Transfer Pricing and Comparables: Public Finance Pressures and a Corporate Tax Audit

António Martins
University of Coimbra

Tax administration is a key player in reaching public finance revenue goals. In some circumstances, tax auditors respond to incentives that a performance measuring system sets up. An adversarial and contentious relationship with taxpayers can develop if such systems are not properly managed. In Portugal, after the public finance crisis and the international bailout in 2011, tax administration became pressured to increase audits and revenue collection. In some cases, an overzealous audit behavior followed from such organizational strategy. This is the topic addressed by the paper, based on a case study where a significant tax adjustment was made based on what we consider shaky economic and legal grounds. It is, in our view, a typical example of an overzealous tax audit, based less on sound economic or legal reasons, and more on tax auditors' propensity to reach auditing goals in a politically charged environment.

INTRODUCTION

Tax administration is a key player in implementing tax policy. After a relative neglect in the tax literature, the study of tax administration´s behavior, its impact on tax compliance, incentives and performance assessment measures used to manage such complex organizations, have been gaining ground in tax research (Kaplanoglou and Rapanos , 2012; Serra, 2005). In Portugal, the financial crisis that triggered a bail out in 2011 put additional emphasis on collecting tax receipts. The Portuguese tax administration was strongly pressured to fight tax evasion and to find adjustments – following tax audits - to firms´ declared taxable revenue.

These developments are understandable in the context of an international bailout. However, given external and internal pressures faced by Portuguese tax auditors, an overzealous commitment to find adjustments and, consequently, increase taxable revenue, could easily follow.

In some circumstances, tax auditors respond to incentives that a performance measuring system sets up. An adversarial and contentious relationship with taxpayers can develop if such systems are not properly managed.

This is the topic the paper addresses, based on a case study, where a tax adjustment was made based on very shaky grounds. It is, in our view, a typical example of an overzealous tax audit, based less on sound economic or legal reasons, and more on tax auditors' propensity to reach revenue goals.

The paper is organized as follows: section 2 deals with literature review, section 3 presents the methodology, section 4 briefly highlights the Portuguese economic situation at the international bailout time, section 5 is the core of the paper and deals with the case and its interpretation in terms of tax auditors´ behavior, section 6 concludes.

LITERATURE REVIEW

The relationship between taxpayers and the tax administration (TA) is of paramount importance to the adequate functioning of a tax system. A good design of the tax law may be hampered in its application by a poorly performing TA (Serra, 2005; Hansford and Hasseldine, 2002).

In the U.S., the Internal Revenue Service (IRS) states that its mission is to provide taxpayers top quality service by helping them understanding and meeting their tax responsibilities and by applying the tax law with integrity and fairness. In Canada, the Customs and Revenue Agency (CCRA) states that it operates on the assumption that its clients are more likely to comply with the law if they are treated fairly and have the support to meet their obligations.

According to Serra (2005), the goals of the Chilean TA are the maximization of tax revenue and the minimization of compliance costs. To measure the first objective, the Chilean Administration mostly uses compliance rates as performance measures, adjusting revenue collection for modifications in the tax base.

However, these indicators have shortcomings. On the one hand, they do not adjust for changes in taxpayers´ income due to economic dynamics; on the other hand, the budgetary resources of TA tend to be neglected in setting compliance rates.

The role of badly designed incentives is also highlighted in the case of Chilean TA. Prior to 1991, the performance of regional tax offices was measured by the level of their penalty assessments. This induced tax inspectors to make some rough estimates, assessing penalties that did not exist or imposing exaggerated fines that subsequently had to be reduced. From 1992 onwards, performance has been measured through net penalty appraisals, i.e. final assessments after elimination or reduction by a regional director. Penalty assessments by tax auditors fell heavily in 1992. Thus, in some circumstances, tax auditors respond to incentives that a performance measuring system creates. These incentives can contribute to a contentious relationship with taxpayers.

Another issue that usually increases friction between TA and taxpayers is the cross-checking of returns with third party reported data. According to Camp (2010) the matching system presumes all third party information correct, and also presumes that a mismatch with a taxpayer return is the latter's fault. This type of decisions is embedded in batch-processing. Decisions must be made relating to groups of taxpayers and there is neither time nor money to make individualized checks.

