

**FACTORS AFFECTING TRANSFER PRICING TAX COMPLIANCE
IN ZAMBIA: *EVIDENCE FROM THE MINING SECTOR.***

BY

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A dissertation submitted to the University of Zambia in partial fulfilment of the requirements for the award of Master of Science in Accounting and Finance.

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DECLARATION

I, **Robby Litho** do hereby declare that this thesis represents my own work done after registration for the degree of Master of Science: Accounting and Finance, at the University of Zambia, Graduate school of Business, and has not been previously included in a thesis or dissertation submitted to this or any other institution for a degree, diploma or other qualifications.

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APPROVAL

This dissertation by **Robby Litho** is approved as a fulfilment of the requirements for the award of the degree of Master of Science in Accounting and Finance.

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ABSTRACT

Multinational enterprises abuse transfer pricing to erode the country's tax base by shifting profits to other jurisdictions thereby depriving the country of revenue that would otherwise be available for development. The aim of this study was to assess the factors affecting transfer pricing tax compliance in Zambia, particularly in the Mining sector. Using a descriptive design, the study identified factors affecting tax compliance and specifically investigated, compliance costs, complexity of transfer pricing, and the aggressiveness of the Zambia Revenue Authority. The target population was transfer-pricing practitioners working in different capacities in the mining sector. The study collected primary data through a survey questionnaire involving the entire population. The researcher administered the questionnaire online due to covid-19 pandemic considerations. The study further analyzed secondary data on transfer pricing and conducted one-on-one online meetings with industry experts. The data was analyzed using google forms imbedded descriptive statistics and Microsoft excel (office 2016). The study finds that tax compliance costs in Zambia are very high and that transfer pricing is a very complex tax concept with mean scores of 3.66 and 3.70 respectively. Additionally, the study finds that the revenue authority is not aggressive in conducting compliance audits with a mean score of 3.3. Among other factors identified as influencing tax compliance are policy inconsistencies and inadequate enforcement capacity. The study therefore concludes that Zambia lacks the capacity to manage a transfer pricing policy anchored on the arm's length principle. Accordingly, this study provides much needed evidence of why transfer pricing tax non-compliance persists in the mining sector. This information is important to policy makers given there is very limited literature on this subject in the mining sector.

Key words: Transfer pricing, Tax compliance, MNEs, Zambia, BEPS

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DEDICATION

I dedicate this research paper to my family for their love, support, patience and encouragement.

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TABLE OF ACRONYMS

ALP:.....	Arm's Length Principle
APA:.....	Advance Pricing Agreement
BEPS:.....	Base Erosion and Profit Shifting
DTA:.....	Double Taxation Agreement
FDI:.....	Foreign Direct Investment
FQM:.....	First Quantum Minerals
GDP:.....	Gross Domestic Product
ICMM:.....	International Council of Mining and Metals
KCM:.....	Konkola Copper Mines
MLI:	Multilateral Instrument
MMMD:.....	Ministry of Mines and Minerals Development
MNE:.....	Multinational Enterprise
MOF:.....	Finance and National Planning
NGO:.....	Non-Governmental Organisation
NPA:.....	National Prosecutions Authority
OECD:.....	Organisation for Economic Cooperation
PE:.....	Permanent Establishment
RAT:.....	Zambia Tax Appeals Tribunal
SADC:.....	Southern African Development Community
SME:.....	Small to Medium Enterprise
TPB:.....	Theory of Planned Behaviour
ZRA:.....	Zambia Revenue Authority

CHAPTER 1

INTRODUCTION

1.1 Introduction to the Study

Tax compliance refers to the implementation of all tax requirements as specified by the law freely and entirely. According to Youde and Lim (2019) “tax compliance refers to taxpayers’ decision to comply with tax laws and regulations by paying tax timely and accurately.” Tax compliance encompasses submitting a tax return within the specified period, accurately stating the income and deductions, and paying assessed taxes by due date. Tax compliance is important to the development and growth of any country including Zambia.

The development and growth of a country generally pivots on obtaining revenues from the economic activities in the country and in that respect, taxes are considered one of the major national sources of a country’s revenues (Varvarigos, 2016). Governments are continuously in need of revenues for the purposes of building public infrastructure, health care services, education and other public services including reducing poverty, and as such, a need to increase tax revenues to enhance development and growth always persists. Tax revenue can be enhanced through efforts directed towards resolving the issue of tax non-compliance (Franzoni, 1999). An increase in tax compliance would reasonably enhance the tax revenue available to a country, while non-tax compliance causes intense concern throughout developed and developing nations around the world (Alm, Jeremy, & Kara, 2016). This holds true for countries in Africa, as evidenced in Isbell’s (2017) study on tax compliance in Africa where it is argued that in many African countries, tax evasion (a form of tax non-compliance) leaves states with major holes in their budgetary pockets. Thus, compliance remains an urgent topic for investigation in literature. Although many prior studies attempt to explain tax compliance, there is no agreement among scholars regarding the issue. To the extent, taxation will exist for years to come; tax non-compliance will persevere if not dealt with.

In terms of transfer pricing, tax compliance will refer to fulfilling of tax obligations with reference to the laws and regulations including supplementary procedures of the country on transfer pricing. In today’s globalized economy, transfer pricing has become a matter of great interest, not only for

management of enterprises but also tax authorities across the world. Through global exchange of information, new international guidelines give tax authorities the impetus to challenge intra-group transactions and by default – transfer prices, according to the transfer pricing services (2021). Intra-group transactions are of interest to both management and tax authorities because of the concept of transfer pricing.

Transfer pricing is defined as the setting of prices of goods and services transferred between controlled (or related) legal entities within an enterprise. Transfer pricing can also be looked at as “the process of determining the income of all parties concerned in international business transactions” (Olaoye & Agugom, 2017). Transfer pricing therefore, tries to outline the tax base of the countries engaged in international cross-border business transactions. According to the United Nations transfer pricing Manual (2021), transactions that take place within the same Multinational Enterprise (MNE) are called controlled transactions and can be contrasted with uncontrolled transactions that take place between unassociated MNEs and therefore assumed to be at arm’s length.

The Arm’s length principle (ALP) is the world’s accepted guiding principle for choosing an acceptable transfer price. Under the principle, transactions within a group are compared to transactions between unrelated entities to determine the acceptable transfer prices. About 80% of global trade today (in terms of gross exports), has become linked to international production networks of MNEs (Ruggie, 2018). This is because of the numerous times intermediate goods are procured, a couple of steps are taken in their processing, and then they are transferred as an intermediate product to the next facility in another country, where the cycle is repeated until the final product is produced. World trade in intermediate goods is now greater than all other non-oil traded goods combined (International Labour Organisation, 2016). Sales and marketing functions may take place in locations and countries far removed from the place of production, and with fast increasing incidence, some of these functions are conducted via the internet from locations that are very far away from the place of production. Group management activities may also occur in sophisticated structures with participating managers located in many jurisdictions around the world; research and development activities leading to the creation of valuable intangible assets

may similarly, be geographically detached. Service transactions, where the service provider and the beneficiary of the service are physically separated are also common.

Where transactions in goods and services move between associated enterprises across country borders, it is necessary for enterprises to establish transfer prices with respect to those transactions. The prices set determine in large measure the way an MNE group's income is allocated among the various members of the MNE group and among the taxing jurisdictions that host their operations. Accordingly, MNEs and tax authorities have an active interest in transfer pricing determinations related to all types of cross-border transactions because of their effect on the tax base of those particular jurisdictions.

Moreover, the growth of international commerce has led more and more countries to have a stake in transfer pricing. Developing economies have also become important contestants in the international flow of goods and services and have consequently found it necessary to protect their tax bases with transfer pricing rules and regulations. The Organization for Economic Development and Cooperation (OECD) Transfer Pricing Guidelines (2017) institutes principles for establishing intercompany transfer prices among member countries which principles are even used by many countries outside OECD across the world including Zambia. These principles are based on the ALP, which provides that the best guide to how associated enterprises should price transactions and allocate income can be found in the arm's length dealings between unrelated parties. This ALP forms the basis for transfer pricing legislation and enforcement in virtually all countries across the world. The principle is generally acceptable by parties to controlled transactions as being akin to market prices.

MNEs are the focus of tax efforts not just in developing countries but the world over because of the value of transactions they engage in and the impact of those transactions on economies and the environment. While increased international trade through MNEs is welcome on the front of Foreign Direct Investment (FDI), it has brought about challenges for governments, especially for developing countries as regards tax administration of these cross boarder activities. MNEs operate in different tax jurisdictions and as such are required to comply with different reporting and tax laws across the spectrum of countries in which they have a presence. While this scenario may

present itself as a burden to the MNEs in terms of tax compliance, it provides opportunities for the MNEs to engage in base erosion and profit Shifting (BEPS), through tax planning that takes advantage of low tax jurisdictions that in the end minimizes their global tax bill. When this happens, transfer pricing may become abusive or illegal where related parties seek to distort the price as a means of reducing their overall tax bill. In these instances, the practice according to Readhead (2016) may be referred to as “transfer mispricing”.

