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THE IMPACT OF TRANSFER PRICING ON THE OPTIMIZATION OF THE FINANCIAL AND TAX POSITIONS OF RELATED ENTITIES IN THE REPUBLIC OF SRPSKA

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This paper investigates transfer pricing as a strategic tool for optimizing business performance and reducing the tax burden of related entities in the Republic of Srpska. The goal of the research is to quantitatively assess the impact of transfer pricing on the achievement of the key business goals, including the improvement of financial performance, the minimization of tax burden and the strategic allocation of resources. The empirical data for the research were collected from the Register of Financial Statements for the year 2023. A simple linear regression model was used to determine the relationship between the application of transfer prices and the financial and tax position of related entities. Research findings show a significant and positive impact of transfer pricing on improving the financial and tax position of related entities, especially those operating in multiple tax jurisdictions. The results emphasize the importance of transfer prices as a strategic instrument for financial planning and the optimization of resources and recommend that the national regulatory framework should be harmonized with international guidelines.

Keywords: transfer pricing, related entities, financial position, tax position

JEL Classification: M41, M48, H25, F23

INTRODUCTION

Transfer pricing is central to discussions on the optimization of the business performance and fiscal position of multinational enterprises. It is especially important in the context of increasing

globalization and the complexity of the international tax environment. Related entities in different tax jurisdictions are increasingly using transfer pricing for strategic planning and profit allocation, which directly impacts operational performance and fiscal stability. With the growth of global economic integration, transfer pricing has become a critical instrument in shaping the financial strategies of multinational corporations. As related entities conduct

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their business across multiple jurisdictions, they face divergent tax rates and regulatory challenges. Transfer pricing enables efficient tax burden planning and optimization, potentially enhancing competitiveness and improving the financial position of the enterprise.

The literature highlights the dual effect of transfer pricing, aligning business strategies with tax regulations while potentially undermining fiscal stability by reducing the tax base in affected countries. S. U. Ahmed (2021) and L. M. Tănase, I. I., Drăghici and N. Popovici (2023) emphasize the importance of transfer pricing for business performance optimization and tax burden reduction, while P. K. Chugan and N. Panchal (2022) analyze its application as a mechanism used to minimize tax burden, highlighting the need for the high standards of corporate governance and transparency so as to maintain financial reporting integrity. The OECD and the G20, through the BEPS guidelines, have set global standards for transfer pricing in order to mitigate the potential for abuse (OECD, 2015; Ignat & Feleagă, 2017), while M. Ištók, V. Solilová and K. Brychta (2022) emphasize the importance of safe harbors and advance pricing agreements (APAs) as tools facilitating regulatory compliance and fostering more transparent business practices.

In the Republic of Srpska, transfer prices are regulated by the Corporate Income Tax Law and the Rulebook on Transfer Prices. The methods for their determination are based on the application of the "arm's length" principle, i.e. business conducted under the conditions that would apply between unrelated parties on the open market. Also, the legal framework stipulates that taxpayers must have documentation on transfer prices at the group level (the Master File) and at the level of an individual related entity (the Local File), which enables the harmonization of business operations with international practices, increasing fiscal stability and minimizing the possibility of tax abuses.

Transfer pricing also plays a critical role in corporate governance and transparency, as it enables companies to adapt their strategies in line with changes in the tax and economic environments, simultaneously

contributing to the maintenance of financial stability. M. Kohlbeck and B. W. Mayhew (2010) emphasize that weak corporate governance can lead to transfer pricing manipulation, undermining financial statement credibility and increasing tax abuse risk. This aspect further facilitates the use of transfer pricing in companies with complex ownership structures, where there is an increased risk of profit shifting to jurisdictions with lower tax rates (Tarmidi & Murwaningsari, 2019). Namely, as the key instrument of modern tax planning, transfer pricing influences profit allocation within the group, business models, investment decisions, and the tax base in each member country of the group (Tirau, Cozma & Pantelescu, 2022). Furthermore, taxation can significantly influence investment decisions regarding specific projects within particular tax jurisdictions, as well as the overall volume of investments. Assuming that other factors remain constant during the observed period, it can be argued that companies are more likely to invest in countries with relatively low tax burden, whereas countries with relatively high tax burden may attract less capital or even experience investment outflows (Luković, Vržina, Grbić & Pjanić, 2021).

The subject matter of this research is the analysis of transfer pricing as a mechanism for optimizing the financial and tax positions of related legal entities in the Republic of Srpska. The general goal is to perform a quantitative assessment of the impact of transfer pricing on achieving key business objectives, with a focus on improving the financial position, reducing tax burden and strategic resource allocation. The research is based on the hypothesis that transfer pricing significantly affects the financial and tax position of related entities, particularly those operating across multiple tax jurisdictions. In this context, related entities are increasingly using transfer pricing to allocate profits, which directly affects their operational efficiency and fiscal stability. To test this hypothesis, empirical data were gathered from the Register of Financial Statements for the year 2023. The data were analyzed using a simple linear regression model to determine the relationship between transfer pricing practices and the financial and tax performance of such related entities.

