

The Ethics of Transfer Pricing: Corporate Social Responsibility, Accountability, and the Tax Avoidance Dilemma

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Abstract

Transfer pricing serves as a fundamental mechanism for multinational enterprises in managing cross-border operations, yet it presents significant ethical challenges when used for aggressive tax avoidance. This concept paper discusses the two sides of transfer pricing as a strategic business instrument and a possible aggressive tax avoidance tool. It explores the regulatory issues and the ethical considerations of transfer pricing practices with particular emphasis on the position of the tax authorities, multinational corporations, intermediaries and the changing regulatory environment. The paper highlights the increased significance of transparency, corporate social responsibility (CSR) and ethical governance in dealing with the risks related to transfer pricing. The paper ends with the recommendations on how to improve global coordination, better governance of taxes, and encourage responsible taxation by multinational enterprises. The paper proposes a new approach to transfer pricing that aligns with CSR principles, suggesting three key reforms: incorporating tax disclosures into sustainability reports, implementing OECD guidelines as ethical standards, and establishing collaborative forums for tax policy development. By redefining responsible tax behavior as a core component of corporate citizenship, this research provides practical guidance for business leaders and contributes to ongoing discussions about ethical governance in global business

Keywords: *Aggressive Tax Avoidance; Base Erosion and Profit Shifting (BEPS); Corporate Social Responsibility (CSR); Transfer pricing; Tax Governance*

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INTRODUCTION

Transfer pricing is highly controversial and complicated field in international taxation. It is the pricing of goods, services and intangible assets between associated parties within multinational enterprises (MNEs) in many cases across tax jurisdictions. Although transfer pricing is a normal business practice that aims to distribute profits according to the creation of value, it becomes a priority of tax authorities and policymakers as it can be used to engage in erosion and profit shifting (BEPS). The unclear boundary between legal tax planning and aggressive tax avoidance has raised serious concerns about fairness, compliance, and good tax governance. Such high-profile tax controversies and enquiries in recent years have shown how MNEs can use transfer prices to move profits between high-tax and low-tax jurisdictions to undermine national tax bases (Sebele-Mpofu et al., 2021). Love (2024) noted that such practices do not only compromise the integrity of tax systems but also lead to global inequality particularly on the taxing capacities of developing nations. As a reaction, the Organisation for Economic Co-operation and Development (OECD) proposed a broad BEPS Action Plan that would involve reforms that would enhance transfer pricing documentation, transparency, and dispute resolution (OECD, 2022). Nevertheless, even with the efforts made, there are still great challenges. These are uneven application among countries, challenges in using the arm length principle in the digital economy, and the inability of many tax administrations to audit multinational transactions that are complex. Moreover, the increasing focus on tax morality and corporate social responsibility (CSR) has introduced the ethical aspect of the transfer pricing strategies, as the stakeholders are no longer interested in the legality only, but in the fairness of the corporate tax practices. This paper seeks to critically discuss the duality of transfer pricing as either a strategic business tool of efficiency or a suspicious tax avoidance mechanism. Conversely, aggressive transfer pricing may result in base erosion and profit shifting (BEPS), which transfers taxable income in high-tax jurisdiction to low-tax jurisdiction, where little or no economic activity is present. It will examine the changing regulation environment, evaluate the risks involved and examine the apportionment of responsibility between corporations, tax authorities and intermediaries.

LITERATURE REVIEW

Transfer pricing sits at the center of tax issues worldwide, particularly with respect to the growing mobility of capital, digital economies, and growing calls by the population to increase tax transparency.

Strategic Use vs. Abuse of Transfer Pricing

Transfer pricing is a strategic financial instrument, as well as a possible avenue of tax abuse, that is, one of the most examined practices in international taxation. Sains et al. (2023) highlight that although transfer pricing is a vital tool in regulating intra- group transactions and the allocation of resources within multinational enterprises (MNEs), it is also a source of tax planning possibilities that can be beyond ethical or legal limits. This duality makes it hard to differentiate between compliant behavior and aggressive tax avoidance. One of the issues is the transfer of intangible assets including patents, trademarks, software and brand value to related parties. The transfer of intangible assets such as patents and software into low-tax jurisdictions is a common tactic that undermines the arm's-length principle (Ferreira, 2024).

