

How to tackle transfer pricing abuse

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Raymond Baker has suggested the following as ways to tackle transfer mispricing during a talk today at the [Task Force conference](#):

Actions to Curtail Abusive Transfer Pricing - Industrialized Countries

- ? Bring imports and exports under the same regulatory regime. They're not in many places.
- ? Educate employees dealing with international trade about laws against mail fraud, wire fraud, and schemes to defraud.
- ? Educate auditors about the risk of advising on or observing abusive transfer pricing.
- ? Require auditors to note on audited accounts evidence seen of abusive transfer pricing.
- ? Require CEOs and CFOs to attest that there has been no violation of statutes against mail fraud, wire fraud, and schemes to defraud.
- ? Include evaluations of abusive transfer pricing in corporate responsibility ratings.
- ? Request that the World Trade Organization address the issue of abusive transfer pricing.

Actions to Curtail Abusive Transfer Pricing - Developing Countries

- ? Adopt legislation requiring that imports and exports are to be transacted at fair world market prices.
- ? Adopt legislation making it a felony offense to offer abusive transfer pricing, tax evading, or money laundering services.
- ? Require auditors to note evidence of abusive transfer pricing on audited accounts.

→? Require companies doing business with government to attest that there has been no use of abusive transfer pricing.

→? Require transactions above a designated value to be conducted via confirmed, irrevocable letters of credit.

→? Consider utilizing pre-shipment inspection and price checking services. This might prove the goods invoiced are the goods shipped.

→? Consider utilizing online pricing data by customs authorities. This is available.

→? Two signatures on a paragraph in the standard commercial invoice form, as follows:

A) All items covered by this invoice are at fair world market prices and contain no element of mispricing for the purpose of manipulating VAT taxes, customs duties, or income taxes.

B) This transaction conforms to all banking statutes, exchange control regulations, and anti-money laundering laws of all countries where the transaction originated, through which it passed, and into which it arrived.

C) No commissions or third-party payments are paid or payable to any domestic or foreign account except as noted in a written statement.

Much of the last few days have been spent discussing arm's length pricing. Many argue that there is no alternative. I don't agree. But I am also pragmatic: change takes time and the Big 4 are as wedded to the arm's length pricing model as are the OECD; they make a great deal of money from it.

The above recommendations are different. The reality is that whatever the rule it can be abused. I know that. The above all have one goal: penalise those who abuse.

And I applaud that.

Compliance increases when some go to prison with good reason. I suspect that's a fact on which we can all agree.