The paper presents an extensive overview of the complexities of transfer pricing, starting with a literature review and a summary of the legal framework in the Republic of Srpska. Then, the methodology applied to data collection and analysis, the sample, and the techniques used are explained. The results obtained indicate the impact of the application of transfer pricing to financial performance, tax burden, and competitiveness. The paper concludes with policy recommendations and suggestions for future research aimed at improving the transparency and efficiency of transfer pricing practices.

LITERATURE REVIEW

Transfer pricing is a key tool for tax burden optimization for multinational corporations by shifting profits to low-tax jurisdictions. It remains a critical strategy for the multinational corporations that aim to reduce their overall tax burden by allocating profits to countries with more favorable tax regimes, which practice is particularly prominent in the sectors with highly mobile assets and intellectual property, where profit allocation can be structured so as to achieve significant tax savings. S. U. Ahmed (2021) highlights the role of transfer pricing in reducing the tax base and enhancing competitiveness in tax competition. The author argues that the ability of multinational corporations to manipulate transfer pricing mechanisms poses a serious challenge to national tax authorities seeking to preserve fiscal revenues and ensure economic stability. Moreover, transfer pricing is seen as a strategic response to the changing tax rates and regulatory environment, thereby strengthening the competitive position of the companies engaged in cross-border business. M. Ištók *et al* (2022) explore safe harbor rules, which establish pre-determined margins for specific industries and types of transactions, as well as APAs as ways to reduce administrative costs and ensure compliance with regulations. L. M. Tănase *et al* (2023) highlight transfer pricing as a tool for tax optimization, analyzing it through the lens of tax planning in the EU and related regulatory challenges.

Complex ownership structures facilitate the use of transfer pricing to reduce tax burden, especially when companies have subsidiaries in multiple tax jurisdictions. Such structures enable internal profit reallocation, thereby decreasing the overall tax liability of the corporation (Tarmidi & Murwaningsari, 2019; Bouaziz & Ennour, 2022). In addition, intricate ownership chains and legal arrangements allow for the concealment of the true nature of transactions, making it more difficult for tax authorities to accurately assess the legitimacy of transfer pricing practices. As a result, companies often manage to reduce their effective tax rates significantly below the statutory rates in high-tax jurisdictions. In this context, multinational corporations increasingly adopt sophisticated ownership structures so as to align their tax planning strategies with favorable regulatory environments, thereby further enhancing their profitability and competitiveness.

Tax avoidance by multinational corporations is a globally significant issue. T. Tørsløv, L. Wier and G. Zucman (2022) found that 36% of multinational profits had been shifted to tax havens in 2015, thus having reduced tax revenues in high-tax countries. In this context, companies transfer profits through several main channels, each with distinct characteristics and implications:

- Transfer pricing in the trade of goods: Corporations manipulate prices in intragroup transactions related to goods in order to shift profits to jurisdictions with lower tax rates (Cristea & Nguyen, 2016; Liu, Schmidt-Eisenlohr & Guo, 2020).
- Intragroup debt shifting: By creating artificial debt structures or relocating the debt to their subsidiaries in high-tax countries, companies can reduce taxable income through interest payments (Huizinga, Laeven & Nicodeme, 2008). This strategy is particularly effective when interest payments are tax-deductible.
- Relocating intangible assets: Intellectual property, patents, trademarks, and other intangible assets are often relocated to countries with favorable tax regimes (Karkinsky & Riedel, 2012). The mobility

of intangible assets makes this channel especially attractive for tax avoidance.

- Intragroup trade of services: The provision of services (e.g. managerial, consulting, and technical services) between related entities can be manipulated in order to shift profits, especially when pricing is based on non-market terms (Sebele-Mpofu, Mashiri & Schwartz, 2021). This channel is less transparent and harder to regulate, making it a preferred method for multinational corporations engaging in profit shifting.

D. Syromyatnikov, M. Dolgova and S. Demin (2020) emphasize that transfer pricing in developing countries primarily serves as a tool for tax optimization. Transactions between related parties represent a significant risk factor for financial fraud, particularly in jurisdictions with weak or inadequate legal frameworks and limited supervisory capacities, which are characteristic of developing countries (Cabello, Watrin & Moraes, 2022; Nindito, Afianti, Koeswayo & Dewi Tanzil, 2024). For this reason, B. Güvemli, H. İ. Alpaslan and M. E. Şuşoğlu (2017) and D. H. Septiani, I. F. A. Prawira and M. Kusniawan, (2021) highlight the importance of regulating transfer pricing through an effective legislative framework aligned with international standards, with the aim of reducing the risk of tax evasion. Transfer pricing regulation presents a major challenge for many countries, particularly those in the developing world. A. A. T. Rathke, A. J. Rezende and C. Watrin (2021) demonstrate how different countries implement varying regulatory systems, contributing to inconsistencies in practice. J. P. Choi, T. Furusawa and J. Ishikawa (2020) underscore the importance of adhering to international standards so as to prevent harmful tax competition and safeguard national tax sovereignty. Furthermore, there is a strong emphasis on the need to strengthen national regulatory frameworks in order to enhance transparency and simplify dispute resolution mechanisms, thereby ensuring a fair allocation of tax revenues and protecting national budgets (Ciubotariu & Petrescu, 2022).