Moyo & Liu (2022) shows the nature of transfer pricing in tax avoidance among multinational enterprises (MNEs) in developing countries. The study observed that transfer pricing is a widely used practice by MNEs to shift profits in high tax jurisdiction to low tax jurisdiction to minimize their tax cost. According to Sebele-Mpofu et al. (2021), the discrepancy between tax laws in MNEs and local governments encourages MNEs to shift profits. This in turn exacerbates, or at least indicates a base-eroding shift toward profitability increasingly outside the tax net in these economies. Moreover, Nuraini (2025) even warns that transfer pricing is part of a complex network of tax avoidance mechanisms and advocates for changes in law that can address all such issues holistically. These studies collectively show the various ethical, economic and social facets of transfer pricing and its regulation.

Regulatory Response and Global Reforms

The OECD's BEPS Action Plan, particularly Action 13 (Country-by-Country Reporting), aims to increase tax transparency by requiring MNEs to disclose revenue, profits, taxes paid across jurisdictions. Action 13 is one of the most basic components of this plan and it entails that multinational enterprises (MNEs) report Country-by-Country Reporting (CbCR). However, the effectiveness of these measures is compromised in low-income jurisdictions, where enforcement capabilities are limited.

Table 1: Comparison of BEPs Action 13 and CbCR effectiveness

Region	Action Plan Implementation	Key Challenges	Effectiveness of CbCR
High-Income	Well-implemented in OECD countries	Uneven enforcement across different jurisdictions	High, but some loopholes exist
Low-Income	Limited implementation	Lack of technical expertise and resources	Low, enforcement is limited
Developing Countries	Inconsistent application	Poor infrastructure and institutional capacity	Moderate, effectiveness varies

The table above shows the different of the implementation of Action 13 and the Country-by-Country Reporting (CbCR) requirements in different regions. According to Tuinsma et al. (2025), the introduction of Country-by-Country Reporting (CbCR) has enhanced transparency in high-income jurisdictions, but its effectiveness is reduced in low-income jurisdictions where enforcement capabilities are limited. Nonetheless, O Sullivan et al. (2022) mention that the effects of BEPS measures are not consistent among countries. Although implementing and enforcing measures have been progressed in high-income countries, developing countries are usually bound by technical competence, data infrastructure, and institutional capacity. The conventional use of arm length principle (ALP) of international tax is being challenged more in the digital era. Moreover, the digital economy has highlighted problems with the arm's length principle as creating value often means using intangible assets and data-intensive business models that do not fit traditional valuation procedures (Rushkovskiy, & Rasshyvalov, 2023).

One big challenge with CSR-driven reforms is how companies are going to fit tax disclosures into their sustainability reports. In addition to making reconciliations for tax figures along with other CSR indicators, MNEs will need a compatible approach toward reporting at diverse jurisdictions and industries. It is a daunting task arranging tax disclosures' standards to be consistent with CSR though. Moreover, the application of OECD guidelines to digital business models remains contentious. Many digital MNEs generate value through data, algorithms, and network effects, which cannot be easily captured under the traditional arm's-length pricing model.

Risk Perception and Tax Governance

Transfer pricing has become an important element of tax risk management in multinational enterprises (MNEs) as global tax enforcement in corporate tax conduct is becoming increasingly focused. Tax risk can no longer be considered solely as a risk of financial liability, and has expanded to include reputational harm, regulatory fines, and pressure on stakeholders. Baudot et al. (2020) highlights that widespread media coverage of tax avoidance by companies and activism have made the companies rethink the ethical and governance consequences of their tax avoidance. Eberhartinger, et al. (2021) note that numerous revenue agencies are becoming more commonly using risk-based audit models to determine and prioritize audits of companies that have red flags of aggressive tax behavior. Such models use a mix of financial metrics such as abnormal profit margins, cross-border royalties and cost-sharing arrangements and non-financial metrics such as frequent restructuring or existence of subsidiaries in tax havens.