Based on such presumptions many "deficiency notes" are issued to taxpayers, caused by supposed errors. In many cases there is no fault and the taxpayer feels unfairly treated. But, whatever the case, for many TA the ability to detect real or artificial mismatches is seen as a major advance in fighting evasion.

Kaplanoglou and Rapanos (2012) underline that political factors can be major determinants for tax administration´s behavior in auditing processes. There is a view that in many EU countries politically motivated budgetary optimism concerning economic growth was a key factor behind deviations between tax receipts forecasts and effective revenue collection (Jonung & Larch 2006).

In the context of the Stability and Growth Programs submitted to the European Commission, several governments based their fiscal forecasts on optimistic economic scenarios, thus inflating revenue and lowering expected public deficits. Tax administrations became pressured to reach the stated goals. Auditors became conscious that adjustments favoring the state had to be found, as staff career advancement could be negatively affected if they were not seen zealous in finding such adjustments.

On top of these issues, a widespread feeling that a significant proportion of corporate taxpayers do not pay their fair share of taxes creates an environment where tough audits and press releases boasting high fines and penalties are well regarded by the general public.

As Yin (2012) states, effective tax administration must involve some level of real and perceived tough auditing. But if auditing is perceived to be draconian, it can hamper the development of a positive tax culture and the internalization, by taxpayers, of a voluntary obligation to pay taxes.

Another complain of taxpayers is that many changes in the tax law arise from the special requests of TA. As high ranking tax officials have direct access to political actors (e.g., Finance Ministers) they can heavily influence new legislation specifically designed to help TA´s auditing efforts. As Esteller-Moré (2011) highlights, both the TA and the legislative implicitly act as a single agent in charge of tax

collection and the design of the tax code. According to Whitehouse (2011) this increased aggressiveness of TA is a widespread concern at the international level.

In conclusion, the stringent need for tax receipts, the increasing capabilities in IT systems for cross checking third party data, the increased relevance of performance measures for TA staff, career concerns for auditors, the proximity between TA and legislators and the positive social feedback of being seen as tough on fighting evasion are affecting the way tax audits are being performed in many countries, not least Portugal.

METHODOLOGY

This paper is based on the case study methodology. This strategy has been used in many research areas (Scholz and Tietje, 2002). It is an extremely useful tool in responding to questions such as "how" or "why", when knowledge about an issue is reduced. It is considered an appropriate tool to increase knowledge about a certain problem, contributing to its understanding and, ultimately, also for making better decisions (Scholz and Tietje, 2002).

Taking into account the aim of this study, the discussion of a Portuguese tax authorities auditing - and related tax adjustments - in an emblematic case related to cost deduction and transfer pricing was selected as the cornerstone of the analysis. These are areas of increasing litigation and are well suited to discuss auditing incentives and respective outcomes.

A considerable part of the paper deals with the interpretation of tax law, using the legal research method. Hutchinson and Duncan (2012: 84) endorse the following definition of this research method: "the synthesis of various rules, principles, norms, values and interpretive guidelines". It takes a section or article of the law and relates it (or makes it coherent) to the larger normative system. It is also crucial to understand how all legal and non-legal elements relate to the analysis of a certain topic; or how a lawsuit outcome may contribute to illuminate a tax issue.

In this context, we seek to answer the following research questions:

i. How does the Portuguese public finance situation after the 2008 financial crisis and the 2011 bailout relate to a new stance of the Portuguese TA regarding the perceived toughness of audits?
ii. Is the interpretation of tax law used by TA to arrive at tax adjustments (regarding the concept of "indispensable" or "necessary" costs) appropriate, given the doctrinal analysis and also the consolidate body of jurisprudence? Or is it stretched, to reach auditing goals?
iii. Is the transfer pricing adjustment of a particular financial operation reasonable, in terms of what would be expected to sustain it in a litigation case?

