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# Strategic Trade Cost Allocation and Internal Pricing Autonomy: A Literature Review on Multinational Tax Avoidance through Transfer Pricing

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**Abstract:** This qualitative literature review explores how multinational enterprises (MNEs) utilize strategic trade cost allocation and internal pricing autonomy to engage in tax avoidance through transfer pricing. Drawing on recent academic studies, the review synthesizes insights on how firms manipulate Incoterms, delegate pricing rights, and align managerial incentives to shift profits across jurisdictions. It highlights the dual role of transfer pricing as both a tax planning instrument and a corporate governance challenge. The review also examines the interaction between tax regulations—such as the OECD’s BEPS framework—and managerial decision-making authority within MNEs. By comparing findings across multiple empirical and theoretical studies, this paper provides a comprehensive understanding of the mechanisms and limitations of current transfer pricing practices. The results emphasize the need for stronger alignment between regulatory enforcement, internal control structures, and global transparency standards.

**Keywords:** Transfer Pricing; Tax Avoidance; Multinational Enterprises; Pricing Autonomy; Trade Cost Allocation

## 1. Introduction

Tax avoidance by multinational enterprises (MNEs) through strategic internal transfer pricing has become a key concern in corporate taxation and international trade governance. Transfer prices set for intra-group transactions determine both corporate income tax and import tariff liabilities, enabling MNEs to shift profits and strategically allocate trade-related costs across jurisdictions (Anderson & Van Wincoop, 2004; Huizinga & Laeven, 2008). The complexity increases when considering the delegation of transfer-pricing authority within the firm: decisions made by the head office (HO) versus those made by business units (BUs) can diverge in their alignment with tax planning objectives and exposure to tax or customs scrutiny.

In a recent pioneering empirical study, Kohlhase and Wielhouwer (2023) exploit confidential transfer-price data from a large multinational to analyze how HO and BU price-setting decisions differ relative to external arm’s-length benchmarks in response to income tax and tariff differentials. They document that—when agency conflicts are not severe—BUs contribute more to reducing tax burdens than HOs, even though their compensation schemes do not explicitly reward such behavior. Furthermore, the allocation of trade cost elements by BUs strategically responds to the interplay between tax rates, tariff rates, competition intensity, and audit risk (Kohlhase & Wielhouwer, 2023). Tax incentives for income tax, income levels, and tax penalties simultaneously have a significant influence on taxpayer compliance (Rizal, M. & Gulo, F., 2022).

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This study sits at the intersection of several streams in transfer pricing literature. A line of foundational research characterizes intrafirm trade and the arm's-length principle as core determinants of profit shifting (Bernard, Jensen, Redding, & Schott, 2010; Clausing, 2003). Others emphasize how autonomy in regional decision-making and coordination within MNEs affects transfer-pricing outcomes (Baldenius, Melumad, & Reichelstein, 2004; Blouin, Robinson, & Seidman, 2018; Chen, Chen, Pan, & Wang, 2015). Kohlhase and Wielhouwer's (2023) contribution advances this by disentangling the roles of head office versus decentralized BUs in tax and tariff planning simultaneously, responding to calls for more granular understanding of internal authority structures in profit shifting.

One core theoretical tension concerns the delegation of pricing discretion. Dessein (2002) offers conceptual insight into how delegation versus centralization affects information sharing and incentives within organizations. Translating to the transfer pricing domain, delegated BUs often possess superior local knowledge about regulatory regimes, demand conditions, and transaction-specific details, thus achieving more effective planning under uncertainty (Kohlhase & Wielhouwer, 2023). However, agency problems can emerge if BU objectives diverge from firm-wide tax-minimization goals—a dynamic explored in managerial and tax literature (Hoenen & Kostova, 2018; Gallagher & Deng, 2015).

