The influence of international offshore jurisdictions on the pricing strategy

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Abstract

The article analyzes the causes of offshore jurisdictions and identifies the effects of offshore on national economies. An analysis of the implementation of export-import operations carried out by offshore companies in order to influence the pricing process. The pricing mechanism with affiliates within offshore jurisdictions was presented. It was substantiated the role of offshore banks in the implementation of the pricing mechanism. It was presented the pricing mechanisms within offshore jurisdictions. It has been made an analysis of the impact of transfer pricing within offshore jurisdictions. It was substantiated the economic mechanism of pricing. The international experience of regulation of offshore jurisdictions and the system of controlling the operations of affiliates was analyzed. It was substantiated the mechanisms of functioning of offshore zones and companies operating in offshore jurisdictions.

The relationship between agreements concluded within offshore jurisdictions in the following areas is established and substantiated: the agreement is concluded between two independent companies in case of underpricing; the agreement is concluded between the companies connected with the capital relations (affiliated companies) at understatement of the price; agreements between two independent companies in case of overpricing; agreements between affiliated companies in case of overpricing. It was justified the use of the transfer pricing mechanism within offshore jurisdictions. Transfer prices allow you to withdraw capital from the country, as well as hide the profits of companies from taxation. The following ways of minimizing taxation are systematized: registration of a company that concentrates profits in a jurisdiction with lower taxation; concentration of profits in companies that are unprofitable according to management accounting; the use of front companies as sales companies in which profits are concentrated; non-payment of taxes as a result of illegal liquidation of the enterprise - the taxpayer, where the profit is concentrated. The basis of tax minimization is the use in the transaction of a price that deviates from the market.

Keywords: offshore zones, pricing mechanism, affiliates, transfer prices.

Introduction

The strategic principles of pricing in the context of international relations depend on the tax jurisdictions of enterprises. The reduction of the tax base in the process of pricing in international activities and world trade is realized through the mechanisms of offshore zones. In this aspect, the strategic principles of pricing are implemented through a system of transfer pricing.

The main purpose of transfer prices is to "transfer" the tax base to an affiliate who is in a more favorable tax regime. These include various tax preferences, including the status of a resident of an offshore zone, the provision of tax holidays, the application of preferential tax rates, the right to use other tax benefits. In this
case, such a transfer is usually carried out by manipulating the price of transactions. Another reason for using the transfer pricing mechanism is double taxation, which is distributed in favor of the foreign profit participant.

It should be noted that the emergence of the concept of transfer pricing is possible in the existence of international agreements on preferential tax zones, namely on offshore zones. The creation of offshore allows you to implement transfer pricing in practice. In this aspect, it is of scientific interest to study the mechanism of the impact of offshore and offshore zones on the strategic principles of pricing in the context of the use of transfer pricing.

Problems of strategic pricing are reflected in the scientific works of leading foreign and domestic scientists, which include: F. Kotler (Kotler F., 2012), M. Porter (Porter M., 2001), P. Drucker (Drucker P., 2004), N. Revutska (Revutska N., 2013), M. Oklander (Oklander M., 2020), O. Chukurna (Chukurna O., 2015; 2020) and others. Despite the significant contribution of these scientists to the development of the concept of pricing, the problem of the impact of offshore jurisdictions on the strategic principles of pricing requires systematic research.

**Material and methods**

The study uses economic and statistical research methods in the analysis of global trends in the offshore development; theoretical and methodological approaches in the formation of forming the transfer price; grouping and classification - when analyzing various offshore zones and grouping them according to similar characteristics.

**Results and discussion**

An offshore zone means a territory in which non-resident enterprises receive special tax benefits, are exempt from payments, the system of company registration, licensing, and accounting is facilitated for them. A feature of offshore zones is the predominance of investments by non-resident companies in the country's economy compared to domestic enterprises.

Offshore ("offshore") includes legal entities that are registered in a jurisdiction with preferential taxation, in the absence of currency control. It is a company that does not conduct business in the country of its registration, and the owners of these companies are non-residents of these countries. The basis for the emergence of offshore companies is the legislation of countries that partially or completely exempts from taxation companies that do not do business in the country of registration. For full-fledged offshore work in any country, it is necessary to conclude an international agreement on the avoidance of double taxation of this country with the country of registration of the offshore. Otherwise, the offshore is subject to taxation of the country where it operates.