METHODOLOGY

This paper employs a qualitative methodology that is based on secondary data which is gathered through literature, case studies, and policy reports. The study examines academic articles, Organisation for Economic Co-operation and Development (OECD) reports and other publications on transfer pricing and base erosion and profit shifting (BEPS). It applies thematic analysis to explore the complexities of transfer pricing practices and their ethical implications. This strategy will allow an analytical review of the twofold role of transfer pricing in international taxation and its contribution to equity, adherence, and regulation.

FINDINGS

The in-depth review of the recent literature and industry trends carried out within the framework of the current study indicates several crucial insights into the theme of the transfer pricing practices, risks, inconsistency in regulations, and ethics. Its highlight that the management of transfer pricing is a complicated issue in the international tax environment and the overall implications of such a scenario on multinational enterprises (MNEs), tax administrations, intermediaries, and policymakers.

Transfer Pricing as a Context-Dependent Practice

According to research, transfer pricing may not always be categorized, by nature, as strategic or sinister and is, rather, a question of how the particular jurisdiction interprets the phenomenon, shaped by local policies and practices of taxation, policies

or lack of policies on enforcement, institutional arrangements, and the geo-politico landscape (Sebele-Mpofu et al., 2021; Moyo & Liu, 2022). To illustrate, tax-efficient structures that are acceptable and legal reference points in high-income countries are sometimes viewed as aggressive or incurring tax non-compliance in the developing world. The principle of the so-called arm's length, meant to alleviate concerns by ensuring that related-party dealings are conducted as though parties were not related and so engage in rivalrous, competitive transactions, is, and has always been, highly contentious and inconsistent across countries (OECD, 2023). A comparability adjustment that is plain, straightforward and reasonable to one country may be obvious, and the consequence of some wicked intent to the other country.

Moreover, there is no clear consensus on the value of the intangible assets markets, including, but not limited to, patents, algorithms, and brand rights, as scrutiny on legislative arrangements and the level of audits and enforcement in given countries also differ (Ferreira, 2024; Meharia, 2022). The collateral consequences of the rapidly ongoing digitization of business processes are also quite significant and are related to the subjective nature of value; most salient value drivers, including workforce and capital investment, are highly intangible, and so are dependent on a combination of data, extended digital systems, and global user bases, which also renders profit allocation across jurisdictions complicated and highly subjective (O'Sullivan & Gómez, 2022).

Therefore, MNEs must deal with cross-country transfer pricing systems that are unharmonized and inconsistent. Defending oneself in one country does not remove the risk of unilaterally resolving a conflict in another country, as one country's conflict resolution could lead to double taxation (Noonan & Plekhanova, 2023). The combination of these factors results in a complicated and unpredictable tax system, especially for MNEs that operate in many different countries.

Uneven Global Regulatory Response

The second major finding is the disproportionate impact of the risks related to transfer pricing on different countries, resulting in an unequal distribution of risks in the global tax system. While developed countries, especially members of the OECD, have had to put in place comprehensive regulations aligned with the BEPS initiatives, a number of developing countries struggle to implement these regulations because of enforcement difficulties related to the inadequate levels of expertise, technological systems, and institutional capacities (Tuinsma et al, 2025; OECD 2023).

Country by country reporting (CbCR) has been successful in improving the report on the distribution of income and wealth in developed countries. Unfortunately, this is not the case in developing countries where tax administrators most of the time do not have the necessary skills and tools to analyze the information in a constructive manner (O'Sullivan & Gómez, 2022). The disparity between the international requirements and the local capacities fundamentally compromise the ability to establish a consistent global tax system.

The lack of harmonization in this regard gives legally astute MNEs the chance to take advantage of these gaps by transfer pricing into low enforcement jurisdictions in a legally compliant manner in financially overriding jurisdictions (Li, 2024). Examples

of these would be the continued use of hybrid structures, treaty shopping, and the contrived relocation of intangibles. Partially this is so as a result of the uneven and incomplete implementation of BEPS. The gaps available in the opposing size and scale of these firms create advantages in the regulatory arbitrage on offer to MNEs, and this is to the systemic detriment of smaller firms, as well as digitally deprived tax administrations (Noonan & Plekhanova, 2023).