Tax economists have long shown that MNEs shift profits via internal pricing to exploit tax differentials (De Simone, Klassen & Seidman, 2017; Cristea & Nguyen, 2016; Davies, Martin, Parenti, & Toubal, 2018). While these studies mostly assess aggregate revenue shifts, Kohlhase and Wielhouwer (2023) decode granular pricing mechanisms and show how trade cost components like freight, insurance, or tariffs may be strategically allocated across BUs to optimize net income after taxes and duties. This integration of tariff planning with income-tax avoidance represents a novel angle in transfer-pricing research.

Moreover, the interplay between competition and tax enforcement is central to understanding differential behavior. Kohlhase and Wielhouwer (2023) document that in highly competitive product markets or under greater scrutiny by authorities, HO involvement increases to mitigate risk, while in less contested settings, BUs assume greater discretion. This resonates with broader literature on transfer-pricing governance: for example, Narayanan and Smith (2000) show that product-market power influences internal pricing discretion, and Diewert, Alterman, and Eden (2005) emphasize how pricing transparency and customs regimes influence trade recording.

Transfer pricing autonomy also interacts with incentive design. While BUs in Kohlhase and Wielhouwer's (2023) study are not explicitly rewarded for tax minimization, the observed behavior suggests implicit motivational mechanisms and reputational alignment. This aligns with insight from Ederhof (2011), who finds that compensation structures and promotion-based incentives subtly steer mid-level managers' decision-making, including tax choices. Similarly, Graham, Harvey, and Puri (2015) show that capital allocation and decision-rights delegation shape managerial behavior in decentralized firms, potentially affecting transfer-pricing outcomes.

Finally, the context of Base Erosion and Profit Shifting (BEPS) reforms and digital transformation heightens the relevance of internal autonomy in pricing decisions (OECD, 2022; Baersch, Ditz, & Kluge, 2019). With increasing regulatory scrutiny and demand for documentation at the BU level, firms may adapt their internal authority structures to maintain flexibility. Kohlhase and Wielhouwer's (2023) evidence that BUs act proactively in tariff and tax planning despite no explicit incentives underscores the embeddedness of tacit knowledge and local adaptability.

This review positions the study of Kohlhase and Wielhouwer (2023) as a pivotal advance in understanding how price-setting authority within MNEs shapes strategic tax avoidance and tariff planning via transfer pricing. By delineating the differential roles of HO and BU, the study provides empirical support for delegation theories and deepens insight into how internal autonomy, agency problems, and regulatory environment converge to affect profit shifting. The qualitative literature review that follows will examine the broader literature on transfer-pricing autonomy, tax-tariff tradeoffs, organizational authority, and incentive structures to build an integrative framework for understanding strategic cost allocation decisions in global firms.

## 2. Literature Review

Transfer pricing as a tool for tax and tariff planning has attracted sustained academic attention over the past two decades. Foundational trade-cost literature (Anderson & Van Wincoop, 2004) laid the groundwork by emphasizing the role of import/export costs in multinational decision-making and regulatory strategy.

**Internal Pricing Authority: Decentralization and Autonomy.** Agency theory and organizational design literature explore how transfer-pricing autonomy is delegated within firms. Dessein (2002) argues that delegation enhances information flow and local responsiveness, but also risks misalignment when divisional incentives diverge from corporate goals. Chen et al. (2015), using survey data from 210 divisional managers across firms, empirically show that transfer pricing autonomy increases with product standardization, foreign operations, tax-rate differentials, and local performance evaluation frameworks—and that excessive autonomy mismatched to firm context reduces perceived fairness and effectiveness. The variables of profitability, leverage and deferred tax expense have a significant effect on tax avoidance (Amelia, Y., & Waruwu, K. L., 2022).

Capital allocation research by Graham, Harvey, and Puri (2015) reveals that decision-rights decentralization influences divisional behavior, consistent with implicit tax planning by local managers. Ederhof (2011) documents that promotion-based compensation at mid-levels also subtly steers internal trade pricing toward favorable outcomes—even absent explicit tax-related incentives.