A ten-year study conducted in Slovakia (Kramarova, 2021) showed the connection between transfer prices,

earnings management and tax avoidance. A similar three-year study was conducted in Romania, with an analysis of examples at the European and global levels, highlighting the increasingly sophisticated methods used by multinational companies in shaping the financial result and the tax base through transfer pricing (Sava & Tureatcă, 2017), for which reason, the authors R. Maxim and F. Moisesescu (2017) emphasize the importance of strengthening international coordination and transparency, as well as a better control and regulation of transfer prices. V. Todorović, J. Bogićević and S. Vržina (2019) investigated the management of corporate income tax in banks in the Republic of Serbia, emphasizing that tax management includes a set of activities aimed at the legal minimization of tax liabilities. The obtained results indicated that tax policy had a significant impact on the financial position of related entities and their operations across multiple jurisdictions. Based on the research also conducted in the Republic of Serbia on a sample of 52 medium-sized and big companies operating in various industries, a fact was determined that transfer prices were more dominantly treated as a tax instrument than as a tool for managing business performance (Demko-Richter, Sekerez, Spasić & Conić, 2019).

The literature review suggests that the effective application of transfer pricing strategies enables multinational corporations to strategically allocate profits, thereby optimizing their tax burden and enhancing overall financial performance. However, it is important to emphasize that, while transfer pricing can serve as an effective tool for tax optimization, it may also obscure the accurate representation of the assets and income of related parties, which in turn poses challenges to the reliability of financial disclosures, particularly in the context of regulatory compliance and reporting transparency. Moreover, the strategic use of transfer pricing directly influences the way the actual tax base is reported, ultimately exerting an impact on both fiscal liabilities and corporate strategies concerning profitability and resource allocation - particularly in the case of multinational enterprises operating across multiple tax jurisdictions.

In line with the foregoing, the following research hypothesis was tested in the paper:

H1: Transfer pricing significantly affects the financial and tax position of related entities, particularly those operating across multiple tax jurisdictions.

LEGAL FRAMEWORK

Transfer prices are the prices at which related entities conduct transactions, such as goods sales, services, or financial arrangements. In the Republic of Srpska, regulations ensure that these transactions comply with the “arm’s length principle”, meaning conditions like those between unrelated parties in an open market. Accordingly, in the Republic of Srpska, transfer pricing is regulated by the Corporate Income Tax Law and the Rulebook on Transfer Pricing. These regulations define the methods for determining transfer prices, required documentation, and substantiation procedures. Related entities are entities connected through ownership, management, or in any other manner that could influence business decisions.

The Rulebook defines the following methods for determining transfer prices:

1. Comparable Uncontrolled Price Method: A comparison of prices in transactions between related entities with prices in similar transactions between unrelated entities.
2. Cost Plus Method: Adding a standard markup to the costs of production or service provision.
3. Resale Price Method: Deducting the standard distributor margin from the sales price of a product or service.
4. Transactional Net Margin Method: Analyzing the net profit margin achieved in transactions with related entities compared to margins in similar transactions between unrelated entities.
5. Profit Split Method: Allocating the total profit or loss between related entities in an economically justified manner.

The taxpayers involved in related transactions must maintain detailed transfer pricing documentation, which includes:

- Master File: The group-level documentation that provides an overview of business operations, the organizational structure, and transfer pricing policies.
- Local File: The entity-level documentation that provides detailed descriptions of transactions with related entities, comparability analysis, and the chosen method for determining transfer prices.

Taxpayers must have transfer pricing documentation available when submitting a tax return (March 31st in the current year for the previous year). Additionally, if total controlled transactions exceed BAM 700,000 in the tax year, the taxpayer must submit an annual report to the Tax Administration (offsetting income and expenses is not allowed). The documentation must be made available within 30 days if requested by the Tax Administration. Penalties for late submission range from BAM 20,000 to BAM 60,000 for the entity, and from BAM 5,000 to BAM 15,000 for the responsible individual.

International options for resolving transfer pricing disputes are not legally regulated, but internal options are. For adjustments following a tax audit, the taxpayer may appeal to the Ministry of Finance of the Republic of Srpska. In the event of an unfavorable decision rendered by the Ministry, the taxpayer may initiate administrative proceedings before the competent District Court and subsequently appeal to the Supreme Court of the Republic of Srpska. However, filing an appeal does not suspend the execution of the tax audit results.