Not long ago, transfer pricing was a subject for tax authorities and a few specialists. Recently, other interest groups have arisen such as Politicians, economists, business community, NGOs and the public. These interest groups have taken keen interest in knowing who pays tax in which jurisdiction among different units of the same MNE. This increased interest has been caused by so many factors. It is noted that there has been a rise in the number and scale of MNEs operating on the global stage. Given the volume of trade that takes place within MNEs, the significance of transfer pricing in the context of taxation cannot be over-emphasized.

The globalization of the world economy has made transfer pricing become increasingly challenging to revenue authorities in planning and implementing their mandate of collecting revenue through taxation. Transfer pricing has grown into a global issue because of the increase in the volume and value of international transactions that happen between related parties, and the realization by these businesses that through manipulation of the tax rules in different jurisdictions, they can report higher profits than their competitors can. Robust empirical evidence shows that MNEs engage in international tax planning. MNEs shift profit from higher to lower-tax rate countries. Large MNEs also exploit mismatches between tax systems (e.g. differences in the tax treatment of certain entities, instruments or transactions) and preferential tax treatment for certain activities or incomes to reduce their tax burden (Johansson, Skeie, Sorbe, & Menon, 2017).

Recent developments have further extended the attention that transfer pricing attracts in terms of complexities, reclassifications and assessment positions, and strict transfer pricing documentation requirements. Under the OECD Inclusive Framework on BEPS, 139 countries and jurisdictions are collaborating to put an end to tax avoidance strategies that exploit gaps and mismatches in tax rules to avoid paying tax. Developed in the context of the OECD/G20 BEPS Project, 15 actions

are identified to equip governments across the world with domestic and international rules and instruments to address tax avoidance, ensuring that profits are taxed where economic activities generating the profits are performed and where value is created (OECD, 2021). It can be seen from the evidence that transfer pricing is on the global stage and countries have to keep abreast with changing trends in this matter.

1.2 Background of the Study

The presence of MNEs in a country entails cross-border transactions that exposes a country to the problem of tax non-compliance in the context of transfer pricing. Zambia plays host to many MNEs in many industries including the mining sector that exploit the country's mineral reserves, which is pre-dominantly copper. Copper reserves have been the principal driver of the country's economic growth, permitting the country to regain its status as a lower-middle income country in 2011. According to a report by the International Council of Mining and Metals (ICMM), as cited in Readhead (2016), copper mining accounts for over 80 percent of export earnings in Zambia, contributing at least 12 percent of gross domestic product (GDP) and 30 percent of total tax revenue. Despite the large impact of mining on the country's treasury, international NGOs and academics have raised concerns that Zambia is not benefiting from its mineral wealth due to transfer Mispricing.

Copper is produced in Zambia predominantly by four big mines (subsidiaries of MNEs), supplemented by several smaller mines. The Zambian government, through its investment-holding company ZCCM-IH, has been for the past two decades a minority shareholder in nearly all of the big mines. The four big mines are Barrick Lumwana, First Quantum Minerals (FQM Kansanshi), Mopani and Konkola Copper Mines (KCM). These enterprises account for about 80% of Zambia's annual copper production (Mining for Zambia, n.d). They also account for most of the mining employment, most of the corporate social investment and most of the media publicity. Consequently, these four mines are a measure of the resilience of the mining sector in Zambia and by extension, Zambia's economy.

Barrick Lumwana is wholly owned by the Canadian company Barrick, which is the world's largest gold-mining company. The other three each have a majority foreign shareholding, as well as a

minority shareholding by ZCCM-IH. The majority shareholder in Kansanshi is FQM (First Quantum Minerals), a Canadian mining and exploration company; ZCCM-IH's stake is 20.6%. The majority shareholder in KCM has been Vedanta Resources, an Indian diversified metals and mining group; ZCCM-IH's stake is 20.6%. The majority shareholder in Mopani has been Glencore, the Swiss-based commodity-trading and mining company; ZCCM-IH's stake is 10% (Mining for Zambia, n.d). More recently however, there has been changes in the ownership of Mopani and KCM.

The Zambian Government has acquired a majority stake in Mopani. According to news outlets, Zambia's state mining investment unit, ZCCM-IH has agreed to buy Glencore's majority stake in Mopani Copper Mines in a \$1.5 billion deal funded by debt and will seek a new investor (Reuters, 2021). The sale followed Glencore's attempt to suspend operations at Mopani in 2020 because of low copper prices and COVID-19 pandemic disruptions. This prompted threats from Government to have the enterprise's licenses revoked. In the case of KCM, Zambia handed control of the enterprise to a provisional liquidator in May 2019, triggering an ongoing legal dispute with Vedanta (Reuters, 2021).

Although there has been changes in the ownership of some of the Mines, the changes have not lasted long enough to change the perceptions and factors affecting compliance to tax in general and transfer pricing in particular. In his report on transfer pricing in Zambia's mining sector, Readhead (2016) grouped barriers to compliance into four broad categories. He contended that from the perspective of the tax authority, the factors affecting compliance could be summarized into four areas – legal framework, administrative arrangements, transfer pricing information, and knowledge and skills. Another research unrelated to transfer pricing but on tax compliance of small to medium Enterprises (SMEs) who constitute a large group of Zambia's business entities by count, found that among the factors affecting compliance of the target population are high compliance costs and low levels of tax education (Chisumpa, Joseph, & Munthali, 2020). Zambia should be interested in the transfer-pricing topic with all these MNEs operating in the most important industry in the economy.

Zambia like many developing countries rich in mineral wealth has for a long time not benefited much from its natural resources and one reason for this problem is transfer mispricing by MNEs. These enterprises deprive poor countries of a fair share of mineral revenues through taxes. They achieve this by taking advantage of differences in tax rates across jurisdictions, bilateral and multilateral Double taxation Agreements (DTAs) and enforcement weaknesses to perpetrate tax non-compliance. Proper transfer pricing management therefore can help the country to finance its development agenda while mismanagement compromises its ability to mobilize domestic revenue. Transfer pricing management is an expensive undertaking from a compliance perspective both for the revenue authority and for the mining enterprise. The recommended transfer pricing methods based on the ALP are extremely complex (Sundaram, 2012). The complexity is because of the concepts used and the intensive nature of their practical applications that also requires good international cooperation to manage, thereby needing resources beyond the reach of most developing countries. To minimize tax non-compliance, ZRA needs to be aggressive in conducting compliance audits.

Given the above discussion, it is evident that there is transfer mispricing in Zambia, and as has been demonstrated, transfer mispricing affects the tax base of the country wherein the country is deprived of much needed revenue for development. It is for this reason that the researcher attempts to describe the factors that contribute to transfer pricing tax non-compliance in Zambia, especially in the important sector of Mining and recommends some possible solutions to mitigate the problem of transfer mispricing.

1.3 Research Problem

Zambia as a developing country with its endowment in mineral wealth has not been spared of MNEs activities and stands exposed in the very sector that constitutes 62% of FDI in the country (World Bank, 2016). According to the laws of Zambia, mining firms are supposed to pay tax based on their profit. However, using transfer pricing, mining enterprises in Zambia are able to reduce the profit taxable in the country leading to loss of revenue that would otherwise be available to the country. According to Curtis (2015), Zambia has been losing USD3 billion every year through transfer pricing manipulations by MNEs. More recently, according to the OECD as cited in KPMG (2020) the highest court in the country in May 2020 ordered a mining enterprise to pay an extra

tax of 240 million Kwacha or (U.S. \$13 million). The decision hinged on the tax authority making a technical case showing evidence of tax avoidance through transfer Mispricing. Further, in the year 2008, much of Zambia's exported copper, almost half of which was earmarked for Switzerland, never arrived in that country (Sharife, 2011). Moreover, the pricing structure for Swiss copper – remarkably similar to Zambia's exported copper – was six times higher than the funds Zambia received, facilitating a potential loss of \$11.4bn according to Sharife. Experts blamed this loss on Glencore's transfer pricing practices. Grant Thornton, at the request of the ZRA unpacked how the Glencore-controlled lucrative Mopani Copper Mines (MCM) – a company that declared no profits, was cheating the country's tax base of copper revenue. It is evident therefore, that transfer mispricing exists in Zambia, and it exists in the mining sector in particular.

Considering the importance of the international trade that is channeled through these enterprises and given the scale and value of these transactions, it is imperative for the country to find a solution to transfer mispricing – a kind of tax non-compliance. If this problem continues unabated, Zambia will never realize her development aspirations and the public will lose confidence in the tax system and more tax non-compliance will take place, as the tax will be seen to be unfair by those that try to comply. Non-compliance with transfer pricing rules and regulations is undesirable as it erodes the tax base leading ultimately to less revenue available to the treasury. Identifying factors leading to this phenomenon and the effects thereof on tax compliance is the first step to finding a solution to this problem and therefore advancing the revenue base and enhancing the development agenda of the country.

This study therefore seeks to examine the factors that affect tax compliance in the context of transfer pricing in Zambia's mining sector. Particularly, compliance costs, the complexity of transfer pricing rules and methods, and the aggressiveness of the tax administration as far as MNEs operating in the mining sector in Zambia are concerned.

1.4 Aim and Objectives

The main objective is to examine in a descriptive study approach, the factors affecting MNEs in complying with transfer pricing rules in Zambia's mining sector. The following specific objectives will guide the study.