From the point of view of international law, an offshore company is an independent legal entity that operates in accordance with the laws of the country of registration. Currently, there are about 60 countries in the world that provide tax benefits for offshore companies. Offshore companies have the right to open an unlimited number of accounts in any bank in the world. In fact, their activities are not accountable to anyone, and in most offshore zones, annual reporting is reduced to a fixed fee.

Countries where offshore companies are registered can be divided into several categories:

1. Small states, islands with a low level of development of their own economy, but with a fairly high political stability (Bahamas, British Virgin Islands, Vanuatu, Seychelles, etc.). Naturally, these states do not impose any reporting requirements, the only requirement is to make, typically, an annual fixed fee to the treasury. Usually in such countries there is no
register of shareholders and directors, the confidentiality of ownership of such a company is very high.

2. States where, in addition to offshore companies, there are ordinary (onshore) territories, which may belong to non-residents, but if they conduct business within that country, they may lose preferential tax-free status. In order to prove that the company has not conducted such activities, these countries usually need to be audited and submitted annually. The governments of these states have tighter controls than in the previously mentioned ones, a register of directors and shareholders, but the prestige of companies must be much higher. These are Cyprus, Ireland, Gibraltar, Luxembourg, Switzerland, the Isle of Man and others.

3. The third group of countries includes the United States, Great Britain, and Canada. In these countries, everything is open, taxes and fees must be paid, and registers of directors and shareholders are maintained. However, there are organizational and legal forms that allow you to operate quietly, paying only a fixed fee. There are a total of 74 offshore states worldwide (as of October 21, 2021, according to the EU), which can be divided into groups depending on the prestige and level of cooperation with the EU and the International Monetary Fund, as well as with other organizations and reliability.

Offshore businesses are non-resident legal organizations that are registered in offshore zones and must conduct their activities outside of this territory. Ownership of offshore companies is carried out on an anonymous basis with high guarantees of confidentiality, offshore companies are exempt from the bulk of taxes, it is not necessary to maintain strict accounting records and documentation, there is no audit of companies by the state, tax services, and audit firms.

When it comes to commercial activities, offshoring is often referred to as outsourcing. It is the process or act of establishing certain business areas, such as manufacturing or specialized, highly specialized or functional centers, in a country other than the location of the company.

This is necessary in order to take advantage of more favorable and favorable conditions in another country, due to low wage requirements or simplified rules for maintaining records and records, which can lead to significant cost savings for the business. Companies with significant overseas sales, such as Apple and Microsoft, can take advantage of the opportunity to keep related profits in offshore accounts in countries with lower tax burdens.

The opening of offshore companies can be done both independently and with the involvement of consulting companies. There are a number of companies on the Ukrainian market that are ready to fully organize the registration and selection of a profitable offshore company for a certain fee. In addition, they quite often accompany the workflow and maintain accounting and management records.

The main negative side of using offshore zones as tax jurisdictions is avoiding paying taxes in one's own country, which leads to a loss of funds by the state and the withdrawal of significant amounts of finance from the resident country.

The state loses a significant part of taxpayers, in addition, illegal operations are carried out through offshore companies, which makes it impossible to arrest corrupt officials, makes it difficult to track the movement of funds and encourages the development and functioning of the shadow economy. In addition, the fight against economic crimes becomes more complicated, since they are of a long-term temporary nature and expand geographically, not being limited to one country and one legal entity. In the case of interregional offenses, they can be tracked within one state, but as offshore financial centers are attracted, with a high level of secrecy and anonymity of beneficiaries, most often the funds disappear without a trace. In this situation, it becomes extremely difficult to track all settlements to the final beneficiary, and in some cases, it is impossible.