There are 37 active international double taxation avoidance agreements in the Republic of Srpska (Tanasić, 2019). In the Republic of Srpska, APAs are not used, and there is no dedicated department for transfer pricing control, nor any customized databases for verifying transaction terms (Tanasić, Lalić & Petrović, 2024).

DATA AND METHODOLOGY

According to the data extracted from the Financial Statements Registry of the Agency for Intermediary, IT, and Financial Services (APIF) for the year 2023, a total of 1,644 related entities operated in the Republic of Srpska, including both the parent and subsidiary entities. This population reflects the entities engaging in inter-company transactions subject to transfer pricing regulations. To assess the specific impact of transfer pricing practices on the financial and tax positions of these entities, a sample of 57 related entities, representing 3.5% of the overall population, was used in the research. The sample size reflects the number of the entities that responded to the survey request rather than a predetermined optimal sample size. Significant challenges arose during the initial sampling phase. Overall, 80.05% of the entities either lacked publicly available email addresses or had incorrect/inactive email addresses, which limited our ability to effectively reach potential respondents. For those entities with functional email addresses, a formal invitation to participate in the survey, including a link to the electronic questionnaire, was sent to 328 companies. However, 82.62% of these entities did not respond, resulting in only 57 filled-out questionnaires. Although the response rate was relatively low, the findings still provide valuable insights into transfer pricing practices and their effects on the financial and tax positions of the related entities within the jurisdiction. The low response rate underscores broader challenges in engaging the business community in the research, likely stemming from a limited awareness of the value of scientific research for improving community outcomes. Another limitation to consider is the possibility that, as the representatives of their respective entities, the survey participants may not occupy roles directly related to the application of transfer pricing. Consequently, there is a risk that they may have been insufficiently familiar with the subject matter of the questionnaire, or the terminology used in it, which may potentially have affected the accuracy and reliability of their responses. Nevertheless, the insights gained from the entities included in the survey remain valuable for understanding the trends

and the potential implications of transfer pricing practices.

In this study, a simple linear regression model was used to demonstrate the degree of the impact of transfer pricing (the independent variable) on the financial and tax positions (the dependent variables) of the related entities. The financial and tax positions were measured based on the respondents' assessments of their own satisfaction with the current financial and tax situations, given the application of the transfer pricing policies. As a dependent variable, the financial position was evaluated through subjective assessments performed by the respondents, who were asked to rate their own satisfaction with the financial outcomes of their respective entities, following the application of transfer pricing, which included their perceptions of overall profitability, liquidity, and financial stability. The respondents used a Likert scale (ranging from 1 to 5) to indicate the extent to which they believed that transfer pricing had contributed to improving their financial position, including the aspects such as increased cash flow, better resource allocation, and enhanced market competitiveness. Similarly, the tax position was assessed through the respondents' respective evaluations of their own satisfaction with their current tax burden in relation to the application of transfer pricing. The survey captured the perceptions of the effectiveness of transfer pricing in optimizing tax burden, including the ability to effectively utilize tax reliefs, deductions, and exemptions. The respondents were asked to indicate, on the Likert scale (from 1 to 5), how satisfied they were with the extent to which transfer pricing had led to the reduction in their tax burden and improved compliance with the existing tax regulations. These subjective evaluations provided a unique insight into how transfer pricing was perceived to influence both financial performance and tax efficiency at the entity level, allowing for a nuanced interpretation of its impact beyond purely quantitative financial metrics.

Considering that Bosnia and Herzegovina has a unique organizational structure characterized by fragmented and conflicting accounting and tax regulations, this study identifies and presents the differences in the impact of transfer pricing on the

financial and tax performance of the related entities, which on their part are categorized into three groups: (1) those operating exclusively within the Republic of Srpska, i.e. within a single tax jurisdiction; (2) those operating across multiple tax jurisdictions within Bosnia and Herzegovina (two or three); and (3) those engaged in transactions with related entities operating abroad. Based on this classification, the results are presented in three distinct segments. Specifically, 35.1% of the total number of the respondents indicated that they did not have related legal entities within the Republic of Srpska. Therefore, they were excluded from the assessment of the goal achievement related to the application of transfer pricing in transactions with the related entities within the same jurisdiction. For this category, a sample of 37 respondents was used. To assess the achievement level of the goals related to the application of transfer pricing in transactions with the related legal entities within Bosnia and Herzegovina, a sample of 43 respondents was used, which is because 24.6% of the respondents indicated that they did not have related legal entities in other jurisdictions within Bosnia and Herzegovina, for which reason they were excluded from the assessment of the set goals. A sample of 34 respondents was used to evaluate the level of the achievement of certain goals related to the application of transfer pricing in transactions with the related legal entities abroad. This sample size reflects that 40.3% of the respondents reported they did not have related entities abroad.