PORTUGAL PUBLIC FINANCE SITUATION AND THE NEED FOR TAX RECEIPTS

After entering the euro, and before the 2008 financial crisis, the Portuguese economic performance was disappointing (see table 1). Growth was anemic, the decline of investment reflected expectations of a deteriorating economy and the current account balance implied annual financing needs of about 10% of GDP. Being in the euro club was perceived as an anchor against financial markets´ negative reaction to such an economic performance.

Besides, with persistent budget deficits and a level of public debt dangerously high to absorb a severe shock, the Portuguese economy was ill prepared to resist the 2008 crisis and its aftermath.

This economic evolution caused significant concerns in rating agencies. The country lost its investment grade status, moving from AA, in 2000, to BBB- in 2011.

Several downgrades announced by S&P in 2010 and 2011 increased the risk premium to the German Bund to 440 basis points, causing a severe increase in Portuguese interest costs. Finally, in 2011, the Portuguese government had no conditions to sell long term debt in the markets at reasonable prices and asked for a bailout. The International Monetary Fund (IMF), the European Central Bank (ECB) and The European Commission (EC) - also known as "the *Troika*" - designed a tough adjustment program.

TABLE 1
THE PORTUGUESE ECONOMY FROM 2005-2011

	2005	2006	2007	2008	2009	2010	2011
Real GDP growth (%)	0,8	1,4	2,4	0,0	-2,9	1,9	-1,3
Fixed capital formation growth (%)	-0,5	-1,3	2,6	-0,3	-8,6	-3,1	-10,5
Government deficit (%GDP)	-6,5	-4,6	-3,2	-3,7	-10,2	-9,9	-4,3
Public debt (%GDP)	67,69	68,1	68,2	71,58	83,05	93,32	107,7
Current account balance (% GDP)	-10,3	-10,7	-10,1	-12,6	-10,9	-10,6	-7,0

Sources: OECD iLibrary and Portuguese Central Bank Annual Report

Tax data also revealed that, in 2010, 71% of entities subjected to the corporate income tax did not report any tax due. Persistent losses, tax evasion and fraud, and lack of auditing resources to control a significant number of entities, were commonly referred as causes.

After signing the bailout program, the Portuguese government and the TA were committed to increase tax receipts. Tax audits were an obvious tool for reaching this goal, while, at the same time, showing a public commitment to fight tax evasion and fraud. Auditing staff were given quantifiable tax adjustments that should be attained, for every year. An organizational pressure was growing inside the TA for aggressive audits. This is the environment where the following transfer pricing case happened.

THE CASE OF A TRANSFER PRICE TAX AUDITING

Transfer Pricing and Comparables: A Brief Note

Transfer pricing is concerned with prices charged between associated enterprises for the transfer of goods, services and intangibles. As these prices can be used for the (abusive) manipulation of taxable income, the arm´s length principle is the cornerstone of TP control by tax authorities (Smith, 2002). The arm's length principle implies the use of transactions of independent enterprises as a benchmark to determine how profits and expenses should be allocated for the transactions between associated enterprises. It compares the prices an enterprise has transacted with its associated enterprise with what a truly independent enterprise would have done in the same or similar circumstances.

The principle requires associated enterprises to charge the same price, royalty and other fees in relation to a controlled transaction, as that which would be charged by independent enterprises in an uncontrolled transaction in comparable circumstances. It represents the closest approximation to open market and economic reality and would produce a reasonable allocation of profits_and income within a multinational enterprise (Cools et al, 2008).

In practice, the arm's length principle can be implemented as follows:

a) characterize the transactions between the associated enterprises and document the characterization;
b) select the most appropriate transfer pricing methodology and document the choice;
c) apply the most appropriate transfer pricing methodology, determine the arm's length outcome and document the process; and
d) implement support processes, including a review process to ensure adjustment for material changes and document the processes.

The "comparable uncontrolled price method" compares the price for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances. If the transfer is in all material respects

comparable to the transfer between associated enterprises, the price becomes a comparable uncontrolled price.

There are two possible types of comparison:

(a) *internal comparable uncontrolled price* where the price to the controlled transaction is compared to the price charged in a comparable transaction between one of the enterprises to the transaction and an independent enterprise;

(b) *external comparable uncontrolled price* where the price to the controlled transaction is compared to the price of a comparable transaction between third party enterprises.

