



**UNIVERSITY OF INSURANCE AND FINANCE**  
**Department of Accounting and Auditing**

**AUTHOR'S ABSTRACT**  
**of**  
**DISSERTATION**  
**for the award of the academic degree of 'Doctor'**  
**on the topic:**

**OPTIMISATION AND CONTROL OF TRANSACTIONS BETWEEN RELATED  
PARTIES  
IN THE CONTEXT OF TRANSFER PRICING**

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The doctoral candidate is a PhD student in the Department of Accounting and Auditing at the University of Insurance and Finance – Sofia.

The thesis is structured into an introduction, a main body comprising three chapters, a conclusion and a list of references and regulatory sources. It comprises a total of 171 pages, including 21 figures and 7 tables.

#### ACADEMIC JURY:

1. Prof. Dr Ali Veysel – University of Insurance and Finance
2. Prof. Dr Marin Galabov – University of National and World Economy
3. Prof. Dr Emilia Vaysilova –University of Transport “T. Kableshkov”
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## GENERAL CHARACTERISTICS OF THE DISSERTATION

Base Erosion and Profit Shifting (BEPS) has established itself as one of the most significant challenges facing modern international corporate tax systems. By exploiting differences, loopholes and inconsistencies between national tax regimes, multinational enterprises can minimise their tax burden by shifting profits to jurisdictions with more favourable tax treatment.

According to the European Commission's official definition, base erosion and profit shifting (BEPS) refers to the deliberate use of tax planning strategies by multinational enterprises (MNEs) aimed at reducing their tax burden by exploiting loopholes and inconsistencies in the tax systems of different countries, leading to minimal or even no effective corporate tax liability.<sup>1</sup> This results in significant losses of corporate tax revenue, undermines confidence in tax systems and necessitates the continuous strengthening of the international, European and national regulatory frameworks.

In response to these developments, the Organisation for Economic Co-operation and Development (OECD) and the G20 launched in 2012–2013 a large-scale international project to combat base erosion and profit shifting (BEPS), aimed at establishing a coordinated international legal framework through the broad participation of governments, business, academia and civil society. The main objective of the project is to curb practices whereby multinational enterprises shift profits to jurisdictions with more favourable tax regimes without carrying out any real economic activity there. In this context, transfer pricing plays a central role, as it is precisely through this that deviations from the arm's length principle in transactions between related parties most often manifest themselves

Right from the start of the project, the OECD carried out an assessment according to which global losses of corporate tax revenue due to BEPS practices amount to between 100 and 240 billion US dollars annually, with the organisation itself emphasising that this is a conservative estimate, constrained by the availability of statistical data and methodological limitations<sup>2</sup>. These losses, resulting from the shortfall in potential tax revenue for countries, represent the difference between the value of corporate tax revenue that should

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<sup>1</sup> Gravelle, Jane (1 April 2024). "The OECD/G20 Pillar 1 and Digital Services Taxes: A Comparison". Congressional Research Service.

<sup>2</sup> <https://www.oecd.org/en/topics/base-erosion-and-profit-shifting-beps.html>

be collected and the value that is actually collected.<sup>3</sup>

Ten years later, according to an analysis by the international organisation Tax Justice Network for 2023, if no substantial reforms are made to international tax rules, countries around the world could lose approximately 4.7 trillion US dollars in tax revenue over the next decade<sup>4</sup>. This forecast is made in the context of efforts by the OECD, the European Union and the US to reform the international tax architecture and curb global tax abuse.

According to the data, countries worldwide lose **\$472 billion** in tax revenue **annually** due to global tax evasion.<sup>5</sup> In North America, these losses are estimated at \$139.2 billion, whilst in Europe, annual tax losses from corporate tax avoidance are estimated at **\$83.57 billion**, which is 0.4% of European GDP.

According to calculations in the Tax Justice Network's analysis, future tax revenue losses are equivalent to global public health expenditure for one year.

Against this backdrop, the annual tax losses for Bulgaria resulting from corporate tax abuse are estimated at approximately \$135.6 million, which is equivalent to around 0.2% of the country's gross domestic product<sup>6</sup>. Although relatively lower compared to the scale of global losses, these figures indicate that the problem of tax base erosion and profit shifting is of significant importance to the national economy as well.

In this context, an important feature of the Bulgarian regulatory framework should be highlighted. Unlike most international regulatory approaches, where transfer pricing rules are primarily aimed at cross-border transactions, under current Bulgarian legislation these rules apply **to all**

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<sup>3</sup> Van de Velde, E., Cannas, F., Harmful Tax Practices within the EU: Definition, Identification and Recommendations, Publication for the Subcommittee on Tax Matters, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg, 2021

<sup>4</sup> According to a 2023 report by the British think tank "Tax Justice Network" available at <https://taxjustice.net/reports/>. See also cited by BTA here: <https://3e-news.net/bg/a/view/45642/bylgarija-gubi-135-6-mln-dolara-godishno-ot-zloupotrebi-s-korporativen-danyk>

<sup>5</sup> Of this, \$301 billion 'leaks' due to MNE actions transferring profits to tax havens, and \$171 billion due to wealthy individuals.

<sup>6</sup> According to a 2023 report by the British think tank "Tax Justice Network" available at <https://taxjustice.net/reports/>. See also cited by BTA here: <https://3e-news.net/bg/a/view/45642/bylgarija-gubi-135-6-mln-dolara-godishno-ot-zloupotrebi-s-korporativen-danyk>

**transactions between related parties**, including transactions between enterprises operating entirely within the national economy.

It is precisely this feature that creates an additional need to examine the mechanisms and methodological approaches for determining and controlling transfer prices, as well as the possibilities for developing optimisation models to assist both businesses and the tax administration in ensuring compliance with the arm's length principle.

**The RELEVANCE** of the topic is particularly evident in the Bulgarian context. Alongside general European and international trends, the national regulatory framework is characterised by a significant feature – transfer pricing rules apply to all transactions between related parties, not just cross-border ones. This significantly broadens the scope of practical scenarios in which there is a need for the economically and fiscally sound determination and verification of market prices.

Relationships between enterprises are a normal and widespread business practice. At the same time, these relationships create opportunities to influence prices and other terms of transactions, which can lead both to a distortion of financial results and to deviations in tax treatment. It is precisely here that the need arises for approaches which simultaneously ensure compliance with the arm's length principle, limit the risk of aggressive tax planning and create a higher degree of legal and tax certainty.

In this context, it should be emphasised that relationships and transactions between related parties have a twofold impact:

- on the one hand, they influence the operating results and financial position of each of the enterprises within the relevant related-party structure;
- on the other hand, every such transaction has a bearing on the relevant tax jurisdiction (in particular Bulgaria), and the lawful and economically justified application of tax rules may lead to both additional financial burdens and economic advantages within the framework of normal business relations, without undermining the fiscal interests of the state in which the relevant enterprise operates.

The increase in the number, type, variety and nature of transactions between related parties in the contemporary development of the global economy, and particularly in the era of rapid digital transformation, which enables business to be conducted on entirely different foundations, requires continuous improvement, expansion and enhancement of corporate structures' reporting for both financial-accounting and tax purposes.

This implies not only continuous research, analysis and interpretation, but also the reassessment of regulated rules and applied models and methodologies at both international and national levels.

On this basis, **the research THESIS** of the doctoral thesis is defined.

<b>Research THESIS</b>	Within the framework of the statutory rules governing the treatment of transactions between related parties, it is possible to develop and apply appropriate optimisation models in the field of transfer pricing which satisfy the financial interests of the parties involved, while ensuring a balance between the economic rationale of intra-group corporate transactions and the requirements for safeguarding the fiscal objectives of the state and the relevant tax authorities.
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Related parties can relatively easily influence the pricing and other associated terms of the business transactions carried out. It is a common assumption that ‘there is a significant likelihood that the service provided does not correspond to the price of the goods or services received in the transaction’.<sup>7</sup>

This is precisely the core issue at the heart of transfer pricing. The main arguments supporting this assertion are as follows, and are widely accepted in the specialist literature and business practice<sup>8</sup> :

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<sup>7</sup> Svrakov, A., V. Filipov, B. Brezova, B. Kostov, S. Milev. New Accounting Legislation. National Accounting Standards, Trud i Pravo Publishing House, Sofia, 2016, p. 443.