RESEARCH RESULTS

The organizational status of the entities included in the survey concerning their affiliated structures was as follows: 26.3% of the respondents identified themselves as the parent entities, whereas the remaining 73.7% of them classified themselves as subsidiaries. Of the total number of the related legal entities participating in the survey, 10.5% stated that they operated only within the Republic of Srpska, thus indicating their focus on localized operations without involvement in other tax jurisdictions. Furthermore,

28.1% operate in two or all three jurisdictions within Bosnia and Herzegovina, which reflects a regional business approach that necessitates compliance with multiple regulatory frameworks. As many as 42.1% of the companies operate within the territory of the Republic of Srpska and abroad, which highlights their engagement in cross-border activities, which involves navigating different fiscal and regulatory environments. Finally, only 19.3% indicated that they carried out their business activities within the territory of Bosnia and Herzegovina (in two or all three jurisdictions), as well as abroad, thus pointing to the complex operational structure that requires sophisticated management of diverse legal and fiscal obligations (Table 1).

Table 1 The territorial structure of the business operations of the related entities registered in the Republic of Srpska

Area of operation	Number of the respondents	Share
Republic of Srpska	6	10.5%
Bosnia and Herzegovina (two or three jurisdictions)	16	28.1%
Republic of Srpska and abroad	24	42.1%
Bosnia and Herzegovina and abroad	11	19.3%
Total	57	100.0%

Source: The authors

In Bosnia and Herzegovina, the existence of three distinct and independent corporate income tax systems creates a foundation for a certain level of tax competition. While corporate income tax rates across the entities and Brčko District are relatively low and harmonized, tax incentives and reliefs

emerge as the primary drivers of these competitive dynamics. According to the research study, 42% of the respondents reported significant discrepancies in the tax reliefs between the jurisdictions within Bosnia and Herzegovina, 40% noted partial discrepancies, and 18% were unfamiliar with the prescribed tax reliefs in the other jurisdictions. None of the respondents indicated that tax regulations were fully harmonized across all the jurisdictions in Bosnia and Herzegovina, which points to the fragmented tax policy landscape that complicates compliance for entities operating in multiple areas.

The following charts present the objectives of the transactional activities involving transfer pricing and the tables with the goal fulfillment ratings using the Likert scale (1 - completely unfulfilled, 5 - completely fulfilled). It is important to note that, when collecting data on tax practices, particularly in transition countries, the potential for respondent bias must be carefully considered. In her 2007 study, K. Gërzhani (2007) underscores the challenges involved and provides guidelines for potentially overcoming them when gathering data on tax evasion. She emphasizes

that respondents often hesitate to admit to certain activities due to fears of sanctions or social stigma.

Improving the financial position is cited as the primary objective of transactional activities with related entities within the Republic of Srpska. Increasing the market share is also a significant goal, followed by improving business operations, while reducing tax burden is the least cited objective in applying transfer pricing within the same jurisdiction

For transactions with related entities in other jurisdictions within Bosnia and Herzegovina (Figure 2), improving the financial position remains the primary objective, followed by increasing market share, improving business operations, and, to a somewhat lesser extent, reducing tax burden.

Regarding transfer pricing with the related entities abroad (Figure 3), the entities in the Republic of Srpska identified the increase in the market share and reduction in tax burden as the primary objectives. Additionally, they also mentioned reduction in the impact of the economic constraints and, to a lesser extent, the improvement of the financial position of the entity.

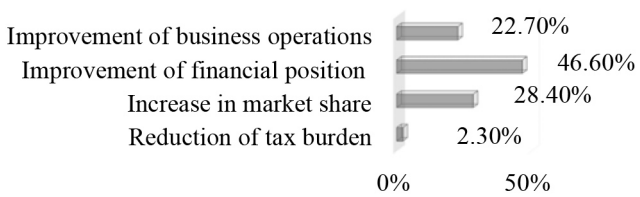


Figure 1 The objectives of the transfer pricing applications in business with the related entities within the same jurisdiction

Source: The authors

Table 2 The rating of the degree of the fulfillment of the objectives through the transfer pricing applications in business with the related entities within the same jurisdiction

Primary objectives	Number of the respondents	Actual range		Median	Arithmetic mean	Standard deviation
		Min. score	Max. score			
The improvement of business operations	37	3	5	4.00	4.11	0.568
The improvement of the financial position	37	3	5	4.00	4.33	0.321
An increase in the market share	37	3	5	4.00	4.28	0.522
Reduction in tax burden	37	2	4	4.00	3.31	0.261

Source: The authors

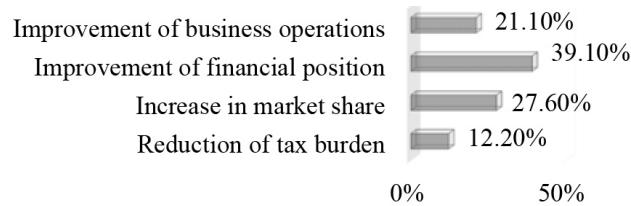


Figure 2 The objectives of the transfer pricing applications in business with the related entities in Bosnia and Herzegovina

Source: The authors

Table 3 The rating of the degree of the fulfillment of the objectives through the transfer pricing applications in business with the related entities in Bosnia and Herzegovina