The use of an internal comparable uncontrolled price is preferred as, all other things being equal, the circumstances of the controlled transaction are likely to mirror more closely those of the uncontrolled transaction. Reliable application of the comparable uncontrolled price method requires that there are no differences in the transactions being compared, or that the effect on price of any differences that do exist can be accurately accounted for by way of an adjustment (Hyde and Choe, 2005).

While all comparability factors should be considered, the most important are similarity of products, contract terms and economic/market conditions. Situations where it is most appropriate to apply the comparable uncontrolled price method include: interest rate charged on an inter-company borrowing between associated enterprises, royalties charged on licensed intangible properties (e.g. trademark, design, copyright, etc.); and price charged for the sale of listed securities.

The Position of the Tax Authority on the Case Under Analysis

The audit report – from 2011 - presents an analysis of financial revenues and costs recognized in the accounts of a Portuguese company, hereafter named GAMA POR. It concludes that its balance sheet showed, in 2006, two loans obtained from the (USA tax resident) bank DELTA. These loans paid interest at a rate that resulted from a reference rate (Libor or Euribor, as the loans are denominated, respectively, in dollars or euros) and a spread of 4.5%. The interest rates, in 2007 and 2008, ranged between 7.03% and 11.36%.

The audit also concludes that, in the years in question, GAMA POR placed surplus funds upon its parent, hereafter named GAMA UK (British tax resident). These funds were remunerated at a rate of 4%.

Based on the observation that the rate paid to obtain debt from DELTA bank is more than twice that charged to the loan to GAMA UK the report raises two questions.

The first one about the financial costs incurred by the firm with the borrowings from the bank: do they pass the indispensability test established in Article 23 of the Portuguese Corporate Income Tax Code (CITC)? The second, related to transfer pricing rules.

The Portuguese tax administration sustains that a taxpayer having financial surpluses would not choose to maintain financial debt if the interest rate provided by the application of its excess cash was lower than the rate paid by the loan.

According to the TA audit report, if the company had such a combination of interest rates, it would distort the legal and economic notion of a firm´s business purpose, which is to obtain a surplus to be distributed to shareholders. Based on this assumption, the tax administration claims that an independent entity would never enter into a situation where financial costs incurred from loans would be higher than the interest rates charged to its parent, when placing surplus cash.

The TA´s audit (positively) adjusted the financial income of the firm to the amount half a million euro, by using the interest rate paid to DELTA bank as a comparable to the surplus funds remuneration that GAMA UK should pay to GAMA POR.

Three important points must be discussed. Firstly, whether the maintenance of cash surpluses, remunerated at lower rates than borrowing costs, contends with the notion of business purpose. Secondly, if the financial expenditures incurred are "indispensable".

Finally, if the application of transfer pricing rules, as done by the tax authorities, is consistent with the legal requirements applicable to the operation.

The Financial Management of Companies and Purpose of Corporate Entities

The financial management of companies – which deals, among other issues, with investment, financing and dividend policies - is affected by a wide range of factors.

The financial literature (Damodaran, 2011) argues that the financing choice (equity or debt) must weigh, among others, the following factors: the structure of assets, taxation, investment opportunities and the value of debt as part of disciplining managers.

Moreover, the so-called "golden rule" of financial management recommends that long-term assets should normally be financed by permanent or long-term capital (including, of course, equity and long term debt). The surplus of permanent capital over long-term assets is reflected in the concept of working capital, which often materializes in surplus funds or liquid assets available.

To illustrate, if a given business entity has assets in the balance sheet worth €1,000,000, and the long term capital is above that amount (admittedly, €1.3 million), then a net working capital of €300,000. Part of this working capital can be held in liquid funds, as a short term investment. Keynesian analysis concerning liquidity motives is paramount in the explanation of why firms and other economic agents have liquid assets, even when indebted. Transactional motives and speculative reasons also help to explain that particular combination of assets and liabilities.

In short, the reasons which underpin the choice of financial resources (liabilities) in the long term are different from those that govern application of liquid assets resulting from monetary surpluses. In the first type of decision the crucial factor is the achievement of an appropriate long term capital structure; in the second, maintaining a desired degree of liquidity.