1. To describe Transfer Pricing compliance costs as a factor affecting tax compliance in Zambia's mining sector.
2. To describe the complexity of Transfer Pricing as a factor affecting tax compliance in Zambia's mining sector.
3. To describe the aggressiveness of the Zambia Revenue Authority with respect to Transfer Pricing as a factor influencing tax compliance in Zambia's mining sector.
4. To identify other factors influencing Transfer Pricing tax compliance in Zambia's mining sector.

1.5 Research Questions

This study seeks to address the following specific research question:

1. What is the cost of transfer pricing as a factor affecting tax compliance in Zambia's Mining sector?
2. What is the complexity of transfer pricing as a factor affecting tax compliance in Zambia's Mining sector?
3. What is the aggressiveness of the Zambia Revenue Authority with respect to transfer pricing as a factor influencing tax compliance in Zambia's mining sector?
4. What other factors influence transfer pricing tax compliance in Zambia's Mining sector?

1.6 Scope and Delineation of the study

Transfer pricing is a specialized field. In terms of the scope, the study will focus on the four big mines that dominate the mining sector in Zambia. The study will focus on transfer pricing practitioners that work in the tax units of these mining firms, practitioners that work for independent accounting firms but provide consultancy services to these firms and transfer pricing practitioners in the Zambia Revenue Authority. Transfer pricing practitioners of various categories are of interest in this subject because of their knowledge of the actual transfer pricing practices of MNEs in the mining sector. The practitioners get possession of this knowledge by virtue of the work they do for or connected to the MNEs in various capacities.

Transfer pricing is a wide subject. This study is not intended to address transfer pricing in business performance management or indeed in any other context. The study also does not address all matters pertaining to tax in general. This study only addresses in a descriptive manner compliance cost, complexities of transfer pricing rules and methods, and aggressiveness of the tax administration as factors affecting compliance in the context of taxation as concerns MNEs operating in the mining sector of the country.

1.6.1 Significance

The study could be of significance to many interest groups including the following:

1.6.2 Multinational Enterprises

The study might be of value to MNEs as it may enlighten them about transfer pricing and the challenges in the tax compliance area. The findings and recommendation thereof may greatly help them to make sound decisions as they decide to implement transfer-pricing policies in their enterprises in future. This may assist the management teams in these firms to implement transfer-pricing policies with some background knowledge of the regulatory framework and challenges in the mining sector and thereby benefiting from the recommendations of the study.

1.6.3 Government

The study may be of significance to the government and the Zambia Revenue Authority by highlighting the challenges that enterprises are facing in complying with transfer pricing rules and methods and pointing out any loopholes that may exist in the current regulatory framework. In addition, with increased revenue targets for the country to meet developmental needs and repay the country's rising external debt, this study will help ZRA understand how some factors in the area of transfer pricing affects compliance and by extension revenues available to the treasury. This study may also inform policy makers on the need to balance the complexity of transfer pricing rules and methods with simplicity of a tax system that is generally agreed to enhance compliance.

1.6.4 Potential Investors

The study may be relevant to would-be investors in the Mining sector in particular and the economy in general. Investors are motivated to invest in economies that promise high returns for

their investment. By highlighting the transfer pricing practices in Zambia and the potential challenges affecting compliance among MNEs operating in the mining sector of the country, investors would have a basis on how to proceed with investment decisions.

1.6.5 Academicians

The study could also be of benefit to academicians as it may highlight areas of interest that need further work in terms of research. Owing to the fact that transfer pricing is an evolving concept, this study may contribute to the existing literature on the subject matter and may be very valuable to the academic fraternity and form a basis for further research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter covers theoretical review, empirical review, knowledge gap, the conceptual framework and the study implications. The theoretical review discusses the theories that informed the study; the empirical review discusses past studies by other authors on the research objectives. The conceptual framework represented by a schematic diagram, demonstrates the interactions between the independent and dependent variables. The conceptual framework also details the indicators that will be used to observe the variables of the study. The chapter ends with a discussion of the implications of the study.

2.2 Theoretical Review

This study will be guided by three theories that attempt to explain the factors that affect MNEs in complying with transfer pricing regulations and methods in the area of tax. In looking at tax compliance from a theoretical perspective, the following theories are discussed in this section – economic, planned behavior and tax morale theories.

2.2.1 Economic theory

The economic theory proposed by Becker (1968) as cited in Alshira'h *et al.*, (2020) has developed over a long period with diverse research work looking at different factors and providing critique of the original work. The economic theory claims that deterrence is the main factor affecting management of tax compliance (Frey, 2003). Matthews and Agnew (2008) in their economic theory study on tax non-compliance found that threats and legal penalties would bring about the prevention of tax crimes. According to Berker, taxpayers are rational in behavior and tax non-compliance is a direct result of the perception they develop about the benefits and risks associated with the vice. In another study, Allingham and Sandmo (1972) used Berker's model to develop an alternative theory they called the A-S model. This theory suggests that taxpayers can be deterred from engaging themselves in tax avoidance schemes. Tax administrations can deter taxpayers from tax avoidance through sanctions and penalty instruments or threats thereof that they develop (Yitzhaki, 2002). However, this work can be contrasted by another study that found that high-

level compliance was a consequence of low level of deterrence efforts, suggesting that there could be other factors affecting compliance of taxpayers that were not included in earlier works (Feld, Frey, & Torgler, 2006). Further, other studies have pointed out the deficiencies of the economic theory based on deterrence, proposing that there are more factors affecting compliance than was previously thought. Jackson and Milliron as cited in Alshira'h *et al.*, (2020) point out more broad factors according to the study that could potentially affect a taxpayer's compliance level namely – tax complexity, tax audits, attitudes and perceptions, and demographic characteristics among others.

To the extent that this study seeks to evaluate MNEs' behavior or practices towards tax compliance in the area of transfer pricing, the economic theory resonates well with this work.

2.2.2 Planned Behavior theory

According to the theory of planned Behavior (TPB), intentions to perform different behaviors may be forecasted with correctness from attitudes toward the behavior, subjective norms, and perceived behavioral control; and these intentions, together with perceptions of behavioral control, account for considerable variances in actual behavior. The behavioral variables are shown to be related to appropriate sets of salient behavioral, normative, and control beliefs about the behavior, but the exact nature of these relations is still uncertain (Ajzen, 1991). In this theory, behavior of any person is well thought out suggesting that in any society, the behavior of the members is always incited by certain dynamics in a deliberate style (Klee, Bamberg, Erten, & Graf, 2000). The motivating factors that largely manipulate the behavior of members of a society fall in the continuum of behavioral, normative, and control beliefs. Planned behavior theory is therefore hinged on intention. Intention motivates behavior of a member of a given society according to Klee *et al.*, (2000), affirming that mindset or attitude of taxpayers is a critical determinant of their tax compliance behavior. This theory is relevant to the current study because transfer mispricing that MNEs are often accused of practicing, is in many cases a deliberate act.

2.2.3 Tax Morale theory

Tax morale is defined most often as the inherent motivation to pay taxes. Torgler (2012) defines tax morale as the totality of non-pecuniary motivations and factors for tax compliance that fall

outside the expected utility maximization. Previous studies show that there are persons that are just honest taxpayers who do not try to evade tax because they are predisposed not to evade (Long & Swingen, 1991). The study contrasted honest taxpayers with an opposite extreme of taxpayers referred to as tax evaders who in general, have a low tax morale and act as rational actors comparing the benefits of evading taxes to the benefits of complying. Furthermore, there are individuals who may enjoy evading taxes and perceive it as a game of playing with the state (Kirchler, Muehlbacher, Kastlunger, & Wahl, 2007). In their study on the effects of tax morale on tax compliance, Luttmer and Singhal, (2014) concluded that tax morale plays a significant role in explaining tax compliance decisions and Waweru (2004) noted that a person is likely to exhibit tax compliance if the person operates in a society where tax evasion is detested. Conversely, the person is likely to be non-tax compliant if the society in which one operates cherishes tax avoidance.

This theory is interesting to this study in that MNEs operate in different jurisdictions across continents. In some of these jurisdictions, MNEs are under intense scrutiny in terms of their operations and the corporate social responsibility that they get to engage in. This theory is relevant to the study as it seeks to understand the factors that affect MNEs' compliance.

2.3 Empirical Review

In this section, past studies on tax compliance and its drivers are examined.

2.3.1 The nature of tax compliance

Taxes are the chief contributor to domestic revenues for most economies in the world. While taxes are compulsory for all qualifying persons, some enterprises always find a way of avoiding their responsibilities by flouting the laws and regulations of the jurisdictions in which they operate (Kirchler, Kogler, & Muehlbacher, 2014), leading to tax non-compliance. This is notwithstanding all the efforts governments everywhere, have placed on achieving compliance. The lack of a universally accepted definition of tax compliance also seems to aggravate the problem. Different scholars define tax compliance differently. Some scholars define tax compliance as the tendency of the taxpayers to adhere to their tax responsibilities as laid down by the laws of the country (Andreoni, Erard, & Feinstein, 1998). Jackson and Milliron as cited in Alshira'h *et al.*, (2020) define tax compliance as the reporting of the total incomes and payment of taxes required by the

established regulations, laws and court judgments. Compliance to tax is necessary because Governments are constantly in need of funds to finance infrastructure, health and other sectors of the economy. The need to increase tax revenues therefore always exists in order to enhance development. Tax revenue can be increased through efforts directed towards resolving this issue of non-compliance. An increase in tax compliance would reasonably enhance the tax revenues, while the reverse is true both for developed and developing countries. The internationally agreed threshold of tax-compliance in transfer pricing is the arm's length price.