The economies of the countries suffer
significant damage from actions related to the use of false import contracts, grant outflow of capital abroad, embezzlement of public funds and illegal financial transactions. States lose about $427 million annually offshore, according to Tax Justice Network (Tax Justice Network, 2021): «An $21 to $32 trillion in financial assets are sitting offshore in tax havens. Due to the secrecy that pervades the tax haven system, precise numbers are hard to come by so estimates can vary. The Tax Justice Network estimates that $427 billion is tax is lost every year to tax havens» (Tax Justice Network, 2021).

In addition to the obvious financial losses, offshore zones also damage the employment of civilized countries. To save on labor, many large companies hire firms or directly recruit staff, where labor is cheaper or where it is possible to use labor of non-residents of the country on the basis of outsourcing agreements. Thus, offshoring understates the demand for local labor in the country where the company is physically located, which leads to an increase in unemployment among the local population.

Another major danger of creating offshore zones is the financing of terrorism. In connection with the latest events in Afghanistan, in the territories where there are military conflicts and terrorist groups, the interest in offshore zones will increase on the part of intelligence services, international organizations, the IMF and the European Union. The reason for this is the sponsorship of terrorism through financial transactions that travel through offshore zones.

It is for these reasons that there are a number of international organizations for the control and accounting of offshore zones, tax havens, zones with special economic conditions. Some organizations founded through the European Union (FATF), international foundations, such as the IMF, local UK organizations (Oxfam, Tax Justice Network), international economic organizations of developed countries (Organization for Economic Cooperation and Development). All of them keep records of offshore territories and divide them according to the level of cooperation and openess. In addition to international large organizations, each country has its own legislation in relation to such jurisdictions. The laws of various countries may prohibit cooperation with such companies or restrict their activities.

The Financial Action Task Force (FATF) is an organization for the control of money laundering and the financing of terrorism. An intergovernmental organization founded after the G7 summit in France in 1989 due to heightened concerns about money laundering, which greatly affects the global banking system and economic institutions. G-7 Heads of State and European Commission President Convene FATF of G7 Members, EU Commission and Eight Other Countries (FATF, 2021).

Their task was to study techniques and trends in the field of money laundering, to analyze the measures that have been taken or are being taken by states to counter illegal money transactions. Literally a year after the organization was founded in 1990, 40 recommendations on combating money laundering were presented, which provided a clear understanding of how to build measures to combat money laundering.

In 2001, 8 more recommendations on combating the financing of terrorism were added, in 2004, a ninth recommendation was added, and at the moment they are collected in one whole and are called "40 + 9 recommendations". In addition, the FATF provides a gray and black list of offshore countries (FATF, 2021).

High-risk countries have significant strategic flaws in their anti-money laundering, terrorist financing and proliferation financing regimes. For all countries identified as high risk, the FATF encourages all members and strongly encourages all jurisdictions to apply the increased necessary caution, and in the most serious cases, it recommends the use of countermeasures to protect the international financial system from ongoing financial wrongdoing. This list is often referred to as a "black list". This list includes only two countries.
the Democratic People's Republic of Korea and Iran (FATF, 2021).

The tightly controlled countries are actively working with the FATF to address strategic deficiencies in their anti-money laundering, terrorist financing and proliferation financing regimes. When the FATF subjects a jurisdiction to enhanced monitoring, it means that the country is committed to quickly addressing identified strategic deficiencies within an agreed time frame and is subject to enhanced monitoring. This list is often referred to as a "gray list". There are 23 countries on the gray list and two countries left the list - Botswana and Mauritius (FATF, October 2021).

“The International Monetary Fund (IMF) instead of using the term “tax haven,” summarizes a quite corresponding list under the term “offshore financial centers,” especially since this list is intent to include those countries whose financial strength goes far beyond their own economic performance. The fact that the IMF also distinguishes between regional and offshore financial centers makes it possible for potential tax havens to be listed as offshore financial centers. In the capital market, it usually goes to whoever earned it, or where it gets the lowest tax” (The most popular tax havens worldwide, 2021).

Oxfam is a global movement of people who are fighting inequality to end poverty and injustice. Across regions, from the local to the global, they work with people to bring change that lasts.