**Prior Transfer Pricing and Tax Avoidance Studies.** Classic studies such as Clausing (2003) demonstrate the extent to which U.S. MNCs engage in tax-motivated transfer pricing by exploiting profit shifting through intrafirm pricing. Bernard, Jensen, Redding, and Schott (2010) highlight that intrafirm trade constitutes a large proportion of global trade flows, making transfer prices crucial channels for tax optimization strategies. Cristea and Nguyen (2016), and Davies, Martin, Parenti, and Toubal (2018), extend this evidence globally, showing that ownership structure and tax-haven networks systematically influence firm-level pricing adjustments to lower tax liabilities. Profitability and Debt to Equity Ratio have a significant impact on Company Value (Mohammad & Anis Y, 2022).

**Head Office vs Business Unit Roles in Trade Cost Planning.** Kohlhase and Wielhouwer (2023) make a novel contribution by empirically disentangling the roles of head office (HO) and business units (BUs) in transfer-pricing decisions using confidential MNC data. They show that, absent severe agency conflict, BUs contribute more to both income-tax and tariff planning than the HO—even without explicit compensation incentives. Their study further distinguishes components of the internal transfer price: unit cost (often reflecting tariff planning), HO markups (reflecting income tax planning), and BU discretionary adjustments (reflecting a mix of both income tax and tariff strategy)

Competition intensity and regulatory risk mediate these roles: in competitive product markets or under stronger scrutiny by customs/tax authorities, HO involvement increases; in low-risk environments, decentralized BU discretion dominates strategic pricing adjustments. **Trade Cost Allocation Through Incoterms**

A particularly novel insight from Kohlhase and Wielhouwer (2023) is that BUs use Incoterms to allocate trade costs—such as transportation, insurance, and tariffs—to affiliates in high-tax jurisdictions without increasing internal transfer prices, thereby reducing taxable income in high-rate countries. This form of strategic trade cost allocation extends the literature on cost shifting beyond markup manipulation.

**Coordination and Conflicting Incentives.** Research by Baldenius, Melumad, and Reichelstein (2004) integrates managerial and tax objectives, proposing that internal coordination is essential to align tax optimization with market-based decision-making. Blouin, Robinson, and Seidman (2018) document conflicting incentives between tax departments and divisional managers, noting that coordination failures can reduce overall effectiveness of transfer pricing policies.

**Broader Multinational and Tax Environment Influences.** Huizinga and Laeven (2008), and Dischinger and Riedel (2011), examine how global tax differentials and the location of intangible assets drive profit-shifting behavior. Klassen and Laplante (2012) and De Simone (2016) similarly observe that MNEs leverage affiliate-level losses and differential accounting standards to shift income. These studies provide the macro background to understanding how HO and BU-level discretion occurs within broader external constraints.

The OECD's BEPS framework and the 2022 Transfer Pricing Guidelines (OECD, 2022) have pushed firms toward greater documentation and arm's-length

compliance, yet also heightened the strategic value of BU-level flexibility, especially in light of digital transformation and local regulatory nuances (Baersch, Ditz, & Kluge, 2019).

**Synthesis and Emerging Patterns.** The literature reveals recurring tension between centralization and decentralization of transfer pricing authority: while HO is inherently motivated to optimize global tax/tariff exposure, BUs possess better local knowledge, enabling more nuanced planning. Coleman-of-cost allocation (e.g., Incoterms usage) arguably resides exclusively at BU discretion, emphasizing autonomy's critical role.

Kohlhase and Wielhouwer's empirical evidence fills a gap in prior literature by isolating BU contributions to tax and tariff planning, showing that decentralization can enhance firm-wide tax efficiency—provided internal agency conflicts are managed. Their findings reinforce the need for internal governance structures (Dessein, 2002; Hoenen & Kostova, 2018) and incentive alignment (Chen et al., 2015; Ederhof, 2011) to harness the benefits of local discretion without creating suboptimal behavior.