2.3.2 The transfer pricing regulatory framework in Zambia

Zambia has transfer pricing rules and regulations. These rules and regulations are applicable to domestic as well as international transactions. The rules and regulations are grounded on Section 97 (A-D) of the Income tax act (Chapter 323 of the laws of Zambia) (or "the ACT" in this part), known as the income tax (Transfer Pricing) Regulations of 2000, as amended by the Income tax (transfer pricing) (Amendment) Regulations 2018, issued on 6 April 2018. The amended regulations assimilate many of the OECD's recommendations as regards BEPS Actions 8-10, including the obligation to prepare transfer-pricing documentation, rules governing the application of the arm's length principle, and a new safe harbor in relation to low value intra-group services. The Regulations are to be read together constantly with the OECD Guidelines and the United Nations Practical Manual on transfer pricing for developing countries. In the event of inconsistencies between these documents, these regulations reign supreme. The threshold for application of the transfer pricing regulation is 50% participation by a corporate entity, directly or indirectly in the management, control or capital of a second corporate body.

In terms of penalties, the rules do not have specific transfer pricing penalties. The general penalties described in the ACT apply to transfer pricing as well and they range from 17.5% to 52.2% for negligence and fraud respectively. Further, late filing attracts a penalty of 2000 units (S.46.4.b) per month or part thereof and late payment of taxes attracts a fine of 5% per month of the amount due, and an interest assessed on the outstanding tax payable at the Bank of Zambia discount rate plus 2% surcharge (S.78-78A).

There is no provision for Advanced Pricing Agreements in the ACT. However, an enterprise may consult ZRA regarding the interpretation or application of any provisions of the law. The regulations on the other hand provide for a safe harbor in respect of low value added services of cost plus 5%, if the service charge is based on an appropriate cost allocation method. Further, thin capitalization rules exist in the ACT whereby deductibility of interest is capped at 30% of the tax earnings before interest, tax, depreciation and amortization (Act No. 20 of 2020).

In addition, the ACT requires disclosure of whether the taxpayer entered into any controlled or related party transactions during the year and if that were the case, significant disclosure of the nature and value of the related party transactions is required. In terms of the regulations, a person participating in a controlled transaction is required to prepare, on an annual basis, detailed documentation that is to be provided to ZRA on demand. In addition to the documentation, an enterprise that engages in controlled transactions is required to maintain certain information regarding the transaction, the associated person and the transfer pricing method used. The structure and form of such information mainly shadows the master file template in Annex I to Chapter V of the OECD Guidelines. Further, the regulations require that the documentation be in English language. Where such documentation required for purposes of the regulations is not in English, the enterprise concerned is required to produce a translated copy in English at own cost provided a certified translator be used. The documentation requirements as herein discussed, do not apply to an enterprise of turnover that is less than 50 million Kwacha in any charge year according to statutory instrument No. 117 of 2020; however, this exemption does not apply to MNEs.

The regulations also require that the documentation be prepared by the due date of the annual return submission. Although not required at return submission, the information should be produced within thirty days from date of a written request by ZRA failing which penalties apply.

Finally, the regulations require that an enterprise use an arm's length price by adopting one of the five recommended methods adapted from the OECD.

2.3.3 Arm's length methods

Tax compliance in the context of transfer pricing, starts with the selection of a transfer pricing method. The selection of a transfer pricing method should always aim at finding the most appropriate method for the particular case. According to the OECD (2017), the selection process should take into account the respective strengths and weaknesses of the method and the appropriateness thereof in view of the nature of the controlled transaction determined in particular, through a functional analysis. It should also consider the availability of reliable information on comparables needed to apply the selected method and the extent of comparability between controlled and uncontrolled transaction including the degree of reliability of comparability adjustments that may be needed to eliminate material differences between them.

The OECD as cited in Rudzikiene (2017) recommends several methods that MNEs and tax administrations can use to determine accurate arm's length transfer prices for transactions between associated enterprises. The OECD recommends five main transfer pricing methods that MNEs and tax administrations can use and they are now briefly explained here.

2.3.3.1 Comparable uncontrolled price (CUP) method

The CUP method according to the OECD is one of the traditional transaction methods (as opposed to transactional profit methods). This method compares the price of goods or services and conditions of a controlled transaction with those of an uncontrolled transaction. To do this, the CUP method requires comparable data from commercial databases. If the two transactions result in different prices, then this suggests that the arm's length principle may not be implemented in the commercial and financial conditions of the associated enterprises. In such circumstances, the price in the controlled transaction may need to be substituted with the price of the transaction between unrelated parties. The CUP method is the OECD's preferred method in situations where comparable data is available.

2.3.3.2 Resale price method

Another traditional transaction method for determining transfer pricing is the resale price method. This method starts by looking at the resale price of a product that has been bought from an associated enterprise and then sold onto an independent party. The price of the transaction where

the item is resold to the independent enterprise is called the resale price. The method then requires that the resale price margin be identified, which is the amount of money the party reselling the product would require to cover the costs of the associated selling and operating expenses. The resale price margin also includes the amount the reseller would need to make a fair profit, taking into account the functions it performed including assets used and risks assumed. This gross resale price margin is then deducted from the resale price. The amount that remains after the margin has been subtracted and fair adjustments have been made is the arm's length price for the original transaction between related entities.

2.3.3.3 Cost plus method

The cost plus method is a traditional transaction method that analyzes a controlled transaction between an associated supplier and purchaser. It is often used when semi-finished goods are transacted between associated parties or when related entities have long-term arrangements for 'buy and supply'. The supplier's costs are added to a mark-up for the product or service so that the supplier makes an appropriate profit that takes into account the functions they performed and the current conditions of the market. The combined price is the arm's length price for the transaction.

2.3.3.4 Transactional net margin method (TNMM)

The TNMM is one of two transactional profit methods recommended by the OECD for determining transfer prices. These types of methods assess the profits from particular controlled transactions. The TNMM involves assessing net profit against an appropriate base such as sales or assets that result from a controlled transaction. The OECD states that, in order to be accurate, the taxpayer should use the same net profit indicator that they would apply in comparable uncontrolled transactions. Taxpayers can use comparable data to find the net margin that would have been earned by independent enterprises in comparable transactions. The taxpayer also needs to carry out a functional analysis of the transactions to assess their comparability.

2.3.3.5 Transactional profit split method

The second transactional profit method recommended by the OECD is the transactional profit split method. It focuses on highlighting how profits and losses would have been divided within independent enterprises in comparable transactions. By doing so, it removes any influence from

special conditions made or imposed in a controlled transaction. It starts by determining the profits from the controlled transactions that are to be split. The profits are then split between the associated enterprises according to how they would have been divided between independent enterprises in a comparable uncontrolled transaction. This method results in an appropriate arm's length price of the controlled transactions.

2.3.4 Administrative arrangements

In an effort to deal with transfer mispricing in the country, ZRA created a transfer-pricing unit in 2016 to focus on transfer pricing and Permanent Establishment issues. The approach was to give a direct focus on transfer pricing audit cases that generally take a longer period to conclude compared to normal audits (ZRA, 2016). ZRA has been working with its cooperating partners such as ATAF, the OECD, the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), as well as other international partners such as the Inter-governmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) to build transfer pricing audit capacity in the country. The latest transfer pricing legislation will yield no results if administrative arrangements for enforcing them are weak. Similarly, the effectiveness of such rules are severely weakened if tax inspectors charged with enforcing them lack the necessary technical skills and resources. Capacity building therefore needs to cover a full range of areas including policy development; legislation and guidance; administrative structure and governance; risk assessment and practical auditing skills (ATAF, n.d). Since 2013, Zambia has been benefitting from a long-term ATAF/OECD/World Bank Group (WBG) technical assistance programme on transfer pricing and other BEPS related aspects. In December 2017, the country joined the OECD/G20 Inclusive Framework on BEPS – an international collaboration of over 135 jurisdictions working together to end tax avoidance. This demonstrates that the country is aware of the problem of transfer mispricing and efforts are being made to address the problem. What needs to be demonstrated is whether the efforts are good enough given the gravity of the problem of transfer mispricing.

2.3.5 Alternatives to the arm's length methods

As noted in this part, Zambia's regulatory framework is primarily based on the ALP. Although when correctly applied, the ALP replicates market conditions in intra-enterprise trade, not only

allocating value where it is created but also minimizing distortions of investment decisions and maximizing global economic welfare (Robertis, 2018), it presents practical problems. While the ALP is a much closer approximation of an uncontrolled price, it is “too resource intensive, and time consuming to be of practical use to taxpayers and tax authorities (Chamroo, 2018)”. It entails large resources and skills: the tax inspectors need to understand the processes unrelated parties use to determine prices. Tax authorities need to have the expertise to stage the role of unrelated parties and establish the specific characteristics of the group affiliate to determine an appropriate price. It is often very likely that a degree of judgement influences the assessment of the appropriate price. Comparability arguably requires more than a comparison of the relevant prices but also the specific circumstances of the parties. It is for this reason that some jurisdictions opt for alternatives and hybrid regimes. Zambia uses some of these alternatives in certain circumstances.