Primary objectives	Number of the respondents	Actual range		Median	Arithmetic mean	Standard deviation
		Min. score	Max. score			
The improvement of business operations	43	3	5	4.00	4.17	0.541
The improvement of the financial position	43	3	5	4.00	4.57	0.689
An increase in the market share	43	3	5	4.00	4.11	0.728
Reduction in tax burden	43	2	5	4.00	3.67	0.612

Source: The authors

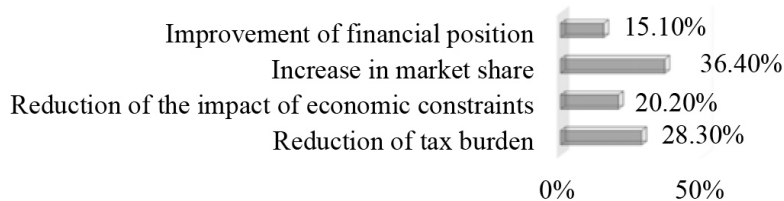


Figure 3 The objectives of the transfer pricing applications in business with the related entities abroad

Source: The authors

Table 4 The rating of the degree of the fulfillment of the objectives through the transfer pricing applications in business with the related entities abroad

Primary objectives	Number of the respondents	Actual range		Median	Arithmetic mean	Standard deviation
		Min. score	Max. score			
The improvement of the financial position	34	3	5	4.00	4.10	0.786
An increase in the market share	34	3	5	4.00	4.15	0.702
Reduction in the impact of the economic constraints	34	4	5	4.00	4.21	0.553
Reduction in tax burden	34	3	5	4.00	3.93	0.598

Source: The authors

HYPOTHESIS TESTING AND DISCUSSION

To assess the strength of the relationship between the transfer pricing application and the achievement of the specific objectives in transactions with the related entities, the Pearson Correlation Coefficient (PCC) was employed. The results of the correlation analysis are presented in the tables 5-7.

The data indicate that, at the 1% error level, a strong positive correlation exists between the degree of the transfer pricing application and the achievement of certain business objectives with the related entities (except for the reduction in tax burden in dealings within the same tax jurisdiction, i.e. in the Republic of Srpska). It is noticeable that the strength

of the correlation is the weakest in the transactional relationships with the related entities within the same tax jurisdiction, and the strongest with the related entities abroad.

In line with the conducted research, the results of the regression analysis are presented in tables 8 to 12. The established multiple correlation coefficient and the coefficient of determination (Table 8) indicate the strong relationship between transfer pricing and the financial position within the same jurisdiction, where 57% of the variability in the financial position is explained by the variations in transfer pricing. The ANOVA test ($p=0.000<0.05$) confirms that the regression model is statistically valid. The regression equation for the impact of transfer pricing on the

Table 5 PCC for the fulfillment of the objectives of the transfer pricing applications in business with the related entities within the same tax jurisdiction

	The improvement of business operations	The improvement of the financial position	An increase in the market share	Reduction in tax burden
The degree of the TP applications in the business activities of the entity	0.785**	0.802**	0.812**	*
The improvement of business operations		1.000**	0.599	*
The improvement of the financial position			0.967**	*
An increase in the market share				*
The number of the respondents	37			

** $p < 0.01$; * It cannot be calculated because at least one of the variables is constant.

Source: The authors

Table 6 PCC for objectives of transfer pricing applications in business with related entities across multiple tax jurisdictions in Bosnia and Herzegovina

	The improvement of business operations	The improvement of the financial position	An increase in the market share	Reduction in tax burden
The degree of the TP applications in the business activities of the entity	0.856**	0.813**	0.905**	0.652**
The improvement of business operations		0.832**	0.939**	0.723**
The improvement of the financial position			0.958**	0.626**
An increase in the market share				0.704**
The number of the respondents	43			

** $p < 0.01$;

Source: The authors

financial position of the related entities within the same jurisdiction is $Y = 0.897 + 0.788X$. Based on the t-test value ($t=6.285>2.0013$) and the significance level ($p=0.000<0.05$), it can be concluded that transfer pricing has a statistically significant impact on predicting the financial position. Due to the inability to calculate the correlation coefficient between the degree of the transfer pricing application and the reduction in tax burden within the same jurisdiction (owing to a small number of the respondents selecting this objective), it was determined that no significant dependency exists between these two components, which was an expected outcome given the fact that, unlike improving the financial position, increasing the market share and enhancing overall business operations, reducing tax burden is not considered the primary or dominant objective for the business

activities of the related entities within the same jurisdiction, i.e. in the Republic of Srpska.