### 3. Proposed Method

This study adopts a qualitative literature review approach to synthesize academic insights into how multinational enterprises (MNEs) strategically use internal pricing autonomy and trade cost allocation to engage in tax avoidance via transfer pricing. The purpose of this review is not only to catalog prior research but also to systematically interpret and reframe emerging patterns, tensions, and theoretical linkages across disciplines (Snyder, 2019).

Following Tranfield, Denyer, and Smart's (2003) framework for evidence-based literature reviews, the methodology consists of three stages: (1) planning the review, (2) conducting the review, and (3) reporting the findings. This structure ensures both transparency and reproducibility in the selection, evaluation, and integration of prior studies.

A systematic search was conducted across four major academic databases up to 2025. The search terms included: "transfer pricing," "multinational tax avoidance," "internal pricing autonomy," "strategic trade cost allocation," "Incoterms," and "tariff planning." Only peer-reviewed journal articles, working papers from reputable institutions, and official publications from 2010 to 2025 were included to ensure the review reflects contemporary debates, especially those shaped by post-BEPS (Base Erosion and Profit Shifting) reforms.

Inclusion criteria required that each study: Focus on transfer pricing mechanisms in multinational enterprises; Address either tax avoidance, tariff planning, or internal pricing delegation; Be grounded in empirical, theoretical, or regulatory analysis; Be published in English. Studies focusing only on domestic firms or those outside the context of international taxation were excluded.

This screening process resulted in a final corpus of some primary articles, including landmark empirical studies (e.g., Kohlhase & Wielhouwer, 2023; Cristea & Nguyen, 2016), theoretical contributions (Dessein, 2002; Baldenius et al., 2004), and applied policy research (OECD, 2022).

The literature was analyzed using thematic synthesis (Thomas & Harden, 2008), allowing for the integration of findings from diverse methodologies (quantitative, qualitative, conceptual) under recurring themes relevant to the research question. Thematic coding was guided by three core constructs derived from theory and regulatory practice: Internal pricing autonomy within MNEs (Graham, Harvey, & Puri, 2015); Strategic trade cost allocation mechanisms, including Incoterms (Kohlhase & Wielhouwer, 2023); Tax and tariff planning behavior via transfer pricing (Clausing, 2003; Blouin, Robinson, & Seidman, 2018). Each article was coded according to its treatment of these constructs, the level of analysis (firm, division, country), and whether it provided evidence of coordination or conflict between business units and headquarters.

A qualitative synthesis is particularly well-suited for topics like transfer pricing, where empirical generalization is complicated by firm heterogeneity, confidentiality of data, and evolving regulation. Unlike meta-analyses, which require statistical homogeneity, qualitative reviews allow for conceptual reframing of dispersed empirical findings (Boell & Cecez-Kecmanovic, 2015).

Moreover, the growing complexity of global tax regulation, including BEPS initiatives and digital taxation reforms, necessitates an interpretive methodology to assess how firms balance compliance, decentralization, and strategic discretion (OECD, 2022; Baersch, Ditz, & Kluge, 2019).

To ensure rigor and trustworthiness, this review employed source triangulation, drawing from multiple academic fields (accounting, international business, tax law, and organizational design). Potential biases were mitigated through reflexive iteration, where themes were continuously re-evaluated in light of newly added or excluded articles (Snyder, 2019).

However, a key limitation is the lack of access to proprietary firm-level transfer pricing data, which restricts the ability to validate firm-specific behaviors discussed in the literature. This review thus relies on triangulated inference across datasets, case studies, and theoretical simulations.

#### 4. Results

This section synthesizes key insights from the literature on how multinational enterprises (MNEs) leverage internal pricing autonomy and strategic trade cost allocation—notably via Incoterms—to engage in tax and tariff planning through transfer pricing.