2.3.5.1 APAs

An Advance Pricing Agreement (APA) is an agreement entered into between tax authorities and taxpayers on the future application of transfer pricing policies (PWC, n.d). It is a procedural agreement between one or more taxpayers and one or more tax authorities that aims to circumvent any transfer pricing disputes by determining way beforehand a set of criteria to use, within a specified period of time, for specific international controlled transactions. There is currently no legal provision for enterprises to request an APA from ZRA. Readhead (2016) contends that ZRA like many other tax administrations is hesitant to embark on APAs before they have built up their transfer pricing capacity for fear of signing bad agreements. He adds that ZRA is also keen to improve monitoring of the mining sector before committing to APAs.

2.3.5.2 Safe harbours

Transfer prices are important for both taxpayers and tax authorities to the extent that they determine taxable profits of related enterprises in different tax jurisdictions. In the tax context, transfer prices must comply with the ALP. However, MNEs face conflicting rules and approaches to applying the arm's length principle, burdensome documentation requirements, inconsistent audit standards and unpredictable competent authority outcomes (Solilová, 2013). Some of the difficulties that arise in the application of the ALP could be avoided by providing settings in which eligible taxpayers may elect to follow a simple set of prescribed transfer pricing rules in connection

with plainly defined transactions. The tax authority then, automatically accepts prices established under such rules for enterprises that expressly adopt them. The OECD revised section E on safe harbours, defining a safe harbour in a transfer pricing regime as a provision that applies to a defined category of taxpayers or transactions and that relieves eligible taxpayers from certain obligations otherwise imposed by a country's general transfer pricing rules (OECD, 2013). Zambia has no safe harbour legal framework in place.

2.3.5.3 Sixth method.

The "sixth method" or commodity rule, is an approach used in certain countries, and requires commodity market quoted prices of imported or exported goods at a specified date to be used to compute the transfer price (TPG, n.d). There are considerable variations both in the scope of the rule and its application. The sixth method is an alternative to the ALP. Zambia uses this method to some extent. In 2008, the MOF introduced numerous changes to improve mining revenue collection. In particular, it revised the transfer pricing provisions of the Income Tax ACT, Section 97A to require mining companies to calculate all related party mineral sales according to world reference prices (Readhead, 2016). The income tax amendment ACT No. 20 of 2020 describes these prices in the following manner:

"Reference price" means—

- (a) The monthly average London Metal Exchange cash price;
- (b) The monthly average Fastmarkets MB cash price to the extent that the base metal or precious metal price is not quoted on the London Metal Exchange; or
- (c) The monthly average cash price of any other metal exchange market as approved by the Commissioner- General to the extent that the base metal price or precious metal price is not quoted on the London Metal Exchange or Fastmarkets MB.

2.3.5.4 Formulary apportionment

The key to an equitable and efficient allocation of MNE income is to solve the problem of how to allocate income generated from mobile assets and activities whose risks are borne collectively by the entire MNE group. These assets and activities generate most of the current transfer pricing compliance and administrative costs, as well as tax avoidance opportunities (Avi-Yonah & Benschalom, 2011). The formulary apportionment method tries to solve this problem. Under this

method, an MNE would allocate its profits across jurisdictions using a formula based on some combination of its sales, assets, payroll, and capital base in each jurisdiction (Tax Policy Center, 2020). These apportionment systems are in use in some parts of the world today. Historically, many states in the USA have used what is called the “Massachusetts formula”, that applies equal weights on property, payroll and sales, to assess taxable income from MNEs while Canada employs a similar system, but with equal weights on gross receipts and payroll (Faccio & Fitzgerald, 2018).

Formulary apportionment would lessen the tax system’s complexity and the administrative burden it imposes on an enterprise. Using this method, enterprises need not allocate income or expenses across jurisdictions purely for tax considerations. Since intra-enterprise transactions would not affect the measure of domestic income, there would be no need for complex transfer pricing rules for controlled transactions and that removes a major source of dispute between enterprises and tax authorities.

However, critiques of the method argue that there are substantial issues in designing and implementing an international formulary apportionment method contending that such a system would create new incentives for tax avoidance and could increase the incentive to shift real investments to low-tax jurisdictions. According to tax policy center (2020) the method would require an agreement among the major economies to scrap the current separate-entity system and to agree on how to allocate corporate income among jurisdictions adding that it would also require agreement on common accounting methods for measuring corporate profits.

2.3.6 Examples of transfer pricing tax-non compliance

On the world stage, several studies have been conducted in the compliance area especially in the area of transfer pricing and tax avoidance schemes by MNEs. Transfer pricing has been found to be used by MNEs to shift profits from one jurisdiction to another on purely tax bill considerations. For instance, Google an MNE in the United States of America has been named in various reports as practicing transfer mispricing. Gravelle (2015) noted that the U.S. MNE transferred its intangible asset to an Irish holding enterprise that in-turn has a subsidiary sales enterprise that sells Google’s advertising services to Europe. However, between the Irish holding unit and the Irish

sales unit is a Dutch unit that gathers royalties from the sales subsidiary and transfers them to the Irish holding unit. The Irish holding unit claims its enterprise management and consequently its tax home is in Bermuda, where corporate income tax rate is 0%. Gravelle contends this strategy allowed Google's Irish operation to avoid even the low Irish tax of 12.5% and by using its Dutch unit; it avoided Irish withholding taxes that are not due on payments to European Union enterprises. It can be seen from the example that MNEs have the capability to lower or completely eradicate their tax bills by deliberately locating their tax homes in low tax jurisdictions and by locating ownership of intangible assets in a way that allows them to take advantage of tax treaties and differing tax rates across the spectrum of their operations.

As the scandals in transfer mispricing increase, public calls on governments to stop tax avoidance have also increased. The increase in the number of investigations in the European Union of enterprises like Amazon, Apple and Facebook show that MNEs are highly involved in aggressive tax planning practices that permits them to get away with the payment of close to zero taxes (Hadzhieva, Verbeken, & Gauffillet, 2016). The study by Hadzhieva *et al.*, also details some specific mechanisms used by MNEs to dodge taxes and perpetuate tax non-compliance. Firstly, the study notes that MNEs often rely on the exceptions under the OECD Model Tax Convention to circumvent Permanent Establishment (PE) status. Secondly, MNEs use tax incentives such as patent boxes for tax purposes rather than for their intended purpose of promoting Research and Development (R&D) activities and thirdly, MNEs engage in treaty shopping to shift taxable revenue to tax havens or negotiate tax-unfriendly deals with governments willing to attract FDI. These examples demonstrate that transfer mispricing is also a problem for development countries even given the depth of resources they are able to command.

If tax dodging is a challenge for developed economies, it is even a bigger challenge for developing countries such as Zambia. Tax non-compliance needs resolution in the Zambian context in order to enhance government revenue and financial stability. Tax dodging using transfer pricing schemes therefore remains an urgent issue for research especially in developing countries.

Zambia as a developing country is endowed with a lot of mineral wealth, yet there are concerns that only little tax revenue results from the mining of this natural wealth, depriving the government

of potential revenue to finance public services such as education and health and to deal with the persistent problem of poverty. In his report, Curtis (2015, p. 3) shows how MNEs manage to dodge paying taxes in the country. In 2012 according to the report, it was estimated that the amount avoided by MNEs in Zambia was around \$2 billion a year – representing 10% of Zambia’s GDP. Looking at the MNEs with operations in Zambia – Glencore, Vedanta, and Associated British Foods, the report examined the details of such tax avoidance including use of complex corporate structures and transfer mispricing. Stakeholders have asked authorities to seal tax loopholes and strengthen watchdog institutions to be able to arrest the situation of transfer mispricing. Sealing loopholes however, would seem a mammoth task for Zambia and other developing countries given the complexity of the subject matter and resource considerations.