Oxfam is a non-governmental organization situates itself in Oxford, England. It is an amalgamation of numerous aid and development organizations focused on development assistance and poverty reduction. Oxfam constantly analyzes many countries and at the end of 2018, independently of other lists, places 35 countries on its own blacklist. The list of 35 countries also includes 4 EU states – Ireland, Luxembourg, Malta and the Netherlands. Oxfam's list is actually based on the exact same 92 states that also being studied by the European Commission. Oxfam also studied 28 EU countries and came up with excellent results from other organizations (The most popular tax havens worldwide, 2021).

The European Commission has created its own list, in cooperation with the FATF and other organizations, a list of non-EU countries, and divided them into three groups:

- Cooperates with the EU and fulfills all its obligations (meets the criteria at the time of the last edition);

- Cooperates with the EU and fulfills its obligations (the status will be regularly reviewed);

- Listed: does not cooperate with the EU or has not fully fulfilled its obligations (the status will be regularly reviewed).

The Council adopted the first EU list on 5 December 2017. It has been updated several times since then. More significant changes took place in March 2019 and February 2020. They coincide with the late 2018 and late 2019 deadlines when jurisdictions must meet their initial commitments (Council of the European Union, 2021).

Analyzing the mechanisms of functioning of offshore zones, it can be argued that offshore zones constitute a special class of free economic zones. The main difference between them is that the enterprises registered in them do not have the right to carry out any production activities.

The main feature of offshore jurisdiction is the preferential nature of taxation. Tax benefits for companies registered in offshore areas are very significant and usually represent a complete exemption from all local taxes. Offshore companies are required to pay only a one-time registration fee and pay an annual fee, the rates of which are usually fixed and do not depend on the commercial activity of the offshore company.

Another feature that distinguishes offshore zones is the ban on commercial transactions in the country of registration of the offshore company. By founding an offshore company, companies receive not only tax benefits, but also loyalty to government regulation, a high
level of banking and commercial secrecy, anonymity of the real owners of companies. Speaking of the last aspect, it is important to note that the disclosure of real names is possible only in extraordinary cases.

Preferential treatment in offshore zones is also determined by the absence of customs duties and fees for foreign investors, the absence of currency restrictions, free export of profits, a low level of minimum authorized capital. Another important factor offshore is the stability of this regime. Usually within 15-25 years from the moment of registration of the offshore company the investor is guaranteed from unfavorable for him changes in the offshore zone.

However, despite the existence of such a preferential regime, including registration, to register in the offshore zone is not so easy. Another feature of the creation of offshore zones is that they are virtually distrustful of government agencies. At the same time, the benefit for the state is that by creating offshore zones on its territory, the country contributes to attracting foreign investment, increasing the number of new jobs, which contributes to economic development. Thus, offshore is beneficial to almost all parties involved in them and businesses, and the state and the population of the zone. At the same time, the creation of offshore promotes the outflow of capital from resident countries. In order to regulate this issue and counteract the outflow of capital from national economies to offshore zones, the Financial Stability Forum was established in 1999 and included representatives of central banks and treasuries, supervisors and regulators, organizations for the development and implementation of international standards, and experts in assessing the financial systems of different countries.

Depending on the purpose of the business, there are standard types of offshore companies, which are located in preferential tax jurisdictions. Their main types are:

1. Trade and intermediary firms: export-import firms; purchasing and distribution companies.
2. Holding type companies: operational holding companies; investment companies; ship ownership companies; real estate companies; companies for the ownership of industrial property.
3. Financial companies: offshore banks; financial intermediary companies; enterprises of the insurance sector; general insurance companies; reinsurance companies.

Holding companies are created to control other trading and manufacturing companies through the ownership of their shares, to finance them and to accumulate their interest, dividends and royalties. The largest number of such holdings is located in Liechtenstein (about 20,000), Switzerland (about 10,000) and Luxembourg (about 2,000). There are some benefits for holdings in the Netherlands as well – dividends received by a local company from participation in the capital of other companies are not taxed here.

Investment companies are created in offshore centers usually in the form of funds and trusts, whose assets consist of securities, other property and cash. Based on these assets, they can issue their own shares. Investment companies in the form of funds are usually managed by specially created subsidiaries, the founders of which are the founders of the funds. The status of a fund requires the presence of a trustee, who can be a local bank, and a financial advisor, whose functions can be performed by a brokerage firm or a commercial bank from any large international financial center.

