Foreign-Invested Enterprises: A Study of the Transfer Pricing Evaluation System and the Quantitative Model

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Abstract

Due to the substantial losses in vast scope, the research team set up the transfer price evaluation and auditing system for foreign-invested firms. Finally, a quantitative model was developed based on the approach that was previously utilised to determine the amount of transitional profit utilising transfer pricing. For this purpose, it is useful to have a transfer pricing approach of tax avoidance that is both possible and effective.

Keywords-transfer pricing; Foreign-invested enterprises; evaluation system

I. Introduction

Our provinces and municipalities have established many advantageous investment policies, which has led to an increase in the number of foreign-invested businesses coming to the nation. At present, there are over 480 multinational businesses in the world's top 500; over 980 of these companies have built up or are investing in different types of R & D facilities, all in the name of research and development. Foreign-invested businesses (FIBs) grow rapidly, serving as an essential part of India. Foreign-invested businesses, particularly foreign-owned, are becoming the primary type of investment in India, although joint ventures are also on the increase.

The real usage of foreign capital is 735.516 billion USD. The cumulative total foreign capital investment in these top five nations and areas amounts to about 70% of India's investment.

Foreign investment in India has boomed, with its resulting decrease in the value of foreign-invested companies and the rising percentage of book return on investment. In fact, the majority of loss-making businesses are not actually operating loss, but simply use a range of tax avoidance methods to create the loss, which is equivalent to about 127 billion yuan in year-end tax avoidance for foreign-invested enterprises. Many foreign-invested businesses have high losses, yet their investment continually increases. The

Many argue that the primary benefit of foreign investment is the way in which transfer pricing is used to garner more profits. Additionally, of India's foreign-invested companies, almost half discovered that they were making use of transfer pricing. This has irreparably harmed the country's revenue base, as well as our joint venture partners' interests [1], [2], [4].

Transfer pricing assessment method and quantitative model of foreign-invested businesses were developed in the study; the model was used to analyse and audit the foreign-invested company's transfer pricing behaviour. On this basis, therefore, create a model to estimate the transfer profit.

II. Transfer Pricing evaluation system

For the time being, the State Administration of Taxation (SAT) intends to focus on enhancing tax collection and management infrastructure and implementing rigorous scientific and precise management. In addition, the organisation intends to quickly speed up the pace of information technology in order to continually improve the quality and efficiency of tax collection and management, as well as transfer pricing problems with foreign-invested enterprises. Combine the existing information resources and design a transfer pricing evaluation system for foreign-invested businesses to assess and audit whether a company practises transfer pricing. Then screen out businesses that engage in transfer pricing and assign an appropriate level of control and rectification to those that do not.

Evaluation system is primarily made use of the data held in tax authorities, and fully utilises all kinds of information, so it employs supplementary questionnaires to analyse and assess the conduct of enterprises, which forms an environment that restricts tax avoidance. This environment is then used to improve the country's anti-avoidance tax work and to protect India's legitimate rights and the Chinese economy's interests in joint ventures.

In Figure 1, we see different data sources and information used in transfer pricing assessment systems, such as the fundamental condition of businesses, the evaluation of financial indices, material linked party transactions, the functions, and the associated risk analysis. First of all, an assessment system forces firms to provide proof of their commercial connections by filing the document called "Returns connected with business relationships." This is also known as self-declaration by businesses. Additionally, the experts are charged with completing the report forms, evaluating, and signing off on the verification links between businesses having foreign investment ties. This finishes the process for connecting a Source to a Sink. Next, with regard to the case selection criteria, inspect the businesses in the Source-sink scenario, and incorporate managed object tracking into the assessment, finding the businesses to be the main target of the subjects, and at the same time, specialist assessors provide the Foreign-invested enterprise declarations of related party transactions form and analyse where there are problems for foreign invested enterprises in a project [3], [4]. Use financial indicators to analyse and audit the behaviour of companies. Businesses that have transfer pricing procedures in place must ensure that their findings satisfy the situation of source-sink.