Risk is Multi-Dimensional Threat

Transfer pricing risks have evolved beyond compliance issues and are increasingly perceived as multi-dimensional threats that impact financial performance, brand integrity, and regulatory stability. In financial terms, transfer pricing conflicts may result in large back taxes, penalties, and interests. As an example, the case of Apple paying a tax of 13 billion euros to the European Commission, which was subsequently overturned, showed the scale of the possible debts (Parada, 2025).

Tax aggressiveness has come under increased social scrutiny, and this has caused multidivisional enterprises (MNEs) to also encounter reputational risk. The evaluation of MNEs has now expanded to include not only the financial bottom line, but also tax contribution to improved social equity. The investors and consumers of MNEs, for example, Starbucks and Amazon, have initiated social protests due to the companies' tax avoidance.

Tax risk management has therefore commenced to be incorporated with other business functions through the MNEs' governance framework. This includes business risk control, tax risk heat maps, and tax governance open books to handle tax risk management through stakeholder management. The tax risk management of MNEs also pursue social equity improvement. The social equity improvement also attracts tax compliances on corporate social responsibilities in several sectors, including, but not limited to, pharmaceuticals, technology, and natural resources industries (Qian, & Yang, 2022). This indicates how reputational and operational costs make tax risk management not only a business liability, but also a business opportunity.

Shared Responsibility Across Stakeholders

As part of the wider tax ecosystem, the responsibility of managing and mitigating transfer pricing risk does not rest solely with the taxpayer. It encompasses all tax ecosystem participants, including tax advisers, intermediaries, auditors, policy makers, and more. Upper-tier law and accounting firms, tax intermediaries, are among the most influential actors in the design and structuring of complex tax arrangements. Informations of the legal profession in the domain of valuation of intangible assets and pricing of services is rather opportunistic and, in most instances, is of legal relevance. Some firms will market themselves as having transfer pricing expertise and provide clients with what are, in many cases, defensible reports. This is illustrated in the UK Starbucks case, in which the company was able to provide compliant transfer pricing documentation that justified the royalty payments, intra-group interest, and costly coffee beans. However, the UK authorities later determined that the transactions did not possess real economic substance since Starbucks was loss making, operating with a significant negative cash flow, due to intra-group liabilities that shifted profits into the offshore tax haven (low tax countries), while profits were garnished in the

jurisdictions with prohibitive tax structures (Carter et al., 2023) .

According to the OECD BEPS Action 12, this has resulted in the establishment of a mandatory disclosure regime as well as standards of accountability of the intermediaries. These regimes require tax advisors to report, for a penalty to arise, the aggressive arrangements. It is also the duty of policymakers to create clear, consistent, and adaptable tax regulations that reflect current business practices. Incoherent and antiquated tax regulations and law will be taken advantage of by MNEs, which will harm the global tax system. Consequently, the abuse of transfer pricing should be addressed collectively, as it requires policymakers to be open, advisors to maintain integrity, and MNEs to practice tax transparency.

The Rise of Ethics and Stakeholder Pressures

One of the characteristics of the prevailing tax climate is that ethical concerns and pressure applied by society are increasingly influencing the tax conduct of businesses. Whereas the traditional tax planning was concerned with legal minimization, current environment requires aligning with the social expectations and stakeholder values. Legal compliant practices may be ethically questionable if they result in harm to public interest. As an example, relocating profits in the developing world can deny them much needed tax revenues to be used in health and infrastructure, which is morally questionable even when the move is within the legal standards.

The emergence of Environmental, Social, and Governance (ESG) reporting has also increased the tax debate. Tax fairness is one of the important CSR metrics that investors, rating agencies, and civil society organizations now evaluate. Tax is not only perceived as a cost, but also as a social contribution, like environmental impact, or labor practices. Company that have strong CSR systems will be less inclined to use aggressive tax planning and this may lead to an inclination towards responsible tax practices. Moreover, tax disclosure regulations, are meant to bring corporate reporting to the expectations of the population. This changing environment is an indication of a paradigm shift towards tax accountability as opposed to tax avoidance whereby stakeholder trust is not only based on financial performance but also on the perceived fairness of tax behavior.