<sup>8</sup> Luchkov, K. Identification of relationships between related parties and their disclosure in financial statements, IDES Journal, No. 02/2021, Vol. XXV

- Някои сделки между дадено предприятие и други лица не биха се реализирали, ако не съществува свързаност между тях;
- Характерът и видът на сделките, които обикновено се сключват между свързани лица, в редица случаи се различават от тези, сключени при несвързани лица;
- Ценовите равнища по определени сделки със свързани лица не могат да бъдат съпоставени или не са идентични с цените за подобни сделки с несвързани лица;
- При голяма част от сделките между свързани лица е възможно да възникнат данъчни последствия или отклонения от данъчното облагане, особено ако те се сключват при договорени условия, различни от пазарните.

Based on all of the above, the following **SUBJECT, OBJECT and AIM** of the research in this paper are formulated:

<b>SCOPE</b> of the Study	The regulatory framework, fiscal initiatives and specific policies in an international and national context aimed at limiting and counteracting base erosion and profit shifting (BEPS), with a focus on corporate transfer pricing strategies.
<b>OBJECT</b> of the Analysis	Regulatory-recognised methods for the fair determination and verification of the arm's length nature of transfer prices in transactions between related parties.

**The aim of the thesis** is to develop optimisation methodological models in the field of transfer pricing, applicable to internal and external analysis, verification and control of transfer prices in transactions between related parties by justifying adjustment approaches to achieve market price levels.

The need to develop methodologies based on optimisation models stems from the considerable diversity and growing complexity of transactions between related parties. These methodologies would contribute significant scientific and practical value and would serve a dual purpose – both to enhance

tax certainty and predictability for businesses, and as a tool for fiscal analysis, tax planning and forecasting corporate tax revenue collection in the context of transfer pricing control policies.

In accordance with the arm's length principle, the aim is for transactions between related parties to produce economic results comparable to those arising from transactions between independent enterprises. This is particularly important in view of established practices whereby, for tax purposes, related parties are treated at higher price levels than the economically justified fair values in comparable uncontrolled transactions.

To achieve this objective, **the** following main **TASKS** have been set in the course of the study:

- to examine current developments in the regulation of tax regimes relating to transfer pricing in an international, European and national context;
- to clarify key concepts relating to related parties, types of entities and corporate structures relevant to the accounting, taxation and control of transactions between them;
- to analyse the general rules and main methods for determining market prices in the context of transfer pricing in accordance with national tax practices and OECD guidelines;
- to examine the essence of the arm's length principle and propose guidelines for sectoral analysis when verifying compliance with this principle;
- to justify practically applicable solutions and corrective approaches for bringing prices in controlled transactions closer to the levels of comparable uncontrolled transactions for typical transactions between related parties.

**Research methods:** In the preparation of the thesis, normative analysis, the comparative method, a systematic approach, functional and sectoral analysis, as well as elements of modelling in the development of optimisation methodological solutions, were utilised.

**The** following **main limitations of the research** have been adopted in the thesis:

- the concept of 'related parties' is examined primarily from a tax perspective, with a focus on the regulation of transfer pricing and the corresponding taxation of controlled transactions;
- the analysis is consistent with the regulatory environment in force as of December 2025, using an approach based on national legislation, under which transfer pricing rules apply to all transactions between related parties, not just cross-border ones;

- in developing the optimisation models, the business transactions examined have been reduced to three main types (real estate transactions, service transactions and loans between related parties), with clearly formulated calculation procedures being used, based on the applicable national regulatory framework and administrative practice.

## **STRUCTURE AND CONTENT OF THE DISSERTATION**

In terms of structure, the thesis comprises the following:

### **INTRODUCTION**

#### ***CHAPTER 1***

### **TRANSFER PRICING IN AN INTERNATIONAL CONTEXT AND THROUGH THE LENS OF EUROPEAN LEGISLATION**

#### **I. UNITS AND GROUPS OF UNITS IN THE CONTEXT OF THE REGULATION ON THE EUROPEAN SYSTEM OF NATIONAL AND REGIONAL ACCOUNTS AND A LOOK AT THE CONCEPT OF FICTITIOUS COMPANIES II.**

#### **II. TRANSFER PRICING THROUGH THE LENS OF THE REGULATION ON UNIFORM TREATMENT IN CORPORATE INCOME TAXATION OF CROSS-BORDER ACTIVITIES**

#### **III. ANALYSIS OF OUTCOMES OF KEY LEGAL DISPUTES BETWEEN MULTINATIONAL AFFILIATED ENTERPRISES AND TAX AUTHORITIES REGARDING TRANSFER PRICING – CONCLUSIONS DRAWN**

#### **IV. CONCLUSIONS FROM CHAPTER ONE**

#### ***CHAPTER 2***

### **THE ARM'S LENGTH PRINCIPLE – ESSENCE AND RESEARCH GUIDELINES IN THE CONTEXT OF TRANSFER PRICING AND NATIONAL FISCAL PRACTICES**

#### **I. RELATED PARTIES IN THE CONTEXT OF TRANSFER PRICING**

**1. Main configurations of relatedness from a tax perspective in the case of natural persons.**

**2. Examples of related party arrangements for legal entities (from an accounting, tax and other regulatory perspectives).**

#### **II. THE ARM'S LENGTH PRINCIPLE (ALP)**

**1. Analysis of the comparability of transactions between related and independent parties.**

**2. Key points for a general assessment of compliance with or deviation from the ARM principle in transactions between related parties.**

#### **III. GENERAL RULES FOR THE APPLICATION OF METHODS FOR DETERMINING MARKET PRICES IN ACCORDANCE WITH NATIONAL FISCAL PRACTICES AND THE OECD**

#### **IV. METHODS FOR DETERMINING MARKET PRICES – CHARACTERISTICS AND ANALYTICAL OVERVIEW**

##### **1. General overview.**

##### **2. Characteristics and analytical review of the main types of methods for determining market prices.**

*2.1 Comparable Uncontrolled Price Method (CUPM)*

*2.2 Market Price Method (MPM)*

*2.3 Mark-up method (MUM)*

*2.4 Profit Allocation Method (PAM)*

*2.5 Transactional Net Profit Method (TNPM)*

##### **3. Recommended approach to control and documentation. Transfer pricing documentation.**

#### **V. GUIDELINES FOR RESEARCHING A SPECIFIC INDUSTRY WITH OPERATING RELATED ENTERPRISES TO VERIFY COMPLIANCE WITH THE ARM'S PRINCIPLE**

#### **VI. CONCLUSIONS FROM CHAPTER TWO**

##### **CHAPTER 3**

#### **POSSIBLE OPTIMISATION MODELS FOR THE CONDUCT, ANALYSIS AND VERIFICATION OF TRANSACTIONS BETWEEN RELATED PARTIES**

##### **I. THE NEED TO DEVELOP UNIVERSALLY APPLICABLE OPTIMISATION MODELS FOR THE CONDUCT OF TRANSACTIONS BETWEEN RELATED PARTIES**

##### **II. POSSIBLE OPTIMISATION APPROACHES**

##### **1. Possible optimisation models for property transactions between related parties**

##### **2. Possible optimisation models for service transactions between related legal entities**

##### **3. Possible optimisation models for loans between related legal entities.**

#### **III. CONCLUSIONS FROM CHAPTER THREE**

##### **CONCLUSION AND RESULTS ACHIEVED**

##### **LITERATURE, REGULATORY AND ONLINE SOURCES USED**

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## **CHAPTER ONE. Transfer pricing in an international context and through the prism of European legislation**

The first chapter of the thesis clarifies the theoretical and regulatory framework of transfer pricing in an international context, with an emphasis on the European regulatory environment and its significance for distinguishing between market-driven intra-group pricing, tax planning, aggressive tax planning and unlawful tax avoidance practices.