2.3.7 Challenges of transfer pricing in developing countries

Globalization, aggravated by the growth of Information Technologies (ICTs) has made the business environment complicated, making it more challenging for Governments across the planet to monitor the business activities of the MNEs. The challenges are even immense for Developing Countries. To deal with these challenges and achieve global economic resilience will require a vigorous and efficient international tax system. The ALP employing the separate entity approach is the current dominant method for allocating the income of associated entities of the same MNE according to the OECD transfer pricing guidelines. According to this principle, the conditions of commercial and financial transactions between affiliated entities should be treated independently. Research has however shown that using the ALP, commonly controlled affiliates can engage in transactions whose primary intent is to minimize the global Tax bill through a BEBS policy (Johansson, Skeie, Sorbe, & Menon, 2017). Some of the BEPS schemes include inter alia transfer miss-pricing, capital and loan re-structuring, intangible asset royalty agreements, abuse of Double DTAs and use of conduit enterprises. Hines, Devereux and Maffini as cited in Olaoye and Aguguom (2017) found that MNEs strategically shift their income to low-tax associates aimed at reducing their overall tax burden. This is essentially one of the reasons of BEPS actions of the OECD; to curtail high level of profit shifting and dubious transfer pricing so that profits are taxed where economic activities occur and where value is actually created. Emanating from the fact that MNEs’ interest is the global tax bill; the ALP presents with itself a number of theoretical and application issues when it comes to apportioning profits to the particular jurisdictions in which

they are earned. Transfer pricing has become by far one of the most important and contentious international tax issues facing MNEs. It is not uncommon today for MNEs to be in international news accused of avoiding tax. According to financierworldwide:

Among the plethora of international tax issues is that of transfer pricing, the highly complex nature of which makes it challenging to handle by MNEs. If mishandled, transfer pricing can be costly for stakeholders, resulting in audits, adjustments, penalties and double taxation, not to mention litigation. (financierworldwide, 2021, p. 2)

In a European Union sponsored study on transfer pricing and developing countries, PWC (2012) noted that developing countries meet particular problems when dealing with transfer pricing. The study first stressed that developing countries often lack the necessary legal framework to enforce transfer pricing and sanction non-compliance and delinquency. Secondly, local tax administrations are often inexperienced with regard to transfer pricing and lack basic understanding in the field. For substantiating transfer pricing for example, comparables are difficult to identify because there are fewer organized companies in any given sector in developing countries. In addition, there are no databases that allow information to be extracted on comparable transactions or companies in order to verify transfer pricing between related parties and where databases exist, the cost is beyond the reach of developing countries. Further, problems exist in gathering taxpayer information due to the absence of documentation requirements or the inability to enforce existing requirements. The study also found that tax administrations sometimes lack the capacity to process and evaluate such information partly because of the lack of technical expertise or because they do not have the necessary resources at their disposal to process the data. This study demonstrates the extent of the effort and resources required to deal with transfer mispricing considering its complexities. Given the resource envelop imbalance between MNEs and governments in developing countries, talking of sealing loopholes in transfer pricing is to have a reasonable expectation that at some point in future governments in developing countries will have enough resources to challenge the MNEs. Further, these enterprises can change business practices that facilitate transfer mispricing with greater speed while bureaucracy characterizes the legal processes of many developing countries. It seems reasonable therefore to expect that if any effort to treat transfer mispricing is to yield sustainable results, some dramatic changes need to happen in the legal processes of many nations.

2.3.8 Effect of compliance costs on tax compliance.

The cost of tax compliance is the amount of money that is incurred by the taxpayer in order to comply with relevant tax laws. The greater the cost of compliance to the taxpayer, the more likely the taxpayer will tend to perform tax non-compliance through tax evasion or tax avoidance. In general, the compliance costs to the taxpayer associated with administration must be appropriate. The OECD (2004) proposes that perceived high costs in relation to a given risk can inadvertently lead to increased community dissatisfaction and therefore to a decrease in taxpayer compliance.

Taxpayers incur two main types of compliance costs: gross monetary compliance costs and psychological costs. Gross monetary compliance costs include both actual money paid and opportunity costs relating to the time and other resources expended when complying with tax laws (Evans, et al., 2014). Psychological costs on the other hand, involve the estimation of stress and anxieties resulting from complying with tax laws. Some researchers have calculated net compliance costs that deduct cash flow benefits, tax relief and managerial benefits resulting from tax obligations from the gross compliance costs (Tran-Nam, Evans, Ritchie, & Walpole, 2000). Taxpayers benefit financially from using tax collected before they are due for payment to a tax authority. Similarly, taxpayers reduce their tax liabilities by deducting tax compliance costs when calculating income taxes. Notwithstanding the varied definitions of tax compliance, research is unanimous on the fact there are actual and assumed costs that accrue to the enterprises as a result of efforts to comply. These costs are a significant consideration in the compliance decision process.

When designing a tax system, authorities need to take into account compliance costs that the taxpayer will be made to bear as they comply with the tax laws, procedures and rules. There are a number of ways a tax system can be designed to lower compliance costs. Shaw, Slemrod and Whiting (2008) upon reviewing drivers of tax compliance costs in the UK, established that tax compliance costs decreased with a reduction in the number of tax rates, coupled with the harmonization of definitions and compliance procedures. Likewise, KMPG (2006) in the UK, as cited in (Mahangila, 2017) reported that tax compliance costs decrease with an increase in the stability of tax laws coupled with less frequent introduction of new tax laws, because taxpayers incur fewer costs and lose less time as they become conversant with the existing tax laws. Lignier and Evans (2014) attributed the increase in tax compliance costs of Australia's taxpayers to the

introduction of a new tax that required extensive accounting records. In a study of SMEs in Ndola, Zambia, Chisumpa *et al.*, (2020) found that high compliance costs were a contributing factor to tax non-compliance. This study targeted SMEs and focused on Ndola central business district. To the best of the researcher's knowledge, no study has been done on compliance costs with respect to transfer pricing and later on, MNEs in the mining sector. Knowing tax compliance costs in the mining sector in Zambia is useful when considering how to battle tax non-compliance by MNEs operating in the country. In this regard, this study investigated compliance costs in the mining sector as far as transfer pricing is concerned.

2.3.9 Lack of tax knowledge

Fauziati *et al.*, (2016) stated that tax knowledge generally means the understanding of essential tax policy concepts established in the country. In the area of transfer pricing therefore, it is the understanding of the transfer pricing regulatory framework and international best practice. MNEs' expert knowledge in this area is therefore a crucial aspect of the enterprise's compliance to tax in that respect. Helping MNEs by imparting that expert knowledge of what is required of them has the potential to yield greater revenue for the treasury. Tax regulation knowledge promotes compliance owing to the fact that possessing such knowledge can promote awareness of tax obligations. Cullis and Lewis (1997) found low tax knowledge is correlated with negative attitudes towards tax payment and Eriksen and Fallan (1996) found that the education level of the taxpayer is relevant as it contributes to the general taxation understanding in terms of laws and regulations. However, other studies find a moderate role of tax knowledge in the relationship between drivers of compliance from one tax jurisdiction to another and from one aspect of compliance to another. For instance, Bird and Zolt (2014) found that tax knowledge existence constituting general knowledge, legal knowledge and technical knowledge had no significant effect on compliance behavior. These differences in findings can be attributed to country context and compliance area specific reasons.

The area of expert knowledge among MNEs operating in Zambia and in the mining sector specifically is an area that has not been extensively studied and yet public perception is that the mining sector can contribute a little more to the treasury than it currently does. Nalishebo and Halwampa (2014) studied large taxpayers and business associations in Lusaka, Zambia. Though

admitting that their survey was not representative and advising that inferences cannot be generalized to the entire population of firms, they did offer some insights on what could be part of the bigger picture on tax systems and tax avoidance by MNEs operating in the country. Among their key findings, they listed an issue to do with low tax knowledge. They stated that limited knowledge of tax and the tax system in Zambia was a factor of compliance in the tax area noting further that income tax was the most prone to tax avoidance. However, this study was not representative as noted by the authors and it did not tackle lack of knowledge in the compliance area from the perspective of MNEs in the mining sector and transfer pricing in particular. MNEs operate in multiple jurisdictions and transfer-pricing best practices across the world are based on the same ALP as encouraged by the OECD and the UN transfer pricing guidelines. It is therefore reasonable to expect that given their resources and experience from other tax jurisdictions, MNEs should have or have access to transfer pricing practitioners. Chisumpa *et al.*, (2020) did another local study on tax knowledge. In their study of compliance aspects of taxpayers in Ndola, Zambia, they found that tax knowledge was a factor affecting compliance. The study found that information on taxes was not easily available. This investigation was on SMEs and tax compliance in general with no particular reference to MNEs and the mining sector on the one part and transfer pricing on the other part. The study also did not deal with other factors such as the aggressiveness of the tax authority among others thereby making justification for further inquiry.

2.3.10 Effects of complexities of transfer pricing rules and methods

Tax complexity is described as the actions taken to address business issues related to tax law and these include dynamic changes, excessive details, numerous computations and distinct business records (Alshira'h, Alsqour, & Lutfi, 2020). According to Jackson and Milliron (1986) as cited in Alshira'h *et al.*, (2020), tax complexity is one of the top drivers of tax compliance behavior. In Cuccia and Carnes (2001) and Cuccia and Gregory (2001) studies, a negative relationship was supported between tax complexity and the tendency to comply with tax regulations. This was also echoed by Abdul-Jabbar and Pope (2008) who reported an inverse impact of increased tax complexities and tax law amendments on the compliance performance of taxpayers. The latter study showed that tax complexity frequently related to tax compliance costs, and as such, majority of businesses chose not to comply with them. However, other studies found tax complexity lacked

a significant relationship with tax compliance as found by Biabani and Ramezani (2011), yet even other studies like Yahaya (2015) reported a positive relationship.

Transfer mispricing is an important issue for tax administrations in Africa as it relates to the unique situation of developing countries. The African tax administration Forum (ATAF) aims to become a platform to allow African administrators to articulate African tax priorities anchored on good practices, and build capacity in African tax policy and administration through peer learning and knowledge development. ATAF (2018) notes that transfer pricing represents one of the highest risks to Africa's tax base adding that the continent is losing approximately USD50 billion a year in illicit financial flows citing abusive transfer pricing practices as one of the primary reasons for these losses. Having effective transfer pricing legislation is therefore a key element in the African countries' fight to combat abusive transfer pricing practices and is important in providing taxpayers with greater tax certainty and encouraging voluntary compliance.