DISCUSSION

Substance Over Form: The Evolving Standard

This study show how the regulations regarding transfer pricing are moving towards a 'legal form to economic substance'. This is evident post-BEPS as tax authorities operating MNEs to prove profitability compliance with the function, the assets and the risks of the business. This shift, as explained by Rushkovskiy & Rasshyvalov (2023) is evolutionary, moving towards concentrating more on the economic substance of the transactions than the legal formalism.

The emphasis on economic substance is needed to a greater extent, especially in the sectors such as technology, pharmaceuticals and finance, where there exist legal frameworks to capture profits while also holding on to high value intangibles such as algorithms, patents and trademarks. Thus, the emphasis on economic substance rather

than on legal form will lead the MNEs to carry on more in-depth and more functional analyses which will involve as a minimum the verification of comprehensive decision making frameworks, a complete asset inventory, and a system on how value will be added.

The increased emphasis on economic substance in the context of MNEs is to curb the profit shifting and the base erosion for taxation which, in a roundabout way, signals the increased international collaboration which is also beneficial for MNEs as there is a chance to reassess their transfer pricing methods as it will be mandatory to assess their legal compliance. This protects the fairness of the taxation system, although it does carry the burden of added complexity.

Ethical Dimensions and CSR Pressures

The pressure from stakeholders has driven the ethical dimension of transfer pricing to the forefront of conversation in the field. Transfer pricing has primarily been regarded from a legal standpoint concerning compliance with tax laws. The concerns from stakeholders such as activist shareholders, consumers, NGOs, and civil society have compelled MNEs to adopt more equitable and ethically-defensible tax policies. This corresponds with the advancement and popularization of ESG tax frameworks, which now incorporate tax transparency as a core ESG criterion. MNEs are expected to go beyond compliance to a socially equitable and ethically defensible tax practice. The table below presents an example of some social metrics to guide the MNE in transferring the pricing strategies to incorporate social and ethical transfer pricing.

Table 2: Key ESG-Related Tax Governance Metrics

CSR Metric	Impact on Transfer Pricing	Example
Tax Transparency	Clear disclosure of tax payments across jurisdictions	Incorporating tax disclosures in CSR reports (OECD guidelines)
Fairness & Equity	Ensures fair tax practices and prevents BEPS	Aligning transfer pricing with economic substance rather than legal form
Stakeholder Trust	Builds trust by adopting ethical tax practices	Public commitment to responsible taxation and CSR reporting

As noted by Issah & Rodrigues (2020), strong CSR values lead companies to engage with less aggressive tax planning. Thanks to the integration of CSR tax transparency within the ESG frameworks, the companies are less likely to employ aggressive tax planning strategies. Tax transparency is considered a company's social responsibility, which makes it a potential obligation of the company alongside its environmental responsibility and its labor practices.

Manipulative transfer pricing raises ethical concerns and even more concerning is the impact of profit shifting in developing nations. Profit shifting denies governments tax revenue that is essential to fund public services such as healthcare and infrastructure. MNEs have been pressured to realign their tax strategies to account for potential public scrutiny; MNEs aligned with ethical governance are likely to comply with the spirit and letter of tax law.

The MNEs that adopt ethical tax practices aligned with CSR metrics are able to manage their reputational risk from stakeholder scrutiny. An MNE's tax practices and the impact they have is being considered a part of the MNE's social responsibility, reflecting a paradigm shift and signifying stakeholder demand for fairness in the tax practices of companies.

Intermediary and Advisory Responsibility

In the ever-changing world of international tax compliance, corporations are no longer the only entities under scrutiny, tax advisors, law firms, and accounting intermediaries are also being asked to take responsibility in their contribution to the aggressive transfer pricing schemes. Such intermediaries can be found in the grey areas of international taxation, as they can use technical knowledge and legal grey areas to create tax structures that avoid taxes without technically breaking the law (de Mooij et al., 2021). Through this, they are at the center of facilitating base erosion and profit shifting (BEPS).

Thus, several jurisdictions have enacted mandatory disclosure rules applicable to tax planners and facilitators. These rules require intermediaries to notify authorities of certain cross-border arrangements exhibiting attributes of tax avoidance. This is consistent with OECD BEPS Action 12, promoting transparency through mandatory disclosure of abusive tax planning schemes to tax authorities. Some jurisdictions even impose financial, licensing, and professional penalties to tax advisors promoting and/or aiding abusive tax practices.