The European System of National and Regional Accounts (ESA 2010), introduced by Regulation (EU) No 549/2013, is examined as the initial analytical framework, in comparison with the System of National Accounts (SNA 2008). On this basis, the concepts of institutional unit, residency, centre of main economic interest, and the boundaries of the national economy are clarified, as well as the main types of units and groupings of units relevant to the analysis of cross-border economic relations and their tax effects.

Particular attention is paid to groups of corporate enterprises, special-purpose entities, captive financial institutions and artificial subsidiaries. It is concluded that the correct identification of these structures is of essential importance for the analysis of intra-group transactions, for establishing the economic substance of the operations, and for assessing whether there are grounds for deviation from the arm's length principle and for tax base erosion.

The chapter also examines the concept of so-called fictitious companies, including anonymous companies, 'letterbox companies' and special-purpose entities, emphasising that the use of such structures is not in itself unlawful, but gives rise to significant risks of abuse in the absence of genuine economic activity, transparency and traceability of the actual business function. In this regard, a distinction is made between tax avoidance, aggressive tax planning and tax evasion.

As a natural extension of the study, the issue of Base Erosion and Profit Shifting (BEPS) is analysed through the lens of the OECD and G20 initiatives. The main measures from the BEPS plan ( ) are examined, with particular emphasis on measures relating to transfer pricing, documentation, reporting and increasing transparency in the activities of multinational enterprises.

Attention is also given to Country-by-Country Reporting (CbCR) as a tool for curbing aggressive tax planning and improving the information available to tax administrations. In this context, both the requirements of BEPS

Action 13 and the development of the relevant European legal framework on public country-by-country reporting within the EU are examined.

This section of the study establishes the conceptual, institutional and regulatory foundation of the study, necessary for the subsequent analysis of transfer pricing as a mechanism of dual nature – on the one hand, as a legitimate tool for intra-group value allocation and business management, and on the other, as a potential channel for profit shifting, artificial narrowing of the tax base and undermining the fiscal interests of individual jurisdictions.

**Next, Chapter One** analyses transfer pricing through the prism of the European framework for the uniform treatment of cross-border activities in corporate income taxation. It traces the development of the EU framework to counter base erosion and profit shifting (BEPS), established in line with OECD initiatives and built upon through successive tax packages, directives and mechanisms for administrative cooperation.

In this context, the main European instruments in the field of direct corporate taxation are examined, including the Anti-Tax Avoidance Directive (ATAD), the rules on administrative cooperation and exchange of information (including DAC 6 and DAC 4), as well as the framework for resolving tax disputes between Member States.

The body of specific Directives in the field of corporate income taxation, which establish rules applicable to all taxpayers in Member States (*prior to the proposal for the new Transfer Pricing Directive*), comprises the following package<sup>9</sup> :

✓ <b>Directive against tax avoidance through its amendment, i.e. ATAD;</b>	<b>ATAD 1 and 2</b>
✓ <b>The 5th amendment to the Directive on administrative cooperation in the field of taxation (2011/16/EU) – i.e. DAC 6;</b>	<b>DAC 6</b>
✓ <b>The Directive on dispute resolution mechanisms in tax matters, i.e. TDRD</b>	<b>TDRD</b>

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<sup>9</sup> Council Directive (EU) 2016/1164 (ATAD 1), as amended by Council Directive (EU) 2017/952 (ATAD 2); Council Directive (EU) 2018/822 (DAC 6); Council Directive (EU) 2017/1852 (TDRD).

It is noted that these acts serve as the first line of defence against aggressive tax planning, whilst also aiming to mitigate the risk of double taxation and enhance legal certainty for businesses engaged in cross-border activities.

Particular attention is paid to the role of DAC 6 in the mandatory disclosure of potentially risky cross-border schemes, to DAC 4 regarding country-by-country reporting, and to the mechanisms for resolving tax disputes within the EU. On this basis, it is emphasised that, despite the established regulatory framework, significant difficulties continue to exist in practice, linked to differing interpretations of individual concepts, the suboptimal functioning of dispute resolution procedures, and delays in assessing the effectiveness of the measures adopted.

The report also takes into account the findings of the European Court of Auditors, according to which the European regulatory framework is necessary and useful, but there are shortcomings in its practical application that limit its effectiveness. It is concluded that it is precisely in the area of transfer pricing that these shortcomings are particularly evident, manifesting as a high degree of tax uncertainty, the risk of double taxation, protracted disputes between tax administrations, and significant compliance costs for businesses.

On this basis, the European Commission's proposal for a specific directive on transfer pricing is also examined as part of the broader package on corporate income taxation in Europe. It is emphasised that the main objective of this directive is to introduce a more harmonised and legally certain framework for the application of the arm's length principle within the European Union, as well as to limit differences in national approaches that give rise to disputes, administrative burdens and opportunities for artificial profit shifting.

**Figure 1** Visualisation of transactions between associated enterprises



*Source: OECD<sup>10</sup>*

It is noted that this Directive has the potential to enhance legal clarity, reduce compliance costs, limit the risk of double taxation and harmonise key concepts, including the concept of associated enterprises and the criteria for control. It is also noted that by making the internationally accepted OECD standards binding, the European framework aims to provide greater predictability for both businesses and tax administrations.

In summary, this section of Chapter One demonstrates that transfer pricing is not only a technical tool for intra-group pricing, but also one of the most sensitive areas of modern international corporate taxation, where the interests of enterprises, tax administrations and the supranational regulatory policy of the European Union.

**Next, this chapter** examines case law relating to key tax disputes between multinational enterprises and tax authorities concerning transfer pricing. The analysis is based on the global issue of base erosion and profit shifting (BEPS), which, according to OECD estimates, leads to significant losses of corporate tax revenue worldwide.

In this regard, data and estimates are presented on the scale of corporate tax revenue losses, as well as the role of transfer pricing as one of the main mechanisms for the redistribution of profits between different jurisdictions. It is emphasised that the application of the arm's length principle is of key importance in curbing such practices and in aligning tax outcomes with the actual creation of economic value.

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<sup>10</sup> <https://www.oecd.org/en/topics/country-by-country-reporting-for-tax-purposes.html>

The analysis examines well-known court cases, including the disputes between Apple and the European Commission, GlaxoSmithKline and the US Internal Revenue Service (IRS), Amazon and the IRS, Coca-Cola and the IRS, and Medtronic and the IRS.