It follows that, in principle, the fact that a company simultaneously presents financial debts and invested surplus cash shows no implicit sign of mismanagement.

Nonetheless, the central question raised by the report is whether it may be considered contrary to the pursuit of the natural corporate purpose that debt is remunerated at a higher rate than the application of capital surplus and management do not make debt repayments. Is it rational for a company to pay for a rate of about 10% when investing in liquid assets, placed upon its parent, that yield 4%?

The Framework of Financial Short in the Context of Article 23 of CITC

The Portuguese General Tax Law establishes, in Article 4, § 1, that *"taxes are essentially based on ability to pay, revealed through income, consumption or wealth."*

The concept of income - which is the cornerstone of ability to pay - is at the core of corporate taxation in the Portuguese tax law.

In the case of companies subjected to CITC, how is such as concept translated into practice? Taxable income is based, as its starting point, on accounting income. However, in order to safeguard the public interest underlying tax revenues, it imposes certain requirements for the general consideration of deductible expenses. Article 23 of the CITC establishes the general principle of cost deduction, considering deductible such expenses that are proven "indispensable" to obtaining income or to maintaining the productive source.

The significance of such a requirement, however, is a debated question. In fact, several meanings can be considered in its practical application. Firstly, one based on a restricted view, interprets it as requiring a causal link between a cost borne and as subsequent benefit as a condition *sine qua non* for the deductibility of the cost. Another view, based in a broader perspective, admits cost deductibility provided that an expense is incurred within the scope of corporate activity or business purpose, even if does not generate revenue.

Tavares (1999) states that the correct interpretation of "indispensability" is that it allow the deduction of any recognized cost that is incurred in the interest of the firm, while fulfilling its corporate scope. As the author argues, indispensability means that costs must be derived from any management act done in the interest of the firm. The legal notion of indispensability includes, therefore, all management decisions and subsequent expenses conforming with the economic scope of firms.

The Portuguese Supreme Tax Court, in its ruling of 29.03.2006 - Case no. 1236/05 - stated that: *"The concept of indispensability, being indefinite, has to be clarified by case law (...). The criterion of*

indispensability was created by the legislator not to allow the Tax Administration to meddle in the management of companies dictating how they should be run and what decisions should give originate tax deductible costs, but to prevent the consideration of tax expenses which, although recorded as costs, do not fall within the scope of the business, and were not incurred for pursuing the firm´s interests".

From these doctrinal and jurisprudential sources, it can be concluded that for a cost to be tax deductible, it is not necessary to prove a causal link to a certain amount of income. It is enough that costs can be shown as resulting from normal or regular management decisions. It means, decisions taken with the aim of increasing the earnings capability of a corporate entity. The Tax Administration must perform a kind of negative control, by not accepting costs only when it is clear they have no links to the business purpose of an entity.

In the light of what was stated, it is clear that the loans obtained by the GAMA POR have a connection with its activity or business purpose. They funded assets that were acquired with a productive purpose and potentially profitable. The tax administration's argument according to which the interest paid is connected to loans that GAMA POR does not need (because of excess cash placed under its parent) and should therefore be disregarded under Article 23 has absolutely no support in the judicial and doctrinal interpretation of the indispensability concept.

However, an important question remains: whether the remuneration (4%) obtained by GAMA POR from a loan to a related party (the parent company) meets the requirements of the Portuguese legislation on transfer pricing, specifically, those in the Article 63 of CITC and Ordinance 1446-C/2001, both related to transfer pricing tax treatment.

Financial Income and Transfer Pricing: The Crux of the Case

Although the arm's-length principle has a simple formulation, it may be difficult to apply. Indeed, multinational corporations are, by the very nature of their activities, entities for which it is difficult and complex controlling transfer prices that are practiced within a group on entities.