This is the first time intermediary liability is being exercised, indicating a new approach to enforcement, whereby all members of the tax planning community are expected to maintain a certain level of compliance to preserve the operational balance of the international tax system. This enhancement within the profession of tax advisory demonstrates a greater need for balance between compliance and ethical self-regulation of the profession.

Economic Substance and Functional Analysis

In the post-BEPS era, there has been a growing focus by tax authorities and policymakers on the role of economic substance in transfer pricing, no longer focusing on legal formality. Rushkovskiy & Rasshyvalov (2023) emphasize that multinational enterprises (MNEs) have to now prove that the profits they report are equal to the location of the actual economic activity, including decision-making, ownership of assets, and risk management. This has necessitated an increased level of functional analysis where firms are required to give detailed documentation on the functions undertaken, assets utilized as well as risks taken by respective parties in the chain of transactions.

The goal is to ensure that profits are taxed in the jurisdiction where genuine value is created, rather than where nominal ownership or contractual rights exist. This shift is particularly important in industries where profit-shifting mechanisms such as royalty payments, management fees, and intra-group services are widely employed to shift profits to low-tax jurisdictions, such as technology, pharmaceuticals and finance.

This trend is supported by Meharia. (2022), who advocates that the focus of enforcement should be on economic realities rather than complicated pricing formulae that hide the reality of transactions. Tax authorities are trying to eliminate loopholes and bring back fairness and logic to international tax systems by concentrating on substance rather than form. This emerging norm puts MNEs to test to reconsider their transfer pricing policies in line with the letter and the spirit of the law.

CONCEPTUAL FRAMEWORK

This study proposes a conceptual framework that illustrate the relationship between variables as follows:

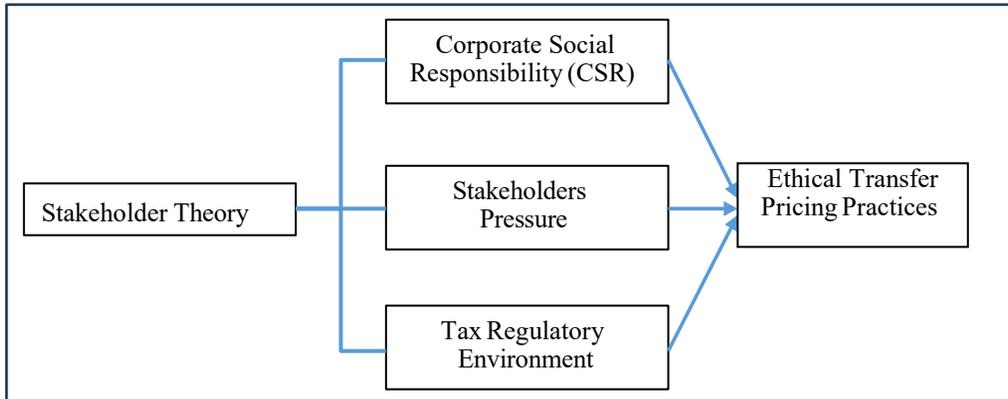


Figure 1 : Framework

This framework posits that ethical, regulatory, and stakeholder-driven factors influence corporate tax payments. Corporate Social Responsibility (CSR), Stakeholder Pressure, and the Tax Regulatory Environment are significant factors influencing the equitable pricing strategies of multinational enterprises (MNEs). These factors reflect the company's intrinsic values and external expectations that guide their selection of equitable and transparent tax strategies. According to Stakeholder Theory, the model posits that companies bear responsibility not solely to their shareholders but must also consider the societal implications of their tax decisions, including effects on regulators and public trust at large.

CHALLENGES IN DISPUTE RESOLUTION

Challenges posed by transfer pricing controversies represent one of the most complex and time-consuming studies by multi-national enterprises (MNE). These disputes are often multi-jurisdictional, involving competing tax assessments from different countries. Key challenges include:

Absence of Collaboration Among Tax Administrations

One of the most complex challenges in the resolution of transfer pricing controversies is the absence of collaboration among tax authorities in different jurisdictions. Tax authorities are likely to have divergent interests, which may lead to inefficiencies of siloed communication and fragmented collaboration. Such a degree of inaccessibility

tends to increase the resolution time, which makes it more complex to arrive at a just and consistent resolution to the benefit of the MNEs concerned.