*Table 1*

No.	Commercial companies	Explanation
1.	Apple v European Commission	In 2020, the General Court of the European Union annulled a decision by the European Commission requiring Apple to pay €13 billion in unpaid taxes to Ireland. The case centres on transfer pricing between Apple’s Irish subsidiaries and the parent company. <sup>11</sup>
2.	GlaxoSmithKline (GSK) v IRS:	This case, settled in 2006, involved a dispute over the transfer pricing of pharmaceutical products between GSK’s US and UK subsidiaries. The settlement amount was \$3.4 billion, making it one of the largest transfer pricing settlements in history. <sup>12</sup>
3.	Amazon v IRS	In 2017, Amazon won a case against the IRS regarding the valuation of intangible assets transferred to a subsidiary in Luxembourg. The IRS claimed that Amazon owed \$1.5 billion in additional taxes, but the court ruled in Amazon’s favour. <sup>13</sup>
4.	Coca-Cola v IRS	In 2020, the US Tax Court ruled in favour of the IRS in a case concerning Coca-Cola’s transfer pricing. The court found that Coca-Cola owed \$3.3 billion in additional taxes for the years 2007–2009. <sup>14</sup>

<sup>11</sup> [<https://www.bbc.com/news/business-53416206>](<https://www.bbc.com/news/business-53416206>)

<sup>12</sup> [<https://www.reuters.com/article/us-glaxosmithkline-tax-idUSN1934697920060912>](<https://www.reuters.com/article/us-glaxosmithkline-tax-idUSN1934697920060912>)

<sup>13</sup> [<https://www.bloomberg.com/news/articles/2017-03-23/amazon-wins-1-5-billion-tax-dispute-with-irs-over-luxembourg-unit>](<https://www.bloomberg.com/news/articles/2017-03-23/amazon-wins-1-5-billion-tax-dispute-with-irs-over-luxembourg-unit>)

<sup>14</sup> [<https://www.wsj.com/articles/coca-cola-loses-3-3-billion-tax-dispute-with-irs-11606273200>](<https://www.wsj.com/articles/coca-cola-loses-3-3-billion-tax-dispute-with-irs-11606273200>)

5.	Medtronic v. IRS	This long-running case involves a legal dispute over the transfer pricing of medical devices between Medtronic’s US and Puerto Rican subsidiaries. The IRS claims that Medtronic owes \$1.4 billion in additional taxes. <sup>15</sup>
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These cases illustrate the complexity of transfer pricing as a legal and economic matter, as well as the significant financial implications of disputes arising between businesses and tax authorities.

**Average duration of cases in months (years) according to OECD data**

Type of case	Average time
Transfer pricing cases	32.01 months
Other cases	23.36 months

*Source: OECD, <https://www.oecd.org/en/data/datasets/mutual-agreement-procedure-statistics.html>*

In an increasingly globalised and competitive world economy, there is a growing need for greater tax certainty in the single market. Based on OECD and EU statistics, it is shown that the number of transfer pricing disputes and mutual agreement procedures has increased in recent years, confirming the growing significance of this issue in the global tax system.

It is argued that it is precisely because of such numerous cases of disputes and the subsequent protracted and costly legal proceedings that European legislation includes a comprehensive package of amended and new directives, including the one on transfer pricing, as well as the specifically adopted Directive (EU) 2017/1852 on dispute resolution mechanisms in relation to taxation in the EU (better known by the acronym TDRD).

To avoid tax disputes and litigation, and to establish a common approach to cross-border tax matters, one of the main expected outcomes and subsequent impacts of the Transfer Pricing Directive is that a more uniform approach with clearer and harmonised rules will lead not only to a reduction in double taxation, but also in double non-taxation, and consequently to a reduction in

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<sup>15</sup> [<https://www.reuters.com/article/us-usa-tax-medtronic-idUSKBN1F82Q5>](<https://www.reuters.com/article/us-usa-tax-medtronic-idUSKBN1F82Q5>)

transfer pricing disputes across the EU.

It is noted that transfer pricing is characterised by a high degree of interpretative and subjective elements, which often leads to differing interpretations by individual tax jurisdictions. This creates conditions for double taxation, protracted mutual agreement procedures and significant administrative and financial costs for businesses.

In this regard, the importance of European mechanisms for resolving tax disputes is emphasised, including a specific package of Directives aimed at creating a more harmonised and predictable legal framework.

In summary, it is concluded that contemporary regulatory policy should seek a balance between two key objectives — on the one hand, curbing aggressive tax planning and profit shifting, and, on the other hand, ensuring sufficient tax certainty and legal predictability for businesses engaged in cross-border economic activity.

As a result of the analysis carried out in the first chapter, the following main conclusions are drawn:

➤ The concept of institutional units as a key analytical category in macroeconomic statistics is analysed, clarifying their role in describing economic interactions and financial flows within the national and supranational economic environment. It is demonstrated that their definition within the framework of ESA 2010 ensures methodological comparability and the possibility of supranational consolidation, which is a prerequisite for the objective analysis of economic phenomena, strategies and processes.

➤ The classification framework for institutional units and specific corporate forms (special-purpose entities, captive financial institutions, artificial subsidiaries) has been clarified, emphasising the importance of distinguishing between economic substance and the formal legal ‘shell’ (form) in the analysis of cross-border corporate groups and profit-shifting mechanisms.

➤ It is summarised that shell companies constitute an economic construct characterised by the absence of genuine business activity in the jurisdiction of registration and geared towards extracting regulatory and tax advantages, which creates risks to the principles of fair competition and the level playing field for economic operators.

➤ It is summarised that the BEPS issue forms an analytical framework in which transfer pricing takes on key significance as a tool for the redistribution of profits between jurisdictions. In this context, the European

regulatory framework (ATAD, DAC 4/6, TDRD, etc.) and country-by-country reporting (CbC reporting) function as mechanisms for increasing transparency and curbing aggressive tax planning.

➤ A methodological link has been established between the statistical concept of an institutional unit and the tax treatment of associated enterprises, which allows for an integrated analysis of transfer pricing as an economic, statistical and legal category. This interdisciplinary perspective creates the conditions for the development of more precise control mechanisms and regulatory harmonisation.

➤ The distinction between tax avoidance, aggressive tax planning and tax evasion is clarified to ensure the correct interpretation of corporate tax strategies.

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## **Chapter Two. The arm's length principle – essence and research guidelines in the context of transfer pricing and national fiscal practices**

The first part of **Chapter Two** examines the concept of related parties as a fundamental and defining category within the transfer pricing system. It is concluded that the application of transfer pricing rules is functionally linked precisely to the existence of a relationship between the parties to a given transaction, since in such relationships there is a possibility that the commercial and financial terms may deviate from those that would be agreed between independent parties in a free market.

The analysis covers the legal definition of related parties in Bulgarian tax legislation, primarily through the provisions of the Tax and Social Security Procedure Code (TSSPC) and the Corporate Income Tax Act (CITA), as well as the significance of the criteria for capital participation, control, decisive influence and family ties. It is emphasised that, within the national legal framework, transfer pricing rules apply not only to cross-border transactions but also to domestic transactions between related parties.

Particular attention is paid to the main configurations of relatedness for both natural and legal persons. In this regard, various forms of relatedness are examined, based on family ties, equity participation, direct or indirect control, participation in management bodies, as well as the ability to exercise decisive influence over the business activities of another person.

Alongside the approach based on the current tax legislation, a comparative review of the accounting treatment of related parties is also provided through the lens of NAS 24 and IAS 24. It is concluded that

accounting standards play a significant role in the transparency and reliability of information regarding relationships between related parties, whilst also providing a useful analytical basis for identifying transactions and conditions that may be relevant for the purposes of tax control.

The presentation also highlights the importance of the concept of ‘control’ as a key criterion in determining the relationship between entities. It is emphasised that control may be exercised not only through direct ownership of capital, but also through indirect participation, contractual mechanisms, the ability to appoint management bodies, or the ability to exercise decisive influence in decision-making.

The relationship between the tax concept of affiliation and other applicable regulatory regimes is also examined, including accounting standards, IFRS and the criteria used to determine the status of enterprises under the Small and Medium-sized Enterprises Act in relation to access to European funding. On this basis, it is demonstrated that the concept of relatedness has cross-sectoral significance and should be interpreted carefully depending on the objectives of the specific regulatory regime.

This section of the chapter concludes that the correct identification of related parties is a prerequisite for the lawful application of the arm’s length principle, for the reliable determination of transfer prices, and for limiting the scope for artificial profit shifting and tax avoidance.

**Next, Chapter Two** examines the arm’s length principle as a fundamental standard (benchmark) in the field of transfer pricing. It is concluded that this principle places related and independent parties on an equal footing for tax purposes, aiming to prevent the creation of tax advantages or adverse consequences resulting from intra-group relationships that deviate from market logic.