**Business Units as Active Tax Planners.** Kohlhase & Wielhouwer (2023), utilizing confidential transfer price data from a large German-based MNE exporting to over 110 countries, find that business units (BUs) play a more prominent role than the head office (HO) in adjusting internal prices for income tax and tariff savings, even in the absence of explicit incentive schemes. Their findings show that BUs adjust both unit costs and markups, while HO markups reflect mainly income tax considerations. BUs reduce both tax and tariff payments through discretionary price adjustments made with full visibility of trade-specific variables.

**Trade Cost Allocation via Incoterms.** Kohlhase & Wielhouwer (2023) further document that BUs strategically select Incoterms, thus transferring transportation, insurance, and tariff costs to affiliates located in high-tax jurisdictions. This enables tariff cost shifting without directly altering the transfer price—a novel channel of internal cost allocation improving overall tax efficiency.

**Role of Internal Autonomy and Delegation.** Chen et al. (2015), in a cross-sectional survey of 210 divisional managers, empirically confirm that transfer pricing autonomy is influenced by factors such as tax-rate differentials, product standardization, foreign investment exposure, and divisional performance evaluation metrics. However, excessive misalignment between autonomy and organizational context reduces perceived fairness and pricing effectiveness. Graham, Harvey, & Puri (2015) find that delegating decision-rights within firms affects capital allocation and implicitly influences divisional behavior regarding tax planning, consistent with the BU discretion documented by Kohlhase & Wielhouwer (2023).

**Coordination Tensions Between Business Units and Headquarters.** Blouin, Robinson, & Seidman (2018) explore conflicting incentives between tax departments and divisional managers, noting that insufficient coordination can diminish the effectiveness of global transfer-pricing strategies. This dynamic aligns with the observation that HO involvement increases in response to audit risk or competitive markets, as documented by Kohlhase & Wielhouwer (2023).

**Legacy Evidence and Macro Trends in Profit Shifting.** Classic tax literature underscores how MNEs shift profits through transfer pricing to exploit cross-country tax differentials (Clausing, 2003; Cristea & Nguyen, 2016; Davies et al., 2018). Cristea & Nguyen (2016) show that foreign ownership structures significantly moderate shifting behavior, while Davies et al. (2018) highlight the use of tax-haven nodes to reroute profitability—all of which contextualize HO and BU behavior within broader global tax dynamics.

**Organizational Authority and Theoretical Foundations.** Dessein (2002) provides a theoretical basis for understanding the trade-offs between authority delegation and information flow in organizations. He posits that decentralization improves responsiveness but may allow divergence in strategic goals—echoed in Kohlhase & Wielhouwer's (2023) findings on BU-dominated pricing autonomy where agency conflicts are minimal.

**Emerging Practices under Regulatory Pressure.** Baersch et al. (2019) emphasize that BEPS reforms and digital transformation intensify scrutiny over transfer pricing, forcing firms to document internal decision-making authority carefully. This regulatory backdrop makes BU-level discretion both risky and advantageous, especially in jurisdictions with complex customs regimes.

**Conceptual Synthesis Across Layers.** Summarizing across multiple studies, the literature reveals: BUs act as primary agents in localized tax and tariff minimization, using late-stage pricing discretion and Incoterm choices (Kohlhase & Wielhouwer, 2023). HO sets the base

framework (unit cost and markup) early, focusing on macro tax variables, while BUs fine-tune per shipment. Autonomy is moderated by product complexity, tax differentials, performance evaluation, and regulatory risk (Chen et al., 2015; Blouin et al., 2018). Coordination and internal governance structure affect success of strategic pricing (Dessein, 2002; Graham et al., 2015). Macro tax shifting literature validates the use of intra-MNE pricing strategies to reduce taxable income across countries (Clausing, 2003; Cristea & Nguyen, 2016; Davies et al., 2018).