Banks are established in offshore areas primarily to open and maintain bank accounts for depositors from countries with high taxes and tight currency controls, as well as to conduct operations in the Eurocurrency market. Therefore, many such financial institutions are registered in the main centers of the Eurocurrency market - primarily in Luxembourg, Switzerland and Liechtenstein, as well as in Singapore, Bahrain, the Cayman Islands and the Bahamas. In total, there are several thousand offshore banks, through which, according to
some estimates, passes up to half of the international capital movement. Thus, in most cases, offshore banks are created for specific projects and financial schemes.

The efficiency of offshore banks is much higher than that of ordinary banks, because, firstly, they operate in a preferential tax regime, and secondly, they do not incur representation costs. Insurance companies in these countries and territories are opened mainly by groups of companies for their needs. There are about one and a half thousand such companies in the world, mainly in Bermuda and the Bahamas, as well as in the Turks, Caicos Islands, Maine and Terns.

The use of offshore banks allows companies located in the tax jurisdiction of offshore zones to insure their finances from taxation of profits and other financial assets from unexpected losses in the event of a bank closing, liquidation or arrest in conditions of economic and political instability. An example of such a situation can be the Argentine crisis in 2001, when the Minister of Economy D. Cavayo took measures to suspend the use of bank accounts in order to prevent the cashing of bank funds (The Argentine Crisis 2001/2002).

Ensuring high secrecy and anonymity of clients of Swiss banks provokes frequent checks by international organizations such as the International Group on Combating Money Laundering (FATF) or by the IMF. At the same time, Switzerland is on the gray lists of offshore territories and belongs to the third type of zones with special economic conditions.

One of the types of formalization of an offshore jurisdiction is an offshore trust, which is a trust agreement or a company that is created in a jurisdiction outside the country of actual location. An offshore trust usually only holds assets outside the home country. Such a trust is one of the most famous planning tools for the protection of offshore assets. An offshore trust is most often a “self-governing trust” in which the trustee and the beneficiary are the same person. The trustee appoints a trustee who is either a foreign national or a trust company that does not have an office or affiliation in its actual location.

The activity of an offshore trust is the transfer of assets by the beneficiary to the trustee of the trust company for their safety, with the subsequent increase and issuance of payments to the beneficiary, in accordance with the terms of the contract.

A foreign offshore asset protection trust may have additional people acting as advisors to the trust or as defenders of the trust. Consultants and advocates help manage and protect the offshore trust and its assets without having any beneficial interest in the trust property. The defender may be given the right to change trustees, reallocate beneficial interests, or direct investments in trust assets.

Offshore trusts have the following characteristics:

- The trust company is irrevocable;
- The trust gives the trustee the discretion to withhold payment;
- The grantor is not a trustee;
- The trust grants the trustee the discretionary power to withhold payment from the beneficiary;
- The trustee can be a foreign trust company or financial institution;
- Sometimes a partner or consultant can act as defenders of the trust if they are not located in the country of their actual location;
- The trust explicitly states that the location of the trust (the so-called situs - the location of property or object for legal purposes) governs the terms of the trust;
- The only asset of the trust is 100% ownership in a foreign limited liability company or other enterprise that can be controlled by the debtor when it is not under arrest by the creditor.

One of the participants in the creation of offshore jurisdictions is the Offshore Captive Company - a special purpose insurance company registered outside the country, which is the insurer of risks. Tax planning may be the motive for using Offshore Captive Company. As the Offshore Captive Company spreads, the
regulatory differences between onshore and offshore companies become significantly smaller. Offshore domiciles (registered offices of firms) widely used for doing business in North America include Barbados, Bermuda, British Virgin Islands and Grand Caymans. Offshores for European source businesses include Dublin, Guernsey, Isle of Man and Luxembourg. An Asian origin business can use Hong Kong.