The analysis is based on the national regulatory framework, and more specifically on the provisions of the Corporate Income Tax Act and the subordinate legislation concerning methods for determining market prices. It is emphasised that, for the arm’s length principle to be applicable, the controlled transaction must be compared with a comparable transaction between independent parties under comparable circumstances. In this regard, the main factors of comparability are systematised: the characteristics of the product or service, the functions performed, the assets used, the risks assumed, the economic conditions and the business strategies applied.

Particular attention is paid to **the analysis of comparability** as a central

element in assessing whether a price or rate of return complies with the arm's length principle. It is concluded that the significance of the individual factors is not the same in all cases, but depends on the nature of the specific transaction and the method chosen to determine the market price. It is shown that, in some methods, the characteristics of the transaction itself are of primary importance, whilst in others, the functions, risks and economic role of the parties are key.

This section of the chapter also sets out key reference points for a general assessment of compliance or non-compliance with the arm's length principle. In this context, the importance of transfer pricing documentation, and in particular the local file, as a tool for proving and justifying intra-group pricing policy is emphasised.

Specific provisions of the OECD Guidelines and the practical guidelines of the National Revenue Agency regarding intra-group supplies and services are also examined. It is concluded that, when assessing compliance with the arm's length principle, it should first be established whether the relevant supply or service has actually been provided and whether it has economic or commercial value for the recipient, and only then should it be assessed whether the agreed price is market-based.

It is emphasised that the mere fact of a payment being made between related parties does not constitute sufficient evidence of the reality of the service. It must be established that, under comparable conditions, an independent enterprise would have paid for such a service or would have commissioned its performance from an external contractor. On this basis, the requirement is established that taxable persons must be able to justify the economic rationality of the reported expenses, the expected benefits derived from them, and the market justification of the remuneration.

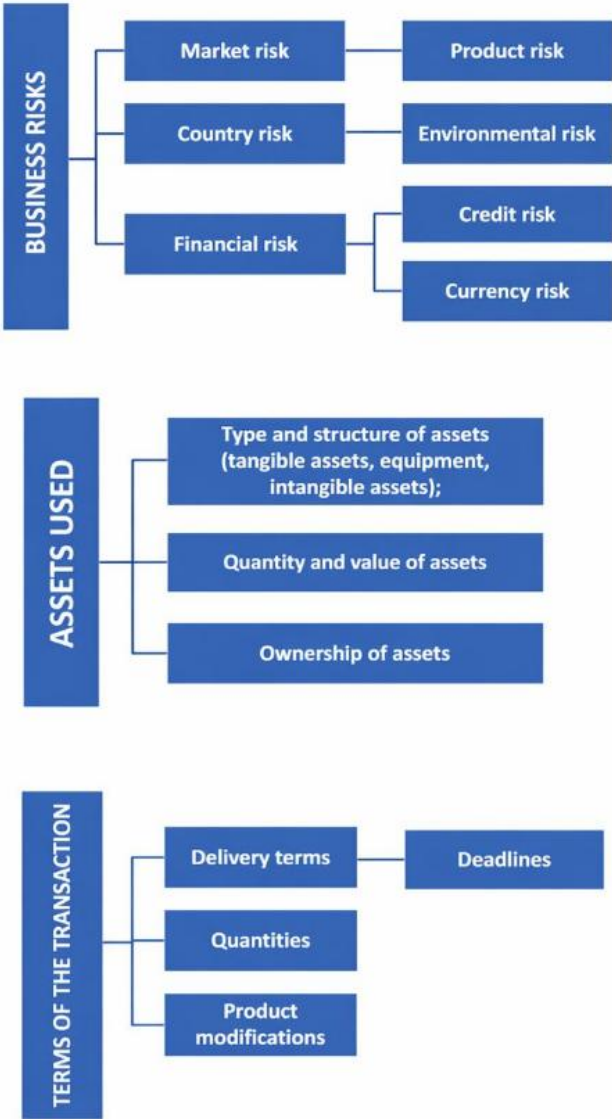
This section of Chapter Two establishes that the arm's length principle is not limited to a formal comparison of prices, but requires a comprehensive functional and economic analysis of the transactions, the parties involved, the risks and the actual business rationale behind intra-group relations.

**Next, Chapter Two** examines the general rules governing the application of methods for determining market prices in accordance with national legislation, the practice of the tax authorities and the OECD guidelines. The Regulations of the Ministry of Finance, which govern the procedure and methods for applying transfer pricing methods and serve as the foundation for the National Revenue Agency's practical methodology in the field of transfer pricing, are analysed as the primary regulatory framework.

This section concludes that the application of any method is subject to the requirement for comparability between the controlled and comparable uncontrolled transaction, taking into account the characteristics of the product or service, the functions performed, the assets used, the risks assumed, the economic conditions and the business strategies. It is emphasised that the comparability analysis is key both in the choice of method and in making the necessary adjustments to eliminate material differences between the transactions being compared.

Particular attention is paid to the hierarchy of methods introduced into national practice, whereby traditional transactional methods are applied as a matter of priority, whilst income-based methods are used when the former do not yield a reliable result.

**Figure 2** Criteria for classifying transaction types and applying the relevant valuation methods



*Source: Developed on the basis of the National Revenue Agency's Transfer Pricing Manual*

It is clarified that, under certain conditions, the combined application of more than one method is permissible, as is the use of a series of market values, averages and adjustments, where necessary to achieve a higher degree of comparability.

In summary, the analysis presented in this section of Chapter Two shows that the general rules for applying methods to determine market prices are of key importance for the unambiguous interpretation of the arm's length principle and for achieving a higher degree of predictability both for businesses as well as for the revenue authorities, thereby creating the conditions for a more effective implementation of transfer pricing policies.

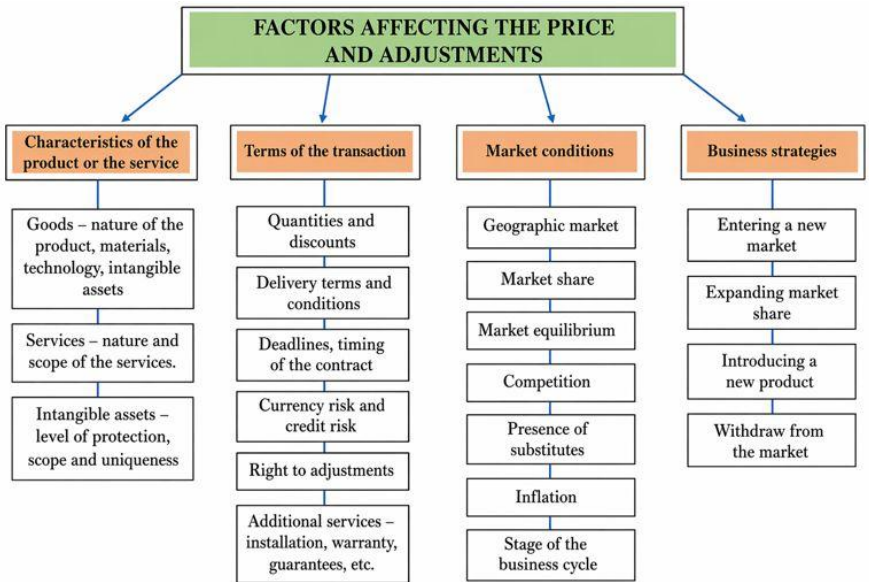
**The second chapter** provides an analytical review of the main methods for determining market prices applicable in national tax practice and consistent with the OECD guidelines. The comparable uncontrolled price method, the arm's length price method, the added value method, the profit split method and the net transaction profit method are examined, with their scope of application, analytical features, advantages and limitations clarified.

It is concluded that the choice of an appropriate method depends on the specific nature of the transaction, the availability of reliable comparable data, the results of the functional analysis, the characteristics of the assets and intangible assets used, as well as the economic conditions in which the relationships between the related parties take place. It is emphasised that no single method is universally applicable, and its reliability should be assessed in light of the specifics of the particular case.