The multiple correlation coefficient ($R=0.815$) and the coefficient of determination indicate a strong relationship between transfer pricing and the financial position of the related entities operating across multiple tax jurisdictions in Bosnia and Herzegovina (Table 9), with 66.4% of the variability in the financial position explained by the regression model. The ANOVA test ($p=0.000<0.05$) confirmed the statistical validity of the model. The regression equation for the impact of transfer pricing on the financial position of the related entities is $Y = 1.421 + 0.755X$. Based on the t-test value ($t=8.495>2.0013$) and the significance level ($p=0.000<0.05$), it can be concluded that transfer pricing has a statistically significant effect on the

Table 7 The PCC for the objectives of the transfer pricing applications in business with the related entities abroad

	The improvement of business operations	The improvement of the financial position	An increase in the market share	Reduction in tax burden
The degree of the TP applications in the business activities of the entity	0.814**	0.851**	0.912**	0.718**
The improvement of business operations		0.842*	0.841	0.988**
The improvement of the financial position			0.799**	0.668**
An increase in the market share				0.793**
The number of the respondents	34			

* $p < 0.05$; ** $p < 0.01$

Source: The authors

Table 8 The impact of the transfer pricing applications on the improvement of the financial position of the related entities within the same jurisdiction

The financial position of the model (Y)	Regression coefficients		t-test	Significance
	β	Standard error		
The constant	0.897	0.396	2.013	0.049
The degree of the TP applications in the business activities of the entity (X)	0.788	0.117	6.285	0.000
The multiple correlation coefficient	$R=0.755$			
The coefficient of determination	$R^2=0.570$			
The ANOVA test	$p=0.000$			
The number of the respondents	37			

Source: The authors

financial position of the entities operating across multiple tax jurisdictions in Bosnia and Herzegovina.

The correlation analysis also reveals a direct relationship between the transfer pricing application and the reduction in tax burden for the related entities across multiple jurisdictions (Table 10). The coefficient of determination shows that 39.9% of the variability in the tax position is explained by the transfer pricing application. The ANOVA test ($p=0.001<0.05$) indicated that the regression model was statistically valid. The regression equation is $Y = 1.355 + 0.612X$. Based on the t-test value ($t=3.498>2.0013$) and the significance level ($p=0.001<0.05$), it is evident that transfer pricing significantly influences the tax position of the related entities in Bosnia and Herzegovina. A strong direct relationship was also established between transfer

pricing and the improvement of the financial position of the entities conducting transactions with the related entities abroad (Table 11). In this context, 64.2% of the variability in the financial position can be explained by the regression model. The ANOVA test ($p=0.004<0.05$) confirms the statistical validity of the model. The regression equation is $Y = 0.598 + 0.887X$. The t-test value ($t=3.998>2.0013$) and the significance level ($p=0.004<0.05$) indicate that transfer pricing significantly contributes to predicting the financial position of these entities.

Moreover, the multiple correlation coefficient indicates a strong relationship between transfer pricing and the reduction in tax burden for the entities conducting transactions abroad (Table 12). The coefficient of determination shows that 52% of

Table 9 The impact of the transfer pricing applications on the improvement of the financial position of the related entities operating across multiple tax jurisdictions in Bosnia and Herzegovina

The financial position of the model (Y)	Regression coefficients		t-test	Significance
	β	Standard error		
The constant	1.421	0.425	3.650	0.012
The degree of the TP applications in the business activities of the entity (X)	0.755	0.091	8.495	0.000
The multiple correlation coefficient	R=0.815			
The coefficient of determination	R ² =0.664			
The ANOVA test	p=0.000			
The number of the respondents	43			

Source: The authors

Table 10 The impact of the transfer pricing applications on the tax position for the related entities operating across multiple tax jurisdictions in Bosnia and Herzegovina

The financial position of the model (Y)	Regression coefficients		t-test	Significance
	β	Standard error		
The constant	1.355	0.567	2.110	0.049
The degree of the TP applications in the business activities of the entity (X)	0.612	0.201	3.498	0.001
The multiple correlation coefficient	R=0.632			
The coefficient of determination	R ² =0.399			
The ANOVA test	p=0.001			
The number of the respondents	43			

Source: The authors

the variability in the tax position is determined by transfer pricing. The ANOVA test ($p=0.001<0.05$) demonstrates the statistical validity of the model. The regression equation for the tax position of the entities conducting transactions abroad is $Y = 2.110 + 0.503X$. The t-test value ($t=5.023>2.0013$) and the significance level ($p=0.001<0.05$) allow us to conclude that transfer pricing has a statistically significant impact on the tax position of the entities engaged in controlled transactions with the related entities abroad.