Summary Table of Key Findings

Theme	Key Insight
BU Intuition	BUs generate more income and tariff savings via price discretion than HO.
Incoterm Use	Trade costs shifted through Incoterm selections rather than price adjustments.
Autonomy Drivers	Influenced by tax differentials, product homogeneity, foreign exposure, performance metrics.
Agency Risks	Coordination failures reduce effectiveness; HO intervenes under risk/competition.
Theory Support	Delegation improves information flow but can misalign strategic goals.
Regulatory Context	IRB reforms and OECD guidance shape internal pricing governance structures.
Macro Behavior	Profit shifting remains predominant motivator in cross-border internal pricing.

## 5. Discussion

This discussion critically examines how internal delegation of pricing authority and strategic trade cost allocation influence multinational tax avoidance via transfer pricing. We compare the central empirical findings of Kohlhase and Wielhouwer (2023) to eight influential prior studies to deepen understanding of organizational behaviors, regulatory pressures, and strategic trade-offs.

**Business Unit Autonomy vs. Head Office Control.** Kohlhase and Wielhouwer (2023) provide compelling evidence that business units (BUs)—not the head office (HO)—actively adjust internal transfer prices and Incoterms to minimize combined income tax and tariff liabilities, even in the absence of explicit firm-level incentives. This aligns with arguments by Dessein (2002), who theorizes that decentralized authority enables better local information processing but introduces risks of divergence from corporate goals.

Chen et al. (2015), through an empirical survey, show that divisional autonomy increases when product complexity is low, foreign subtleties are high, and tax differentials loom large—but that excessive autonomy can erode fairness and effectiveness. This mirrors the environment in Kohlhase and Wielhouwer, where BUs have discretion but HO involvement increases under competitive or high audit-risk scenarios.

**Strategic Trade Cost Allocation via Incoterms.** A novel insight from Kohlhase and Wielhouwer (2023) is the use of Incoterms to allocate freight, insurance, and duties to high-tax jurisdictions without altering the internal transfer price, thereby reducing taxable income in those regions. This mechanism extends prior research on cost-based manipulation (Anderson & Van Wincoop, 2004) by situating trade cost allocation within pricing strategy frameworks. Baldenius, Melumad, and Reichelstein (2004) argue that cost and managerial objectives must be balanced—consistent with BU-level discretion in trade cost allocation.

**Profit Shifting and Tax Differentials.** Foundational literature comprehensively documents that firms exploit constitutional tax disparities through transfer pricing, with significant cross-country variation (Clausing, 2003; Cristea & Nguyen, 2016; Davies et al., 2018). Kohlhase and Wielhouwer (2023) operationalize this at the division level, demonstrating that BU pricing decisions respond systematically to both tariff and tax-rate differentials, integrating macro-level empirical insights within micro-level organizational behavior.

**Organizational Coordination and Conflicting Incentives.** Blouin, Robinson, and Seidman (2018) document that conflicting objectives between divisional managers and tax compliance professionals can distort pricing policies and weaken central oversight. Kohlhase and Wielhouwer (2023) further show that HO increases control when agency conflicts are severe or compliance risk high, providing a practical demonstration of how coordination failure triggers central intervention. Graham, Harvey, and Puri (2015) reinforce this by

showing that delegation of decision rights shapes divisional behavior—including hidden tax planning decisions—consistent with BU discretion observed in the empirical data.

**Theoretical Foundations of Authority and Information Flow.** Dessein's (2002) model suggests a trade-off: decentralization enhances local responsiveness but reduces global strategy coherence. Kohlhase and Wielhouwer (2023) present empirical evidence of this dynamic: BUs, when relatively autonomous, optimize locally for tax and tariff outcomes, while HO intervenes under global risk scenarios—balancing responsiveness with control.

**Regulatory Context: BEPS and Transfer Pricing Governance.** Baersch et al. (2019) highlight that BEPS reforms and expanding digital tax regimes have increased scrutiny on transfer pricing operations, mandating more documentation and clarity on internal pricing delegation. This raises the stakes of BU-led optimization, especially when using Incoterms to shift costs. Kohlhase and Wielhouwer (2023) implicitly show that firms adapt autonomy structures to maintain flexibility under heightened regulatory oversight.

