as co-operating entities is becoming increasingly important, both on the part of the states and on the part of the multinational corporations themselves. However, the formation of transfer prices and its mechanism give rise to many problems, such as management and accounting problems. In order to avoid these problems, various methods are used.

With the development of the world economy, the role of TNCs is increasing every year. TNCs have a great influence on the formation of the investment environment, and therefore, it contributes to the development of political, financial and economic spheres. According to UNCTAD, the amount of cash at the disposal of the 100 largest multinational corporations has reached $ 5 trillion, of which $ 0.5 trillion could be invested. TNCs are characterized by their industry orientation and the availability of modern technologies.

The following conclusions should be drawn:

- The regulation of transfer pricing in many enterprises and even countries is carried out with the help of the provisions of the Organizations for Economic Cooperation and Development;
- In the modern state, several transfer pricing methods are used: CUP, Resale price, Cost plus, TNMM, Profit split;

5 Ryadchikov R. V. Strengthening of transnational corporations (TNCs) in the world economy// Special communication and information security: technologies, management, economy. (proceedings of the 3rd International Scientific Symposium, April 25-28, 2014)

- The main principles of transfer pricing are the scientific validity of prices, the principle of price targeting, the principle of continuity of the pricing process and the principle of unity of the pricing process and price compliance control.

Based on the analysis of Revenues and Profits of 5 TNCs in Denmark, it can be concluded that tax regulation of TNCs is of a great importance in the development and formation of the world economy. Introduction of BEPS Plan and the Multilateral Instruments really helped the EU to deal with profit shifting and avoidance of proper taxation of TNCs in different industries. The integration of the world economy, the growth of transnational corporations, the need for mutual use of available resources of different countries leads to a tightening of state control in order to preserve the integrity of the tax base and ensure the safety of the calculated profits of national organizations in the territory of their activities. However, it doesn't mean that BEPS plan or MLI solved the problem entirely. There could potentially be some other strategies, which companies can use to cheat the system. Based on the analysis of the revenues of TNCs, it can be also said that we can expect further economic concentration of capital in TNCs, the growth of their market power, economic and political influence.

References:

1. OECD Annual Report 2008 [Electronic resource] // oecd.org. URL: https://www.oecd.org/newsroom/40556222.pdf
2. CODE OF CONDUCT on transfer pricing documentation for associated enterprises in the EU [Electronic resource] // URL: https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0543:FIN:EN:PD
3. Accuracy-Related Penalties // Internal revenue Code (IRS) Section 6662.
4. Kuznetsov A.V. Transnational corporations in the world / / World and National Economy. -2014. - № 2(29)
5. Annual reports of A.P. Moller – Maersk (2010 – 2021) [Electronic resource] // https://investor.maersk.com/financial-reports?field_nir_event_start_date_value_3=2011#_views-exposed-form-widget-events-table
6. Annual reports of Novo Nordisk (2010 – 2021) [Electronic resource] // https://www.novonordisk.com/sustainable-business/esg-portal/integrated-reporting.html
7. Annual reports of Ørsted (2010 – 2021) [Electronic resource] // https://orsted.com/en/investors/ir-material/financial-reports-and-presentations#financial-reports-presentations-and-fact-sheets-2021
8. Annual reports of The Carlsberg Group (2010 – 2021) [Electronic resource] // https://www.carlsberggroup.com/investor-relations/investor-home/reports-downloads/?year=2022&categories=3583&p=1
9. Annual reports of The Lego Group (2010 – 2021) [Electronic resource] // https://www.lego.com/sv-se/aboutus/lego-group/policies-and-reporting/reports/
10. Ryadchikov R. V. Strengthening of transnational corporations (TNCs) in the world economy// Special communication and information security: technologies, management, economy. (proceedings of the 3rd International Scientific Symposium, April 25-28, 2014)

11. Bazanova E. V. Tax risks when making intra-group transactions may grow [Electronic resource] // Economy. Taxes and fees. 2017. No. 16. URL: https://www.vedomosti.ru/economics/articles/2017/02/20/678333-nalogovie-riski-virasti
12. Action plan to counter the erosion of the tax base and the withdrawal of profits from taxation (BEPS) [Electronic resource] // oecd.org. URL: https://www.oecd.org/ctp/BEPSActionPlan.pdf
13. Multilateral Tax Convention Of June 7, 2017 And New Mechanisms To Prevent TAX Avoidance And Evasion [Electronic resource] // https://elib.bsu.by/bitstream/123456789/193255/1/60-74.pdf
14. Bhimani, A., Horngren, Ch. T., Datar, Sh. M., Foster, G. Management and Cost Accounting. Fourth Ed. Pearson Education Limited. – 2008. – 771p.
15. Business Groups: Between Market and Firm / By James R. Maclean. - 2005. October 14; accessed 2006. May 6
16. Caves R.E. Multinational enterprise and economic analysis (second edition), Cambridge University Press, 1996. P.1
17. Cerioni L. The Possible Introduction of Common Consolidated Base Taxation via Enhanced Cooperation: Some Open issues // European taxation. 2008. № 5. P. 187–195
18. Convention on mutual administrative assistance in tax matters [Electronic resource] // oecd.org. URL: http://www.oecd.org/ctp/exchange-of-tax-information/convention-on-mutual-administrative-assistance-in-tax-matters.htm
19. Glossary of Tax Terms [Electronic resource] // oecd.org. URL: https://www.oecd.org/ctp/glossaryoftaxterms.htm (accessed: 16.02.2020)
20. International Transfer Pricing 2015-2016 [Electronic resource] // pwc.com. P. 704-735 URL: https://www.pwc.com/gr/en/publications/assets/international-transfer-pricing-guide-2015-2016.pdf

21. OECD Releases Progress Report on Addressing Harmful Tax Practices [Electronic resource] // oecd.org. P. 4-13. URL: http://www.oecd.org/ctp/harmful/2664438.pdf
22. OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2017) [Electronic resource] // oecd.org. URL: https://www.oecd-ilibrary.org/taxation/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-2017_tpg-2017-en/5307491.pdf
23. Tax Insights from Transfer Pricing [Electronic resource] // pwc.com. URL: https://www.pwc.com/gx/en/tax/newsletters/pricing-knowledge-network/assets/pwc-oecd-releases-updated-transfer-pricing-guidelines.pdf