CONCLUSION

This study provides the empirical evidence confirming that transfer pricing is a pivotal tool for

tax burden optimization and financial performance enhancement in the Republic of Srpska, particularly in the context of global economic integration and increasingly complex international tax systems. The results of the regression analysis demonstrate a significant impact of transfer pricing on the financial and tax positions of the related entities in the sample analyzed. These findings indicate that the strategic application of transfer pricing can yield considerable competitive advantages, particularly for the entities operating across multiple tax jurisdictions. For the entities operating within a single jurisdiction transfer pricing primarily contributes to improved operational efficiency, although its impact on tax burden reduction appears to be less significant. This finding underscores the differentiated benefits derived from

Table 11 The impact of the transfer pricing applications on the improvement of the financial position of the entities conducting business with the related entities abroad

The financial position of the model (Y)	Regression coefficients		t-test	Significance
	β	Standard error		
The constant	0.598	0.812	0.725	0.501
The degree of the TP applications in the business activities of the entity (X)	0.887	0.225	3.998	0.004
The multiple correlation coefficient	R=0.801			
The coefficient of determination	R ² =0.642			
The ANOVA test	p=0.004			
The number of the respondents	34			

Source: The authors

Table 12 The impact of the transfer pricing applications on the tax position of the entities conducting business with the related entities abroad

The financial position of the model (Y)	Regression coefficients		t-test	Significance
	β	Standard error		
The constant	2.110	0.425	4.512	0.000
The degree of the TP applications in the business activities of the entity (X)	0.503	0.128	5.023	0.001
The multiple correlation coefficient	R=0.721			
The coefficient of determination	R ² =0.520			
The ANOVA test	p=0.001			
The number of the respondents	34			

Source: The authors

transfer pricing, which vary depending on the scope of operations and market complexity. Consequently, the adoption of appropriate transfer pricing strategies is essential for companies seeking to navigate both domestic and international tax environments effectively. The conducted regression analysis demonstrates that significant differences exist in the strength of the relationship between transfer pricing practices and the financial and tax performance of the related entities. Gradually observed, the impact of transfer pricing is the weakest within the same tax jurisdiction, more pronounced when the entities operate across multiple tax jurisdictions within Bosnia and Herzegovina, and the most pronounced when dealing with the related entities abroad.

However, this research study has certain limitations that must be taken into account when interpreting the results. The relatively small sample size of 57 entities limits the generalizability of the results. In addition, the possibility of respondent bias must be acknowledged as inaccuracies or intentional misrepresentations in the self-assessment of the financial and tax positions, as well as the perceived impact of transfer pricing, may compromise the reliability of the data. Although the low response rate posed methodological challenges, the data collected nevertheless offer valuable perspectives on transfer pricing patterns and their implications within the Republic of Srpska.

This research study contributes to the existing literature on transfer pricing by providing a detailed empirical analysis of its application among related entities in the Republic of Srpska and emphasizes the importance of establishing a well-structured regulatory framework aimed at maximizing positive outcomes and minimizing associated risks. Additionally, the findings highlight the need for advanced regulatory instruments such as Advance Pricing Agreements (APAs) to enhance legal certainty, reduce administrative burden, and foster a transparent business environment aligned with international standards, such as the OECD guidelines.

Effective and transparent transfer pricing practices are essential for promoting financial stability and

ensuring fairness within the tax system. Furthermore, improved corporate governance, strong internal controls, and clearly defined audit and management practices are essential for increasing accountability and mitigating the risks associated with inappropriate or abusive transfer pricing practices. Raising awareness among the business community about the importance of participating in scientific research could significantly improve the quality of data and contribute to more comprehensive and reliable future studies. Future research should focus on increasing the sample sizes, examining different transfer pricing strategies, and analyzing their effects across different tax jurisdictions and regulatory frameworks. Ensuring the respondents' expertise and encouraging a broader company participation are key to obtaining reliable results. Such efforts would provide a deeper insight into transfer pricing practices and their implications for financial and tax performance, thereby supporting economic growth, transparency, and regulatory efficiency.

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UTICAJ TRANSFERNIH CENA NA OPTIMIZACIJU FINANSIJSKE I PORESKE POZICIJE POVEZANIH LICA U REPUBLICI SRPSKOJ

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Ovaj rad istražuje transferne cene kao strateški alat za optimizaciju poslovnih performansi i smanjenje poreskog opterećenja povezanih lica u Republici Srpskoj. Cilj istraživanja je kvantitativno ocenjivanje uticaja transfernih cena na ostvarenje ključnih poslovnih ciljeva, uključujući unapređenje finansijskih performansi, minimizaciju poreskog opterećenja i stratešku alokaciju resursa. Empirijski podaci za istraživanje prikupljeni su iz Registra finansijskih izveštaja za 2023. godinu. Za utvrđivanje odnosa između primene transfernih cena i finansijske i poreske pozicije povezanih lica korišćen je jednostavan model linearne regresije. Nalazi istraživanja pokazuju značajan i pozitivan uticaj transfernih cena na poboljšanje finansijske i poreske pozicije povezanih lica, posebno onih koja posluju u više poreskih jurisdikcija. Rezultati naglašavaju značaj transfernih cena kao strateškog instrumenta za finansijsko planiranje i optimizaciju resursa, te preporučuju da se nacionalni regulatorni okvir uskladi sa međunarodnim smernicama.

Ključne reči: transferne cene, povezana lica, finansijska pozicija, poreska pozicija

JEL Classification: M41, M48, H25, F23