ATAF through its international taxation unit has assisted Zambia to develop and release new transfer pricing regulations to supplement its existing legislation and regulations. The new regulations provide rules on a wide range of transfer pricing issues such as the use of the most appropriate transfer pricing method and specifying the documentation requirements that taxpayers should maintain to demonstrate their transfer pricing complies with the law. While the recent regulations referred to as the income tax (transfer pricing) (amendment) regulations, 2018 or otherwise known as ACT No. 24 of 2018 are in force, there is no empirical evidence as to the impact thereof on the area of complexity brought about by dynamic changes, excessive details, numerous computations and distinct business records. To the best of the researcher's knowledge, there is no prior study on complexity of transfer pricing in Zambia and the mining sector in particular. This study sought to describe the complexity if any, of transfer pricing in the context of tax compliance behavior of MNEs in the mining sector.

2.3.11 Effects of aggressiveness of the tax authority

Compliance audits have an impact on tax compliance. Tax audits protect and support such compliance behavior according to Jackson and Milliron (1986) as cited in Alshira'h *et al.*, (2020). In the context of transfer pricing, it is referred to as the ability of the tax authority to promote

compliance of accurate reporting among MNEs in ensuring transactions between related parties are always at arm's length. In past studies, a positive relationship was found between tax audit and tax compliance (Feld & Larsen, 2012) although a few of them found the absence of the relationship between the variables such as Muche (2014) while some other studies supported a negative tax audit-compliance association like Palil *et al.*, (2012) as cited in Alshira'h *et al.*, (2020). Limited studies have been conducted in the context of transfer pricing in light of tax audit's role on compliance in developing countries and later on in the Zambian context. Readhead (2016) looked at transfer pricing from a tax administration perspective and identified some factors affecting transfer pricing enforcement and these the study listed as transfer pricing legal framework, administrative arrangements, knowledge and skills, and information.

In Zambia more recently, a case has been reported that seems to exemplify what looks like the aggressiveness of the ZRA. The OECD as cited in KPMG (2020) reported that the highest court in the country in May 2020 ordered a mining enterprise to pay an extra tax of 240 million Kwacha or (U.S. \$13 million). The decision hinged on the tax authority making a technical case showing evidence of tax avoidance through BEPS strategies. The case was one of the earliest big transfer pricing cases considered by the tax Authority. The point at issue here was the pricing of copper sold to a related party located in Switzerland. The tax authority argued that the enterprise had underpriced copper sold to the Swiss unit, noting that the prices of copper sold to the Swiss unit were significantly lower than those of similar sales to third parties and thus made a transfer pricing assessment. The Zambian Tax Appeals Tribunal (RAT) in late 2016 upheld the tax assessments of the tax authority and the enterprise appealed to the Supreme Court that sustained the tribunal's decision. This case goes to demonstrate how the country has made great efforts to fight abuses through BEPS in recent years by building the audit skills of the tax authority and improving the Zambian legal framework for transfer pricing and other BEPS related issues.

This current study extends the literature on the aggressiveness of the tax authority in enforcing compliance through compliance audits in the transfer pricing area. It looked at enforcement not just from a tax administration perspective, but also from the perspective of other stakeholders such as transfer pricing consultants and the MNEs themselves.

2.3.12 Summary of the literature and research gaps

This review of literature on tax compliance demonstrates that this study area has attracted many researchers in the past. Most of the studies thus far have focused on taxpayer compliance in general while a good number of them focused on SMEs. The bulk of these studies have been conducted in developed countries with very few in developing countries. Based on the reviewed studies, it is evident that the area of transfer pricing is and will remain a hot topic for MNEs, tax authorities, and international tax experts and commentators. Locally in Zambia, there is very scanty literature on transfer pricing compliance by MNEs especially in the mining sector, leaving a gap that needs to be filled.

While literature has established relationships between tax compliance and compliance cost; tax compliance and complexity of tax regimes; tax compliance and compliance audits; to the best of the researcher's knowledge there is no prior study done to describe these factors in the context of MNEs in the Mining sector of Zambia. This study contributes to tax compliance literature in many aspects. Firstly, it contributes to the literature by describing compliance costs in the mining sector with respect to transfer pricing and will add to the body of tax compliance costs literature from developing countries' perspective. Secondly, the study contributes to literature extension as it attempts to describe the deterrence theory on tax compliance in a Zambian context in the face of the majority of studies addressing the theory on tax compliance as whole with only a few directing their examination towards transfer pricing. To the researcher's best knowledge, there is no previous study carried out to investigate the deterrence theory on tax compliance with respect to transfer pricing in the context of MNEs and the mining sector in developing countries and Zambia in particular. Thirdly, this study contributes to literature as it examines the aggressiveness of the tax authority as a factor affecting tax compliance with respect to transfer pricing.

Overall, literature shows that compliance costs, tax complexity, and tax audits have a significant effect on tax compliance. However, no prior work exists to describe these factors in the context of MNEs in Zambia's mining sector justifying why further inquiry is needed to determine these factors and identify other factors affecting compliance in this area.

2.3.13 Study Implications

This study is expected to contribute to different categories of stakeholders concerning the tax compliance issue and its ramifications on the economy and these stakeholders include the governments, tax authorities, investors, researchers and policy makers. Since the study is in the context of Zambia, it is specific to African countries and developing countries. The study contributes to the understanding and knowledge of transfer pricing compliance. It will provide insights for the tax authorities concerning the contributing factors to tax compliance behavior. The study is expected to extend literature dedicated to tax compliance among MNEs, specifically in Zambia, but may also have implications on all MNEs operating in Zambia and other developing countries. This study is expected to provide information valuable for the formulation of accurate and effective policies to enhance tax compliance and consequently increasing tax revenue available to the treasury. This study is important particularly at a time as this, when the country's debt and fiscal debt deficit are active issues of interest to both local and international stakeholders and the public at large. PWC (2021) states that Zambia's external debt alone stands at about US\$12 billion and fiscal budget deficit is around 11.7% of GDP amidst a projected economic contraction of about 4.2%.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used to achieve the objective of the study. It includes firstly, the research design, the population and sample, the primary data collection instrument, and the procedures for the study. Secondly, the data analysis section defines all the variables used in the study as well as the statistical analysis process. Finally, the validity section focuses on the reliability and validity of the instrument. The chapter ends with some ethical considerations.

3.2 Research Design

This study sought to investigate the factors that affect MNEs tax compliance in the area of transfer pricing. It investigated three specific factors (compliance costs, complexity of rules and methods, and the aggressiveness of the tax authority) in the operating environment that impede on compliance in the specific area of transfer pricing. The study also sought to identify other factors affecting tax compliance in the area of transfer pricing in Zambia generally and the mining sector in particular. The study therefore aimed at describing the phenomenon of tax non-compliance and its characteristics from the perspective of the factors that influence it and as such, a descriptive research design was adopted.

Gall et al. (2007) as cited in Nassaji (2015) states that a descriptive research is more concerned with what rather than how or why something has happened. In this type of study, the data may be collected qualitatively, but it is often quantitatively analyzed using frequencies, percentages, averages, or other statistical analyses to determine relationships. Ethridge (2004) suggests, “a descriptive research is a statement of affairs as they are at present with the researcher having no control over variables. It can be described as an “attempt to determine, describe or identify what is (p. 24) ”. The aim is to cast light on current issues or problems through a process of data collection that enables the researcher to describe the situation more completely (Fox & Bayat, 2007, p. 45).

Transfer pricing as a concept, is not an exact science. Transfer pricing rules and methods are incapable of accurate quantitative expression or precise predictions. It was important therefore for the investigation to have proceeded with a clear view of reality. The chosen methodology of descriptive design resonates well with the fact that reality in transfer pricing compliance is not fixed but is constantly changing and being changed by the actors in the global system of things including, Governments, MNEs, technology advancements to mention but a few. Burrell and Morgan (2005, p. xii) contends that “researchers are faced with a basic ontological question: whether the reality (the nature of being) to be investigated is external (a given out there in the world) or is consciously shaped”. This study therefore proceeded with the understanding that in tax non-compliance, reality is not independent but rather is shaped by actors in the environment.

This study sought to describe and interpret the status of tax compliance in the area of transfer pricing by looking at the factors that drive non-compliance. The descriptive design methodology was therefore chosen as appropriate for this study as it guided the collection of data in order to answer the questions of the status of factors affecting tax compliance in the area of transfer pricing by MNEs operating in the mining sector of Zambia.