Economies of scale, which are often a deciding factor for investments in a given country, as well as the relevance of intra-group transactions, geographic diversification, internationalization of production processes, intangible assets and shared centers of R & D, are numerous issues arising for a proper evaluation of transfer pricing. Related entities often develop activities that involve operations that are not typically observed between independent entities, thus creating difficulties in comparability. In Portugal, Article 63 of the CITC states that:

> "*1 - In commercial operations, as well as in financial transactions, made between a taxpayer and any other entity, which is a related party, should be observed terms and conditions substantially identical to those contracted between independent entities in similar transactions*."

The same article states that related taxpayers must use the method that can ensure the highest degree of comparability between transactions they carry out. They should take into account the characteristics of the goods, rights or services, the market position, the economic and financial situation, the business strategy, and other characteristics relevant for the taxable persons involved, the functions they performed, assets used and risk sharing.

The level of comparability is then best explained in Ordinance 1446-C/2001 as follows:

> *"Two operations meet the requirements to be considered comparable if they are substantially identical, which means that their economic characteristics and financial organizations are similar or sufficiently similar, so that the differences between operations or between firms not involved in them are likely to significantly affect the terms and conditions that would practice in a normal market situation or, as it is possible to make the necessary adjustments to eliminate the material effects"*.

Selecting the comparable market price (CMP) as the criterion that is best suited to make fiscal adjustments derived from differences in valuation of similar transactions between related entities, such application of CMP is a additionally regulated in following way:

> *"The adoption of the method of the comparable market price requires the highest degree of comparability with incidence in both subject and other terms and conditions of the transaction as the functional analysis of the entities involved."*

The CMP, selected as the most reliable method for any hypothetical tax adjustment, requires demanding conditions for its application. For this method to be used as the basis of the tax adjustments, the transactions at stake must exhibit a high degree of comparability. If not, the CMP will not serve as the basic criterion for fiscal adjustment.

In light of these principles, how do we assess the Portuguese TA audit in this particular case?

The tax authorities argued that GAMA POR, following a rational financial policy, would never apply funds in GAMA UK at a rate lower than the one it paid by bank loans. Thus, the CMP should be applied, and the interest rate paid to the bank (independent entity) would serve as the best comparable to the remuneration from the funds placed in the GAMA UK.

The firm, on the other hand, argued that the two operations (obtaining funds to support long-term investments and the temporary application surplus funds) do not meet conditions of comparability, in the face of various observable differences. Therefore, the application that the tax administration has made of transfer pricing methodology suffered from obvious inconsistencies.

Using the price (rate) of the loan obtained from DELTA bank as the best comparable price to charge in the context of the application of funds made in the parent, means that the tax audit should demonstrate that there is comparability in these operations. That is, they comply with the requirements of Ordinance 1446- C, that establishes the following factors for comparability must be proven:

- The functions performed by the entities involved in the transactions, taking into account the assets used and risks involved;
- The contractual terms and conditions that define how responsibilities, risks and profits are shared by parties entering the transaction;
- The economic circumstances prevailing in the markets in which the respective parties operate, including the geographical location and size, the cost of hand labor and capital markets, the competitive position of buyers and sellers, the stage of the distribution chain the existence of substitute goods and services, the level of supply and demand and the degree of development of markets generally;
- The strategy of companies, influencing its operation and conduct normal activities of continuing research and development of new products, the degree of diversification of activity, risk control, schemes penetration market or to maintain or enhance market share and, as well as the life cycles of the products or rights.

The tax audit did not produced any evidence that, in this case, the remuneration of funds placed in the parent and the rate paid on a loan obtained from an DELTA bank respect the conditions of comparability, in order to enable the CMP to be a benchmark.

Indeed, the functions performed by different entities and the risks incurred are quite diverse. In one case, the firm (GAMA POR) is obtaining financial resources at a rate that includes a spread (margin) charged by the financing bank (DELTA) which should take into account, among others, the financial risk of the borrower. In the other GAMA POR is placing surpluses, and will negotiate a rate comparable with the remuneration of other potential financial investments (assets), not with the financial cost of funds (liabilities) obtained from DELTA bank.

Moreover, the contractual terms and conditions that both operations are diverse. Finally, the risks of the transaction are also diverse. In one case, the GAMA POR is asking a bank for a loan, and the creditor

assesses the risk of the loan. On the other hand, it should evaluate the risk on placing funds in GAMA UK, relatively to other alternatives available in the financial market.