Different Understandings of The Arm's Length Principle

The Arm's Length Principle, which is in place to ensure that all related party transactions are treated as if the participants were unrelated. These disparities have resulted in the inconsistent application of transfer pricing rules and have made it difficult to achieve a consensus among tax authorities. The principle, in some jurisdictions, may be regarded as mandatory, while in others, it is classified as discretionary, which may give rise to controversies as to the acceptability of pricing practices.

Failing to Document Disputes

Insufficient or partially completed documents add to the prolonging of the transfer pricing disputes. MNEs do not adequately retain records to support transfer pricing methodology, or the documents fail to meet requirements of the local authorities. The absence of such documentation hinders the ability of the tax authority to determine whether the transfer pricing practices meet the arm's-length standard, further extending the dispute and escalating the risks of adjustments and penalties.

Political and Economic Considerations

Absence of documentation disputes are also the result of the political and economic environment. In certain instances, governments may apply political and economic pressures in transfer pricing audits and derive political benefits in the context of transfer pricing in large multinational corporations. The resulting political impacts may further disrupt the complex issues faced in resolving such disputes.

Lengthy and Non-Transparent MAP Process

The MAP's aim is to assist in the resolution of transfer pricing disputes, however, the process is cumbersome and unproductive. Noonan & Plekhanova (2023) discuss the particulars of MAP procedures, noting that they can take several years to complete, and the results, if they even exist, are opaque and unreliably applied. Within the MAP timeframes, MNEs can experience even greater levels of unidimensional uncertainty as they try to formulate their tax strategies and cope with the complexity of their MNE operations.

Disadvantages for Developing Countries

These nations are at a considerable disadvantage, as most developing nations cope with inadequate resources and institutional capacity to participate to an effective degree in the transfer pricing MAP. For example, developing nations cope with a relative absence of technical skills, and even minimal sophisticated data analysis, and during negotiations, their inferior level of bargaining power is disadvantageous. More specifically, developing countries MAP participants are at a considerable disadvantage in addressing their tax assessments in comparison to the more sophisticated and resourceful economies.

Possibility of Double Taxation

The extreme outcome of unresolved transfer pricing disputes is double taxation. The MNE may end up being subject to overlapping tax assessments from multiple jurisdictions should two or more tax authorities fail to settle on an appropriate transfer price. Such results become financially exhausting and challenge the very core of equity in the global tax systems.

CONCLUSION

The transfer pricing as an essential element of tax policies of multinational corporations is a contentious and complex topic between the effectiveness of business and potential tax avoidance. As much as it is a crucial tool in the optimization of intra-group transactions, the abuse of the same can lead to grave risks including base erosion and profit shifting (BEPS), which undermines the integrity of tax systems. The intense application of the practice is also debatable in regards to morality and equity particularly in the developing world where the application is loose. The tax climate in the world has changed and the transfer pricing issue should be examined critically not only in a technical but also in a corporate social responsibility (CSR) and ethical governance perspective. This is additionally underlined by the non-homogenized regulatory environment and the increasing interest of the population in the patterns of corporate tax conduct.

Considering these difficulties, it is obvious that the transfer pricing problem should not be solved only through the prism of compliance, but through the prism of a more comprehensive strategy that involves not only multinational enterprises, but also tax authorities, intermediaries and international organizations. This research shows that practices of transfer pricing tend to change according to the situation, and interpretation and application of the principles differ in different jurisdictions. This contradiction creates possibilities of exploiting the regulatory loopholes especially by the well-financed MNEs, who would be able to bend the tax regulations to their favor and leave the small jurisdictions at a disadvantage. Moreover, the increasing interest in ethical tax conduct driven by the desires of the stakeholders to act in a transparent and equitable manner implies that the companies cannot use legal minimization strategies as the sole means of tax planning anymore and need to consider the ethical consequences of their tax actions.

ACKNOWLEDGEMENT

The authors would like to thank the Faculty of Accountancy, Universiti Teknologi MARA for providing the grant file number UiTM.800-3/1 DDF.22 (007/2025).

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