Particular attention is paid to the profit split method and the net transaction profit method as applicable tools in more complex and integrated transactions, including in cases where there is a lack of sufficiently reliable comparable uncontrolled transactions or where unique and high-value intangible assets are involved. The specific features of determining market prices in transactions involving intangible assets are also examined, where the analysis should take into account not only the legal form of the asset but also its profit-generating potential, the terms of use, the degree of uniqueness, the duration of protection and the allocation of risk between the parties.

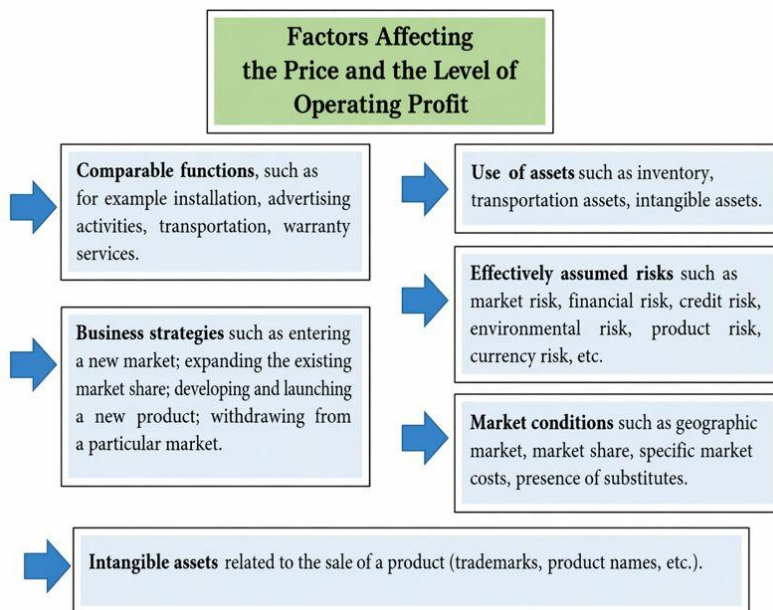
A general overview is presented of the factors influencing the price and the corresponding adjustments imposed by the tax authorities under the Comparable Uncontrolled Price Method (CUPM) and the Market Price Method (MPM).

**Figure 3** Factors influencing price and adjustments imposed by the tax authorities under the CCTM



*Source: Developed on the basis of the National Revenue Agency's Transfer Pricing Manual*

**Figure 4** Factors affecting price and gross profit margin under the MTP

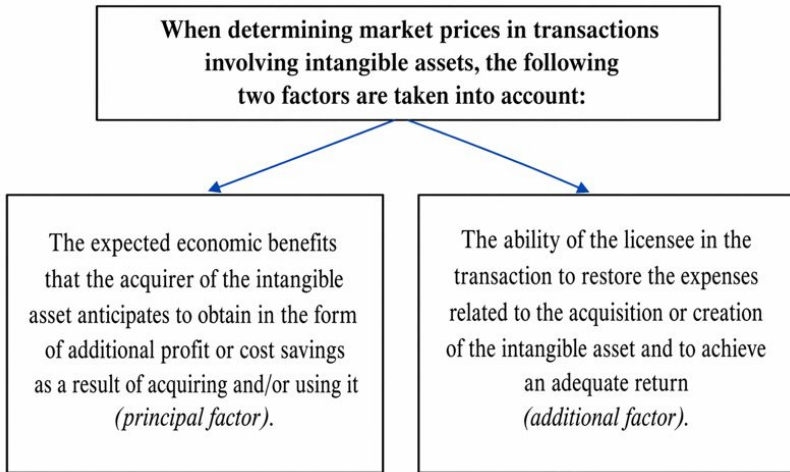


*Source: Developed on the basis of the National Revenue Agency's Transfer Pricing Manual*

In the context of the Net Transaction Profit Method (NTPM), it is concluded that the concept of 'intangible asset' is used in national legislation in the same way as in the OECD Transfer Pricing Guidelines, and in practice, in general, it is synonymous with the narrower concept of Intellectual Property / IP (Intellectual Property) in the context of patents and other similar rights and intangible assets.

It has been clarified that, when determining the market prices of intangible assets (assets / services / processes / R&D), specific rules have been established and adopted , which are presented below.

**Figure 5**



*Source: Developed on the basis of the National Revenue Agency's Transfer Pricing Manual*

Next, emphasis is placed on the control and documentation of transfer pricing. The importance of transfer pricing documentation, including the local and master files, is highlighted as a key tool for demonstrating compliance with the arm's length principle. It is noted that the current documentation framework in Bulgarian legislation is structured in accordance with Action 13 of the OECD's BEPS Action Plan and with the European documentation guidelines, aiming simultaneously at greater tax compliance, more effective risk analysis and greater legal certainty for taxpayers.

In summary, this section of Chapter Two demonstrates that the correct choice and well-reasoned application of transfer pricing methods, combined with reliable documentation, are a fundamental prerequisite both for effective fiscal control, and for limiting tax disputes in the field of transfer pricing, which is in the interests of both the tax authorities and business.

**The concluding section of the second chapter** offers guidelines for examining a specific industry with associated enterprises to verify compliance with the arm's length principle. It is concluded that an analysis of the sectoral and market environment is a prerequisite for the correct determination and assessment of transfer prices, as intra-group transactions cannot be considered in isolation from the competitive environment, price factors, cost structure,

risks and cyclical characteristics of the relevant sector.

It is emphasised that industry analysis provides the necessary economic context for subsequent assessment at the corporate level, including the interpretation of profitability, assets employed, risk allocation and the economic rationale for transfer pricing. In this regard, it is shown that when examining a specific sector, both global and national market trends and the specific factors affecting costs, demand, supply and normal profit levels in the industry should be taken into account.

As an illustrative application framework, the possibility of a sectoral analysis of enterprises operating in agribusiness and the trade in grain and seeds is outlined, in which the influence of the international economic situation, market shocks, price dynamics, the competitive environment, as well as intra-group services and the re-invoicing of costs. On this basis, it is argued that compliance with the arm's length principle can only be reliably assessed by taking into account both internal company parameters and the specific sectoral context in which the enterprise operates.

In summary, this section of Chapter Two demonstrates that industrial analysis is an essential element of transfer pricing methodology, as it links the specific transaction to the real economic environment and allows for a more informed assessment in the interests of both taxpayers and the fiscal authorities.

As a result of the analysis carried out, **the following main conclusions from Chapter Two** have been formulated:

➤ The arm's length principle is established as a fundamental regulatory and analytical standard in transfer pricing, ensuring equal treatment in tax matters between related and unrelated parties.

➤ The concept of 'related parties' is interdisciplinary in nature and should be examined simultaneously from the perspectives of tax, accounting and corporate law, with decisive importance attached not only to the formal legal relationship but also to the economic substance of the relations between the parties.

➤ The fiscal risk in transactions between related parties stems from the possibility of deviation from market conditions and the artificial reallocation of profits, which justifies the need for clear regulatory rules and reliable evidentiary mechanisms.

➤ National legislation, OECD standards and European practices form a common methodological framework for applying the arm's length principle

and for controlling intra-group transactions.

➤ The comparability analysis is a central tool in verifying compliance with the arm's length principle, as it covers the characteristics of the transaction, functions, risks, assets, economic conditions and business strategies.

➤ The methods for determining market prices in transfer pricing have varying applicability depending on the nature of the transaction, the degree of comparability and the availability of reliable information, with profit-based methods taking on particular significance in more complex cases.

➤ Transfer pricing documentation, including the local and master files, is established as a key tool for demonstrating compliance with the arm's length principle and for enhancing the transparency of intra-group relations.

➤ In the case of intra-group services, it is crucial to demonstrate the actual economic value provided, with the assessment criterion being whether an independent enterprise would have paid the same price for that service under comparable conditions.