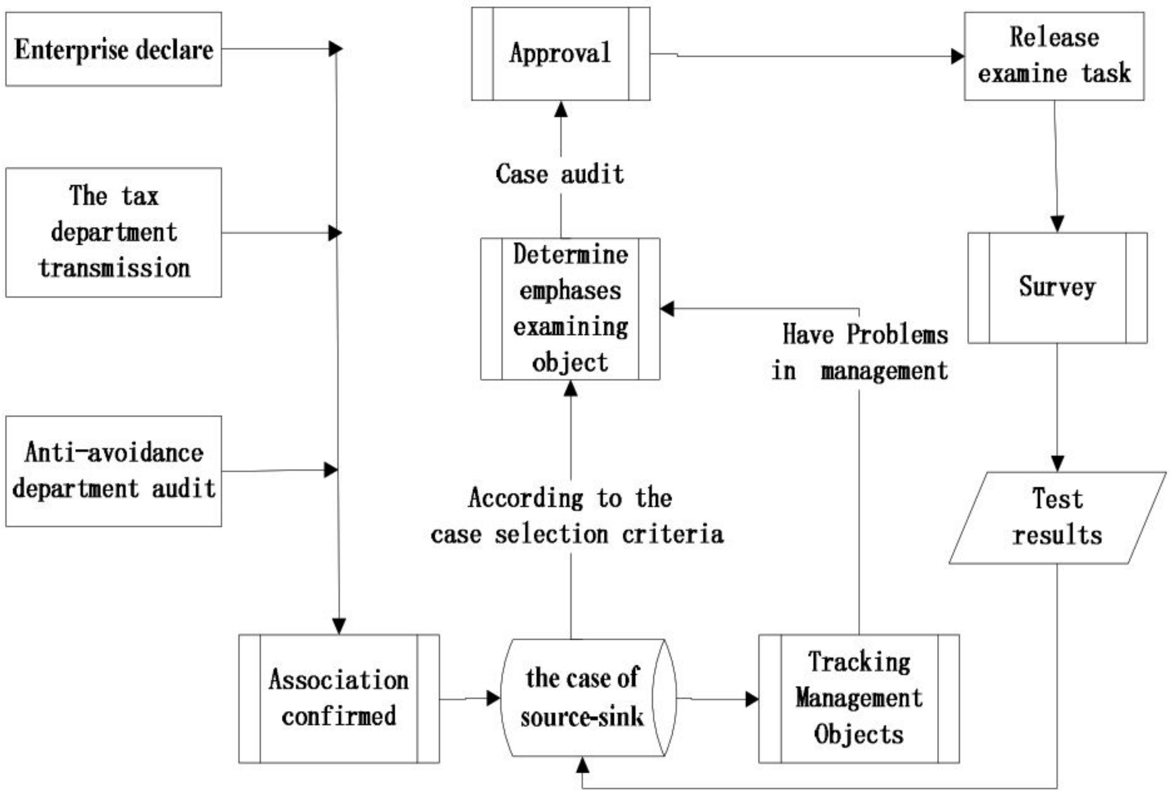

Figure1: Assessment system of transfer pricing

Identify the corporate entities in the study of Source-sink as can be seen in the preceding case studies, the items that have been chosen all have certain characteristics in common. relatively long-term losses but steady growth; poor profitability as compared to competitors in the same sector. For this reason, we have selected companies: profits have been had by loss-making ones; simply have a loss; have more loss, and more expansion as well; loss-making but also were profitable in tax holidays or half-taxed rates; and now they have profits that might be gained by selling assets. These companies often use transfer pricing, and they are generally considered significant objects. The transfer pricing evaluation system does not only identify whether transfer pricing has occurred, but also verifies whether or not transfer pricing activity really exists. So that the tax authorities levy a new tax and take measures such as jail time if the assessment is more than the amount. Transfer pricing is an established methodology for the computation of transfer profits.

III. Measure the transfer profits of foreign-invested enterprises by using transfer pricing.

Our measures of foreign-invested businesses' transfer pricing behaviour use the earnings of state-owned enterprises since transfer pricing data is a company's top-secret information and is not easy to get. Against assess the size of the transfer earnings, contrast the profits of state-owned businesses to the profitability of foreign-invested companies in the same sector. To this end, our country's tax system can deal effectively with investors from outside by adopting a transfer pricing strategy.

The model assumes the following conditions:

In both FIEs and SOEs, the capacities, production technology levels, marketing abilities, and profit margins are equal. Under fully competitive market circumstances, state-owned firms exhibit transfer profits behaviour, which is the tendency to realise higher sales prices while just spending independent transaction costs.

Reinvestment of corporate earnings should not be included when calculating a company's free cash flow. When looking at the corporate income tax rates, do not consider the discrepancies. The foreign-invested businesses' operation time of the effect on earnings should not be taken into consideration.

If the assumptions are correct, we may conclude that foreign-invested and state-owned businesses have the same total cost, and therefore sales of the same quantity of product will provide the same profit, which results in identical profit margins. I define FIEs as FIEs, in which the earnings that are smaller than those of the state-owned businesses may be deemed foreign invested. Foreign-invested companies with cutting-edge technology and professional management have better export performance than state-owned companies, and they pay a smaller tax burden. In fact, net transfer earnings are larger than anticipated. [5],[6]

IV. Analysis and Conclusion

Determine the profit margins of state-owned businesses based on the model's assumptions, and calculate with the same production technology, business environment, and estimates of foreign-invested enterprises on the transfer profits of foreign-invested enterprises. Using the foreign-invested business profit margin from the previous step, as well as state-owned enterprise profit margin, calculate the transfer earnings of foreign-invested firms, and the following result can be found: see table 2.

Foreign-invested companies' transfer earnings may be estimated by their state-owned enterprise counterparts' profit margins. And then via thorough investigation, if there exists transfer pricing and adopt severe punitive actions to safeguard our tax base. Based on the table above, as you can see, the transfer profits have been rising each year, which has impeded our country's economic growth. To this end, we must act to keep our taxes in order to preserve the country's lawful rights and interests.

Table I. The profit margin of foreign-invested enterprises and state-owned enterprises in an area

Unit: 10000

	Foreign invested enterprises			**State-owned enterprises**		
Year	***Sales***	***Cost of sales***	***Margin%***	***Sales***	***Cost of sales***	***Margin%***
2017	101380	84406	0.17	173160	138400	0.2
2018	121520	100504	0.17	186410	148240	0.2
2019	151900	123412	0.19	226080	179170	0.21
2020	189302	155605	0.18	278380	222590	0.2

Table II. The transfer profits of foreign-invested enterprises

Year	***Sales***	***Profit margin% of foreign invested enterprises***	***Profit margin% of state-owned enterprises***	***Transfer rate%***	***Transfer profits***
2017	101380	0.17	0.2	0.03	570
2018	121520	0.17	0.2	0.03	670
2019	151900	0.19	0.21	0.02	570
2020	189320	0.18	0.2	0.02	760

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