All these factors put the tax adjustment made by the audit on very flimsy arguments.

CONCLUSION

The tax adjustment made by a Portuguese tax audit, in terms of transfer pricing rules, was based on using an interest rate contracted between a Portuguese firm and an American bank as a comparable market price for the remuneration of funds placed by the firm in its UK parent. As we shown, the legal, doctrinal and economic grounds for such a tax adjustment are very shaky, and the audit result can be mostly attributed to the intense pressure faced by tax auditors to reach previously stated goals in terms of increasing revenue.

This has two unfavorable consequences. On the one hand, litigation mentality increases. On the other hand, an adversarial attitude between taxpayers and tax authorities is also potentially damaging to an healthy functioning tax system.

Given the public finance position of Portugal, we do not foresee a diminishing of such cases, which is a quite pessimistic conclusion for this study.

REFERENCES

Autrey R. (2012). Gray Markets and Multinational Transfer Pricing. *The Accounting Review*, 87, 2, 393–421.

Camp B., (2010). Theory and practice in tax administration. *Virginia Tax Review,* 29, 227-274.

Cools M., Emmanuel C. and Jorissen A., (2008). Management control in the transfer pricing tax compliant multinational enterprise. *Accounting, Organizations and Society,*33, 603–628.

Dwarkasing R. (2013). The concept of associated enterprises. *Intertax,* 41, 8/9, 412-429.

Esteller-Moré, A. (2011).Is the tax administration just a money machine? Empirical evidence on redistributive politics. *Economics of Governance,* 12, 3, 275-299.

Hansford A. and Hasseldine J. (2002). "Best practice in tax administration. *Public Money and Management*, 22(1): 5–6.

Hutchinson, T. and Nigel D. (2012). "Defining and Describing What We Do: Doctrinal Legal Research", *Deakin Law Review*. 17(1), 83-119.

Hyde, C., & Choe, C. (2005). Keeping two sets of books: the relationship between tax and incentive transfer prices. *Journal of Economics and Management Strategy,* 165– 186.

Johnson, N. (2006). Divisional performance measurement and transfer pricing of intangible assets. *Review of Accounting Studies,* 11: 339–365.

Jonung, L. and Larch, M. (2006). Improving fiscal policy in the EU: the case for independent forecasts. *Economic Policy*, 21, 491–534.

Kaplanoglou G. and. Rapanos V., (2012). Tax and Trust: The Fiscal Crisis in Greece. *South European Society and Politics,* 1, pp. 1–22.

Reckon J., (2009). Study to quantify and analyse the VAT gap in the EU-25 member states. *Report to the Directorate-General for Taxation and Customs Union,* European Commission, Brussels.

Sandmo, A. (2005). The theory of tax evasion: a retrospective view. *National Tax Journal*, 58, 643–663.

Scholz, R. and Tietje, O., (2002). *Embedded Case Study Methods*. London: Sage Publications Ltd.

Serra P., (2005). Performance measures in tax administration: Chile as a case study. *Public Administration and Development*, 25, 115–124.

Slemrod J., and Yitzhaki S. (2000). *Tax avoidance, evasion, and administration*. NBER Working Paper # 7473, Massachusetts.

Smith M. (2002). Ex ante and ex post discretion over arm's length transfer prices. *The Accounting Review,* 77, 1, 161–184.

Tavares T., (1999). *Da relação de dependência parcial entre a contabilidade e o direito fiscal na determinação do rendimento tributável das pessoas colectivas: algumas reflexões ao nível dos custos.* Ciência e Técnica Fiscal, 396, 7-180.
Wallschutzky I., (1984). Possibly causes of tax evasion. *Journal of Economic Psychology,* 5(4): 371–384.
Whitehouse T., (2011). IRS Moving Toward Preemptive Tax. *Compliance Week*, 37-38.
Wittendorff. J, (2010). Transfer pricing and arm´s length principle. *International tax Law*, 35, 215-234.
Yin, G. (2012). Principles and practices to enhance compliance and enforcement of the personal income tax. *Virginia Tax Review,* 31, 381-411.