➤ The study of transfer pricing requires an integrated approach that combines fiscal, accounting, economic, and statistical tools, with a view to achieving greater objectivity and reliability in the analysis.

➤ Sectoral and industrial analysis is a necessary prerequisite for the correct application of the arm's length principle, as it provides the economic context within which intra-group transactions, transfer prices and profitability levels should be assessed.

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### **Chapter THREE. Possible optimisation models for the execution, analysis and verification of transactions between related parties**

**Chapter Three** develops a conceptual and methodological approach to optimising the analysis and control of transactions between related parties. The starting premise relates to the fact that in modern business practice there is a significant volume and variety of intra-group transactions, which complicates both the process of their tax planning by enterprises and the control activities of the revenue administration.

On this basis, the paper argues for the need to develop more effective methodological solutions to streamline and systematise the processes of analysis and verification in the field of transfer pricing. It is argued that the application of such models can reduce the risk of analytical and methodological errors, increase the predictability of tax outcomes, and create

a higher degree of tax certainty for both businesses and the tax authorities.

In this regard, the development of universally applicable optimisation models based on the principles of national legislation and the OECD's international guidelines is proposed. It is concluded that these models should be based on an analysis of the comparability between controlled and uncontrolled transactions, as well as the application of established methods for determining market prices.

Particular attention is paid to the comparable uncontrolled price method as one of the most reliable tools for the direct application of the arm's length principle. It is noted that, where there are sufficient comparable transactions, this method allows the market price to be determined directly by comparing prices in controlled and uncontrolled transactions.

On this basis, an approach is proposed for the development of practical ly applicable optimisation models based on typical business situations. The concept is based on the understanding that the systematisation of common transactions creates the conditions for the development of standardised analytical procedures that can be used both by enterprises in their internal tax planning and by the revenue administration authorities when carrying out controls.

As a result of a preliminary analysis of business practice, three main types of transactions between related parties have been identified which are frequently encountered and have significant tax implications, namely:

- real estate transactions between related parties (related enterprises);
- transactions relating to the provision of services between related parties (related enterprises);
- loans between related parties (related enterprises).

For these three widespread types of transactions, optimisation models are being developed based on a comparative analysis of tax outcomes and the use of information from the regulatory framework, including the Ministry of Finance Regulations on methods for determining market prices, the applicable provisions of the Corporate Income Tax Act and the methodological guidelines of the National Revenue Agency.

The aim of the models developed is to determine relevant digital coefficients through which the prices of controlled transactions can be compared with those of comparable uncontrolled transactions. This creates an opportunity for faster and more reliable determination of market price levels, leading to the optimisation of both business practices and the revenue

administration's control activities.

The systematisation of analytical models in the study of typical transactions between related parties can significantly contribute to the practical utility and increased effectiveness of transfer pricing as a tool for tax predictability, control and ensuring compliance with the arm's length principle.

**Next**, the possible approaches developed for optimisation in the three most typical transactions between related parties are presented, namely: real estate transactions, transactions involving the provision of services between related enterprises, and financial loans between related parties. The general logic of the proposed approaches is aimed at creating clearer, faster and more easily applicable analytical solutions, through which the price of the controlled transaction can be brought closer to the level that would have been agreed between independent parties under comparable conditions.

For **real estate transactions between related parties**, the possibility has been introduced to use a methodologically simplified adjustment approach based on objectively ascertainable market parameters, including typical costs that would arise in a similar transaction between unrelated parties. The aim is to limit reliance on subjective assessments, reduce opportunities for price manipulation and achieve greater predictability when conducting the tax analysis of the transaction. In this sense, such an approach would facilitate both business and the revenue administration, whilst not undermining the principle of independent market relations.

In the case of service transactions between related legal entities, the possibility of using rationally justified price adjustments has been examined, taking into account the specific features of intra-group relations, including shared resources, organisational links and established commercial relations between the parties.

**An approach has been developed in the context of a model contract for the provision of a service:** design of a retaining structure on a national road, for which it is necessary to prepare a set of design documents in accordance with the applicable regulatory provisions on the content and scope of investment projects, which in turn requires the enterprise to have at its disposal a wide variety of specialists, as follows:

*‘Engineering-Geological Report’ section – Engineering geologist with full design authorisation;*

*“Road” section – “Transport Construction” Engineer with full design authorisation;*

*“Structural” section – “Building and Facilities Construction” Engineer with full design authorisation;*

*“Surveying” section – Surveying Engineer with full design ;*

*Section “Construction Waste Management Plan”: – Engineer with full design authorisation and additional training in the preparation of a “Construction Waste Management Plan”;*

*Section “Temporary and Permanent Traffic Organisation” – “Transport Engineering” engineer with full design authorisation;*

*Section “Health and Safety Plan” – an engineer with full design qualifications and an additional course;*

*Section “Fire Safety Plan” – an engineer with full design authorisation and an additional course;*

*Company B, which has the following capacity for the assigned parts of the contract:*

*Section “Engineering-Geological Report” – Engineering geologist with full design authorisation;*

*Part “Surveying” – a surveyor with full design authorisation.*

It is emphasised that staffing levels for the performance of a specific activity are subject to control and checks, including by the tax authorities of the Revenue Agency. On this basis, it is assumed that if the subcontracting companies are related parties, it would be logical and fair to apply a permissible discount when negotiating service prices, such as that applied to regular customers – independent parties (without there being any risk or grounds for these prices to be declared ‘transfer prices’ and subject to adjustments for tax purposes, simply because the subcontracting companies are related). It is therefore proposed that the basis for applying such a discount should be existing evidence regarding regular customers and the use of historical information from previous projects and payments made between the relevant companies.

It is concluded that such service transactions are common practice, and the need for a change in the regulatory framework is justified, clearly defining the permitted discount, supplemented by arguments that actual business activities reveal the existence of a number of other corporate strategies aimed at tax savings, which are implemented due to ‘unregulated’ price reductions.

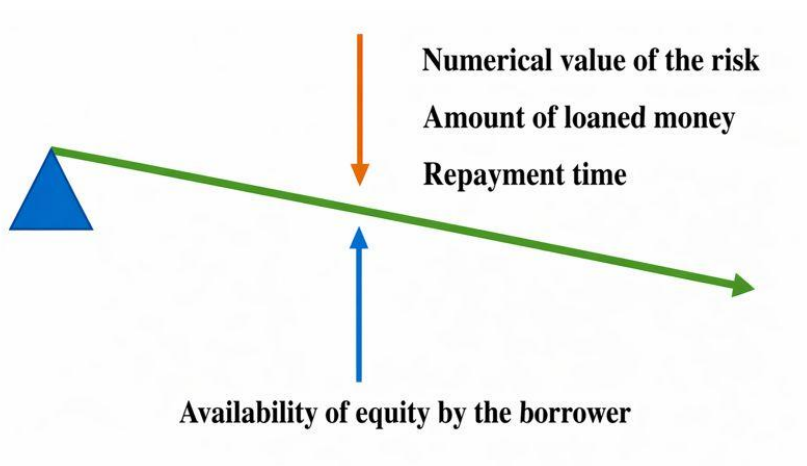
The analysis emphasises the need for such discounts or price concessions to be properly substantiated and economically justified, so that they do not lead to a concealed distortion of the tax result, but reflect genuine business logic.

Particular attention is paid to the issues surrounding **the granting and receiving of loans between related legal entities**, where a significant regulatory and methodological shortfall has been identified regarding the determination of market interest rates. Granting a loan involves the release of available cash and, consequently, a reduction in the lender's capacity for operational activity. In this regard, a model has been developed for determining the interest rate, based on the quantitative and qualitative characteristics of the transaction, including the loan amount, term, the lender's liquidity position and risk assessment.

Following the definition of market interest rate and effective annual interest rate, a formula used by commercial banks has been adapted in a manner whereby interest rates are removed and only the volumes are retained. Another change is aimed at incorporating the effects of the quantitative and qualitative characteristics of the specific loan transaction.