Thus, offshore companies of all types have the following characteristics in common:

- are non-residents in relation to the country of legal registration, which means that the management office is located outside the country of registration;
- do not have the right to conduct their activities in the territory of the country of registration;
- are exempt from the bulk of taxes;
- high level of confidentiality and anonymity of company managers;
- facilitated currency control, absence or presence of nominal audits, simplified reporting system.

Manufacturing companies are established in those countries and territories where there are free economic zones. The Shannon Free Zone (Ireland) has the largest concentration of such companies. Offshore trading companies are based in those offshore centers that are geographically close to the main geographical regions of their activities.

However, such a large number of different types of offshore companies does not expand the list of their main activities. These are mainly various export-import operations. The general scheme of the export-import operation of an offshore company lays in the following statements. An offshore company enters into two contracts at once. One with a supplier-exporter to supply the importing country with a consignment of goods at a minimum price. Another contract is already concluded with the importing country for the supply of the same consignment of goods at a higher price. The difference in the price of the first and second contract remains with the offshore company.

Export-import operations used by offshore companies can be realized at lower and inflated prices with both independent and affiliated companies. As a rule, these agreements are implemented in the following areas:

- an agreement is concluded between two independent companies when the price is understated;
- the agreement is concluded between the companies connected with the capital relations (affiliated companies) at understatement of the price;
- agreements between two independent companies in case of overpricing;
- agreements between affiliated companies in case of overpricing.

In order to identify the essence of the economic mechanism of transfer pricing, consider the schemes of implementation of all four agreements.

Let’s analyze the situation when an agreement is concluded between two independent companies when the price is understated (табл.1).

### Table 1 – Scheme of an agreement between two independent companies at a price reduction

<table>
<thead>
<tr>
<th>Exporter Country A (Company X)</th>
<th>Importer Country B (Company Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export price, USD</td>
<td>150</td>
</tr>
<tr>
<td>Production costs, USD</td>
<td>100</td>
</tr>
<tr>
<td>Profit before tax, USD</td>
<td>50</td>
</tr>
<tr>
<td>Corporate tax (40%)</td>
<td>20</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total company profits</strong></td>
<td><strong>$ 54</strong></td>
</tr>
</tbody>
</table>

Suppose the cost of producing goods in country A is $ 100, the export price is $ 150. So the profit will be $ 50. In this case, the corporate income tax in country A is 40%, and in the country of importer B - 20%. Then in country A, company X must pay a tax
of $ 20 on its income of $ 50. In this case, its net profit will be $ 30. In the country of the importer, company Y imports goods for $ 150 and sells them for $ 180, i.e., the profit will be $ 30, and after paying the tax (20%) - $ 24. The company's total profit will be $ 54.

If the agreement is concluded between companies related to capital relations (affiliated companies) when the price is understated, then the transfer pricing mechanism will be as follows (Table 2).

Table 2 – Scheme of the agreement between affiliated companies at price reduction

<table>
<thead>
<tr>
<th>Exporter Country A (Company X)</th>
<th>Importer Country B (Company Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export price, USD</td>
<td>120</td>
</tr>
<tr>
<td>Production costs, USD</td>
<td>100</td>
</tr>
<tr>
<td>Profit before tax, USD</td>
<td>20</td>
</tr>
<tr>
<td>Corporate tax (40%)</td>
<td>8</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>12</td>
</tr>
<tr>
<td>Total company profits = 60 USD</td>
<td></td>
</tr>
</tbody>
</table>

The situation when a company that exports products, it is more profitable to inflate prices in order to leave a large profit in their country, where more favorable tax conditions, are discussed in Table 4.

Table 4 – Scheme of the agreement between affiliated companies at the overestimation of the price

<table>
<thead>
<tr>
<th>Exporter Country A (Company X)</th>
<th>Importer Country B (Company Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export price, USD</td>
<td>180</td>
</tr>
<tr>
<td>Production costs, USD</td>
<td>100</td>
</tr>
<tr>
<td>Profit before tax, USD</td>
<td>80</td>
</tr>
<tr>
<td>Corporate tax (20%)</td>
<td>16</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>64</td>
</tr>
<tr>
<td>Total company profits = 80 USD</td>
<td></td>
</tr>
</tbody>
</table>

The calculation shows that in a country where the level of taxation is low, it is more profitable for an affiliate company to sell goods at a reduced price, and, on the contrary, in a country where the level of taxation is high, at an inflated price. The
level of the transfer price is carefully calculated. The transfer price should not be too low to motivate the production unit, which could sell this product in the domestic market, selling it through the traditional distribution network.