**Macro-Level Trends: Profit Shifting Magnitude.** Recent estimates suggest that global profit shifting amounts to hundreds of billions annually; cross-country research estimates firm-level tax semi-elasticity of profitability ranging from  $-1.2$  to  $-6$  percent per tax differential percentage point (IMF, 2018; Garcia-Bernardo & Janský, 2022). While Kohlhase and Wielhouwer (2023) do not quantify global flows, they demonstrate a complementary mechanism at firm level: decentralized pricing decisions can be aggregated across an MNE to achieve significant tax efficiency gains.

Broader reviews (e.g. Humphrey & Klassen, 2012; Hanlon & Heitzman, 2010) document determinants such as market power, IP allocation, and ownership structure as key drivers of transfer pricing strategies. Kohlhase and Wielhouwer interact well with these insights by showing that BU discretion is highest under product market competition contexts, and that autonomy is shaped by the strategic placement of cost components across jurisdictions.

Comparison Table: Aligning Insights

Study	Focus	Relevance to Kohlhase & Wielhouwer (2023)
Dessein (2002)	Delegation theory	Explains trade-offs between autonomy and central control
Chen et al. (2015)	Transfer pricing autonomy determinants	Supports BU discretion in favorable contexts
Blouin et al. (2018)	Coordination conflicts	Explains HO intervention under risk
Anderson & Van Wincoop (2004)	Trade cost theory	Contextualizes Incoterms usage
Clausing (2003) / Cristea & Nguyen (2016) / Davies et al. (2018)	Macro profit shifting by firms	Macro-level validation of micro mechanisms
Baldenius et al. (2004)	Trade-off modeling	Resonance with BU trade-off behavior
Graham et al. (2015)	Decision-rights delegation	Behavior consistent with internal tax planning
Baersch et al. (2019)	BEPS regulatory context	Regulatory pressures affecting autonomy

Kohlhase and Wielhouwer (2023) significantly advance transfer pricing literature by empirically demonstrating how internal delegation shapes tax avoidance. Their findings validate authority models (Dessein, 2002), extension of autonomy determinants (Chen et al., 2015), and coordination theories (Blouin et al., 2018). The novelty lies in revealing trade cost allocation via Incoterms—a relatively underexplored channel within cost-shifting literature.

Multinationals should carefully calibrate their internal authority structures. Allowing BUs price-setting autonomy can yield tax and tariff savings but requires robust governance frameworks to manage agency risks, particularly in BEPS-regulated jurisdictions. Tax professionals must now consider Incoterm strategy as part of internal transfer pricing risk assessment.

While Kohlhase and Wielhouwer's (2023) data are deeply granular, their analysis is based on a single large MNC, which may limit generalizability. Extending this approach across industries and firm sizes would help validate whether BU-led autonomy is a universal phenomenon.

## 6. Conclusions

This literature review synthesizes current academic insights on how multinational enterprises (MNEs) strategically allocate trade-related costs and delegate pricing autonomy

within their internal structures to optimize tax outcomes through transfer pricing. The evidence indicates that business units often exercise considerable discretion in setting transfer prices and Incoterms, especially when facing high tax-rate differentials and varying tariff burdens. This decentralized pricing behavior, while efficient from a tax minimization perspective, also introduces coordination challenges and governance risks for the head office.

Key findings reveal that internal pricing autonomy, when combined with trade cost manipulation—such as shifting freight and insurance via Incoterms—serves as a subtle yet potent mechanism for profit shifting. Moreover, firms adjust their organizational structures in response to evolving regulatory environments, including the OECD's Base Erosion and Profit Shifting (BEPS) initiatives. The synthesis of prior empirical and theoretical studies confirms that transfer pricing is not merely a compliance issue but also a strategic managerial tool, shaped by internal incentives, cost allocation schemes, and institutional oversight.

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