On this basis, the need for borrowing is presented graphically.

**Figure 6**



*Source: Created by the author*

The graphical representation is shown as a sloping line, representing the company's reduced liquidity. Depending on factors such as the amount

requested, the numerical value of the risk assessment and the time taken to repay the amount, the slope of the line may be steeper or gentler. It has been established that these factors influence the slope; consequently, the larger the amount, the shallower the slope, whilst the cash balance in the company's bank accounts acts as a balancing factor.

A corresponding mathematical representation has been formulated as follows:

$$I=(S+Q)/T \text{ , where}$$

I – interest rate indicator

S – amount requested

Q – numerical value of the risk

T – the lender's available funds

To determine the annual rate, the value obtained for I is divided by the agreed repayment period (n) and the resulting figure must be multiplied by 100 to express it as a percentage:  $\Lambda = (I/n) \times 100$

It has been concluded that such a model can create a more objective and predictable basis for setting interest rates on intra-group loans, in accordance with the arm's length principle and the criteria laid down in national tax legislation.

In summary, the description of the proposed models can be summarised and presented in the following table:

*Table 2*

<b>Type of transaction</b>	<b>Approach used</b>	<b>Key parameters</b>	<b>Result</b>
Real estate	Adjustment model	Market costs; margin	Adjusted price
Services	Functional analysis	Cost base; mark-up	Market price
Intra-group loans	Interest rate model	Term; risk; liquidity	Market interest rate

This section of the chapter emphasises that the proposed optimisation approaches do not claim to replace the regulatory framework, but represent streamlined methodological solutions based on current legislation, administrative practice and generally accepted transfer pricing principles. Their role is to support both intra-company tax planning and documentation,

as well as the control activities of the revenue authorities, through greater clarity, measurability and comparability.

In summary, this section of Chapter Three demonstrates that, for typical transactions between related parties, it is possible to develop practically applicable optimisation models that enhance the operational efficiency of the analysis, limit subjectivity and create better conditions for compliance with the arm's length principle.

**As a result of the analysis carried out in Chapter 3, the following main conclusions are drawn:**

➤ The need to develop optimisation models in the field of transfer pricing is driven by the growing volume, diversity and complexity of transactions between related parties, which require faster, more reliable and more easily applicable analytical solutions in the determination and control of transfer prices.

➤ The use of systematic and standardised approaches in typical transactions between related parties creates the conditions for reducing the risk of errors, limiting subjective judgements and enhancing tax certainty for both businesses and tax authorities.

➤ In real estate transactions between related parties, it is possible to use clear adjustment approaches based on objectively verifiable market benchmarks, which facilitate the determination of price levels consistent with the arm's length principle.

➤ In transactions involving services between related legal entities, the optimisation approach should take into account the actual organisational and resource links between the parties, but without allowing for any unjustified deviation from market logic and without affecting the tax neutrality of the transactions.

➤ In the case of loans between related legal entities, there is a particular need for a clearer and workable methodology for determining market interest rates, as it is precisely in this area that significant difficulties and the risk of conflicting interpretations often arise.

➤ The model developed for determining the interest rate on intra-group loans shows that by combining indicators of size, term, liquidity and risk, a more objective and economically justified interest rate can be arrived at.

➤ The proposed optimisation models build upon the existing legal and methodological framework, but further develop it towards greater practical applicability, predictability and operational efficiency. In more general

practical terms, they can contribute to the development of a more balanced approach between business interests and fiscal control, creating the possibility for a fairer, more predictable and rational treatment of transactions between related parties.

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**Confirmation of the thesis and achievement of the research objective:**

**In the CONCLUSION of this study, the research thesis is confirmed** as a result of the research conducted, namely that within the framework of the statutory rules governing the treatment of transactions between related parties, it is possible to develop and apply appropriate optimisation models in the field of transfer pricing, which correspond as closely as possible to the economic interests of the business entities concerned, without undermining the fiscal interests of the state and the relevant tax jurisdictions.

**The main objective** of the thesis **has been achieved** through the developed and proposed optimisation methodological models for internal and external analysis, verification and control of the transfer prices applied in transactions between related parties.

The study confirmed the need to establish methodologies based on systematised optimisation models, due to the significant diversity of transactions between related parties, the existence of practices involving tax base erosion and profit shifting, as well as the existing difficulties in control practice, which often lead to tax law disputes, double taxation or over-taxation.

To achieve the objective set out in the thesis, the following main tasks have been carried out:

- ✓ contemporary developments in the regulation of tax regimes relating to transfer pricing have been examined in an international, European and national context;
- ✓ key concepts relating to the types of entities and groups of entities relevant to the reporting, taxation and control of relationships and transactions between related parties have been examined;
- ✓ the general rules for applying methods to determine market prices in accordance with national tax practices, OECD guidelines and the proposed European regulations in the field of transfer pricing have been analysed;
- ✓ the main methods for determining market prices in the context of transfer pricing have been examined;
- ✓ the essence of the arm's length principle is clarified, and on this

basis guidelines are proposed for sectoral analysis when verifying compliance with this principle;

✓ practically applicable solutions have been justified for adjusting prices in controlled transactions with a view to bringing them closer to the levels seen in comparable uncontrolled transactions.

**The main outcome of the study** is the development of optimisation methodological models for systematic solutions in the field of transfer pricing, based on the current national regulatory framework, under which transfer pricing rules apply both to cross-border as well as domestic transactions between related parties. This feature creates opportunities for the adapted application of the developed models in a broader international context, including within the European economic and regulatory framework for the cross-border activities of multinational enterprises and corporate groups.

## SUMMARY OF THE CONTRIBUTIONS IN THE DISSERTATION

The specific contributions and key points are summarised as follows:

### **1. Contribution to theory (Theoretical and methodological contributions):**

➤ **The latest developments** in the regulatory framework of transfer pricing and tax regimes related to combating tax abuse leading to base erosion and profit shifting in an international context (BEPS) **have been systematised.**

➤ **Guidelines are proposed for the application of sectoral analysis** as a tool for verifying the compliance of transactions between related parties with the arm's length principle, illustrated through an analysis of business transactions in a specific economic sector.

### **2. Contribution to practice (Scientific and applied contributions)**

➤ **An analytical framework has been developed** for examining the arm's length principle, combining tax, accounting, economic and sector-specific parameters, and within its scope, practically applicable adjustment approaches and relevant numerical coefficients are established for making adjustments to the prices applied by related parties in controlled transactions, with the aim of bringing prices closer to the levels of comparable uncontrolled transactions.

➤ **Optimisation methodological models have been developed** for systematic solutions in three of the most common types of transactions between related parties – the sale of real estate, the provision of services and intra-group lending operations.

➤ **The potential for the practical application** of the developed models in both a national and a European context **is substantiated**, emphasising their dual utility – both for enhancing tax certainty and predictability for businesses, and as a tool for fiscal analysis and support for transfer pricing control.

## LIST OF AUTHOR'S PUBLICATIONS

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2. **Angelov, Kiril**, Methods for determining market prices in the context of transfer pricing, Second National Student and Postgraduate Conference "Code Digital: Economy, Education and Social Relations", VUZF, VUZF Publishing House "St. Gregory the Theologian", ISBN 978-619-7622-30-0, pp. 117–125, 2022, available at: <https://vuzflab.eu/wp-content/uploads/2022/07/%D0%9A%D0%BE%D0%B4-Bulgaria-Bulgaria-B1%D1%80%D0%B0%D0%B7%D0%BE%D0%B2%D0%B0%D0%BD%D0%B8%D0%B5-%B1-%D1%81%D0%BE%D1%86%D0%B8%D0%B0%D0%BB%D0%BD%D0%B8-%D0%BE%D1%82%D0%BD%D0%BE%D1%88%D0%B5%D0%BD%D0%B8%D1%8F.pdf>
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