In order to maintain the level of competitiveness of the unit in foreign markets, the transfer price should not be too high. On the other hand, the price in a foreign market should not be lower than the domestic price of a similar product in the exporting country, otherwise competitors in the importing country may accuse the company of dumping. In addition, the calculation of the transfer price takes into account the legal and administrative restrictions in the respective countries regarding the level of deviation of the foreign trade price from normal world prices. Any of the companies that are part of one TNC, in the implementation of the transfer pricing mechanism may incur losses, but not go bankrupt, because the total amount of cumulative profits is taken into account.

Thus, we can say that, in essence, offshore companies receive income from maneuvering the tax base. In offshore business, the center of tax located in the offshore zone. In a broad sense, the business carried out in the offshore zone is based on operations to regulate intra-firm prices. It is the fact that an offshore firm is controlled by one investor that creates opportunities for profit in the form of tax minimization.

Transfer prices allow you to withdraw capital from the country, as well as hide the profits of companies from taxation. When selling goods to foreign subsidiaries or foreign subsidiaries, the company may set a minimum or understated selling price and reduce customs duties when crossing the border, or set a maximum or inflated price to minimize taxes, circumvent restrictions on dividend refunds or withdraw the largest amount of cash from partner. In general, the company is interested in using low transfer prices in countries where taxes are lower than in the domestic market, and vice versa. This causes serious damage to the national interests of the countries concerned and is sharply criticized by government and, above all, tax and customs authorities.

In Fig.1. the scheme of distribution of profit and taxes in the holding structure and the process of planning is the company's profit center, which is the formation of the transfer price are shown.

Figure 1 – The scheme of distribution of profits and taxes in the holding structure and the process of forming the transfer price

Based on this scheme, it can be displayed in which case the sales company using certain tax benefits or operating in the region with low taxation, reduces the tax burden due to the fact that the main profit is concentrated in the sales company.

Using transfer pricing in transactions between related (affiliated) persons, the following ways of minimizing taxation should be identified: registration of a company that concentrates profits in a jurisdiction with lower taxation; concentration of profits in companies that are unprofitable according to management accounting; the use of front companies as sales companies in which profits are concentrated; non-payment of taxes as a result of illegal liquidation of the enterprise - the taxpayer, where the profit is concentrated. The basis of tax minimization is the use in the transaction of a price that deviates from the market.

Thus, considering the economic mechanism of transfer pricing, it is necessary to generalize the methodology of transfer pricing taking into account the methods of its legislative regulation. In the field of transfer pricing, legislative regulation is a decisive factor influencing the pricing process.

Conclusions

In such a rank, it is possible to say that, for their own sutta, offshore companies will receive a way of maneuvering as a tilt base. In the offshore business, the center of taxation is the center of the company’s arrival, which is used to move to the offshore zone. In the broadest sense of business, to go to offshore business is based on operations with the regulation of internal prices. The very fact that the offshore company is under the control of one investor, who has the opportunity to deny the arrival at the expense of minimizing taxes.

Transfer prices allow you to withdraw capital from the country, as well as hide the profits of companies from taxation. When selling goods to foreign subsidiaries or foreign subsidiaries, the company may set a minimum or undercut selling price and reduce customs duties when crossing the border, or set a maximum or overpriced price to minimize taxes, circumvent dividend refund restrictions, or withdraw the largest amount of cash dependent partner. In general, the company is interested in using low transfer prices in countries where taxes are lower than in the domestic market, and vice versa. This causes serious damage to the national interests of the countries concerned and is sharply criticized by government and, above all, tax and customs authorities.

Thus, considering the economic mechanism of transfer pricing, it is necessary to generalize the methodology of transfer pricing taking into account the methods of its legislative regulation. In the area of transfer pricing, legal regulation is a decisive factor influencing the pricing process.

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