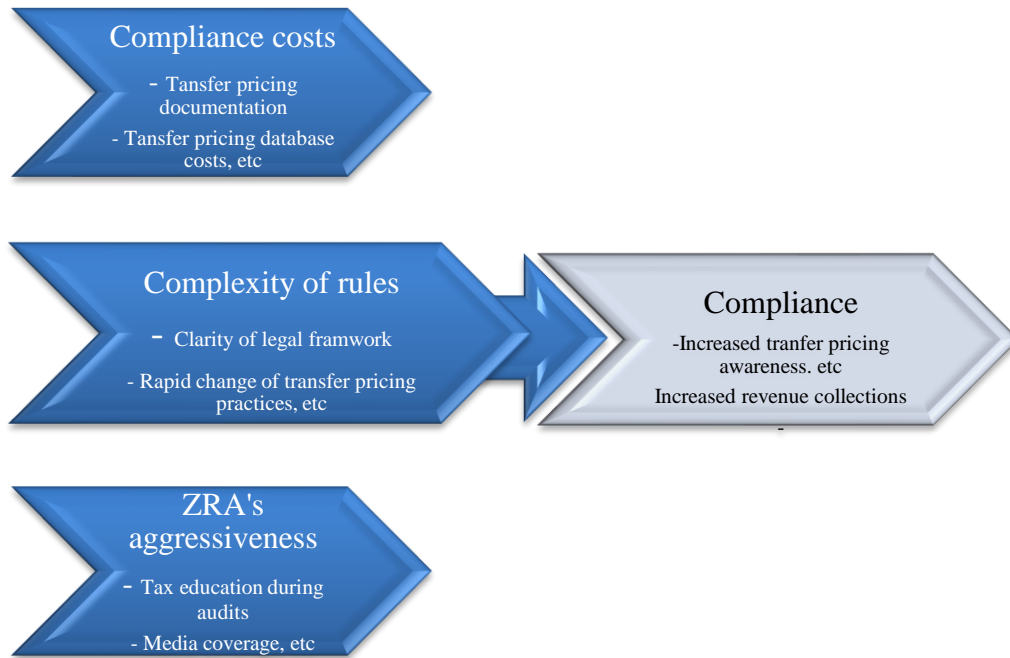
3.3 Conceptual Framework

This study progressed on the premise that tax compliance is affected by compliance costs, complexity of transfer pricing rules and methods, and aggressiveness of the tax authority. The purpose of this study was to explore these variables and describe them. This study tested the conceptual framework presented in Figure 1 below. The study sought to understand and describe the variables in relation to transfer pricing. In this conceptual framework, each study variable is investigated using identified indicators.

Independent variables

Dependent variable

Figure 1: Proposed framework for transfer pricing compliance in Zambia



Source: Researcher (2021)

3.4 Operationalization of Variables

Table 1 show the variables of the study, the indicators to measure and the Likert scale of measurement.

Table 1: Operationalization of variables

Variable	Indicator	Scale [Where SD=strongly Disagree; D=Disagree; U=Undecided; A=Agree; SA=Strongly Agree]
Compliance costs	<ol style="list-style-type: none"> 1. Zambia Revenue Authority audits are very expensive to the enterprise. 2. The costs involved in documenting a transfer pricing transaction for tax purposes are very high. 3. The cost of transfer pricing is a consequence of the ALP on which recommended methods are based. 4. The cost of transfer pricing databases such as TP catalyst used for transfer pricing analyses are too high for developing countries like Zambia. 5. Consultancy services are very expensive. 6. Vacancies are very difficult to fill. 7. It is expensive to train a practitioner and keep them abreast with changes in practice. 8. There is very little awareness among stakeholders leading to protracted 	<p style="text-align: center;"><u>Multiple choice greed</u></p> <ol style="list-style-type: none"> 1. SD 2. D 3. U 4. A 5. SA

Variable	Indicator	Scale [Where SD=strongly Disagree; D=Disagree; U=Undecided; A=Agree; SA=Strongly Agree]
	<p>processes that make it expensive for all parties.</p> <p>9. The current income tax penalty regime for non-compliance is not deterrent enough to would be offenders.</p>	
Complexity	<p>1. Existing regulatory framework lacks clarity and gives rise to uncertainty.</p> <p>2. The level of complexity in transfer pricing methods based on the ALP is very high.</p> <p>3. The level of digitalization of the world economy has further complicated the transfer pricing space.</p> <p>4. Changes in transfer pricing practices are becoming more and more rapid.</p> <p>5. The borderline between lawful and fraudulent transfer pricing is always not clear.</p> <p>6. There are different business approaches that can lead to different tax outcomes.</p>	<p><u>Multiple choice greed</u></p> <p>1. SD</p> <p>2. D</p> <p>3. U</p> <p>4. A</p> <p>5. SA</p>

Variable	Indicator	Scale [Where SD=strongly Disagree; D=Disagree; U=Undecided; A=Agree; SA=Strongly Agree]
Aggressiveness	7. A ZRA audit always contains valuable taxpayer education that helps in future compliance. 8. Transfer pricing audits always end up in huge assessments. 9. Transfer-pricing audits always end up as media items. 10. Voluntary disclosures always follow in years after audits. 11. Frequency and volume of internal transactions always trigger audits. 12. Transfer pricing tax inspectors always exhibit high levels of professionalism. 13. Every big mine has had a transfer pricing compliance audit within the past 5 years.	<u>Multiple choice greed</u> 1. SD 2. D 3. U 4. A 5. SA

Source: Researcher

3.5 Target Population

The target population for this study was transfer-pricing practitioners working in different capacities in the mining sector of Zambia. This is a rare population because transfer pricing is a complex subject and as such, it is a small population. The population for the study was broken down into three categories namely –practitioners working as direct employees of the four biggest mines in Zambia, practitioners working for independent accounting firms but providing

consultancy services to MNEs in the mining sector or practitioners working in ZRA as tax inspectors.

The first category is practitioners working as direct employees of the MNEs in Zambia's mining sector. The big four mines in the country are Barrick Lumwana, FQM Kansanshi, Mopani and KCM. These mines alone account for around 80% of Zambia's annual copper production (Mining for Zambia, n.d). The study sampled from the tax units in these firms.

In second category is practitioners in tax consultancy. There are four big international accounting firms with operations in Zambia. Using combined annual total global income, accounting age (2019) lists PwC, Deloitte, EY and KPMG as the biggest accounting firms. These accounting firms are the leading players in the accountancy industry on the global stage. These accounting firms have experienced significant growth in recent years across a worldwide network of firms in Africa, the Americas, Asia-Pacific, Europe, and the Middle East. The study targeted the biggest four because they operate across borders but also together, they share the bulk of the tax consultancy work in transfer pricing from the mining sector. The study sampled from the tax divisions of these firms where the practitioners operate.

Finally, the third category is practitioners working as tax inspectors in ZRA. The Zambian tax authority has a dedicated transfer-pricing unit that is resourced with transfer pricing practitioners. At a UN/ATAF symposium, ZRA (2016) made a presentation to the effect that a transfer-pricing unit was established in 2016 to focus on transfer pricing, Permanent Establishment issues and international taxation issues in general. This study also sampled from this space.

The total population from the three categories of practitioners gives a complete picture of the transfer-pricing situation in the mining sector in Zambia, not only from the MNEs perspective but also from the revenue authority perspective. The objectives of the MNEs and the tax authorities on transfer pricing are always conflicting and including representation from both sides of the isle in a study gives a balanced view of the current state of affairs. The distribution of the study population is shown in Table 2 below.

Table 2: *The distribution of the study population*

Practitioner Category	Total Population	Percentage
Direct employees	28	26%
Tax consultants	57	54%
ZRA Inspectors	21	20%
Total	106	100

Source: Researcher

3.6 Sampling technique and sample size.

The study adopted a survey-sampling method involving the total population. Total population sampling is a type of purposive sampling where the whole population of interest whose members share a given characteristic, is considered. Purposive sampling is a technique where the researcher counts on judgment in choosing members of the population to participate in the study. It is a non-probability sampling method and it occurs when elements selected for the sample are chosen on the basis of judgment by the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgment (Black, 2010). Lavrakas (2011) states that a purposive sample, also referred to as a judgmental or expert sample is a type of non-probability sample. The main objective of a purposive sample is to produce a sample that can be logically assumed representative of the population. This is often accomplished by applying expert knowledge of the population to select in a non-random manner, a sample of elements that represents a cross-section of the population.

Glen (2018) notes that total population sampling is appropriate when the target group is small and set apart by an unusual and well-defined characteristic. The number of people that are practitioners in the area of transfer pricing in Zambia is very small and therefore total population survey sampling was considered suitable. Glen points out some advantages of total population sampling. Total population sampling often gives deeper insights into a target population than partial samples would be capable of doing. Total population sampling, Glen adds, has the potential to allow a researcher to paint a much more complete picture, and greatly reduce guesswork. It also eliminates the risk of biased sample selection that is often encountered in would-be random study samples. The sample size distribution is shown in Table 3 .

Table 3: *Sample Size Distribution*

Category	Total Population	Sample Size
Direct employees	28	26%
Tax consultants	57	54%
ZRA Inspectors	21	20%
Total	106	100

Source: Researcher

3.7 Data collection

Firstly, the study collected primary data through a survey questionnaire. The data was collected from transfer-pricing practitioners grouped in the three categories – tax employees, tax consultants and tax inspectors. An anonymous list of all transfer-pricing practitioners from the three categories was drawn by first visiting these sampling frames at their premises and engaging the heads of the tax divisions wherein the email addresses of the heads were harvested and participation of their subordinates in the study solicited. The researcher then sent the online link to the survey questionnaire to the harvested emails of heads of divisions who in turn shared the link with their subordinates. The respondents were given three weeks to respond to the survey. The researcher sent a reminder to the respondents via email once a week. A tally was made against the list of the total population at every submission of a response for purposes of accounting for every member of the population.

Secondly, the study reviewed books, ACTs of parliament, published sources, journals, ZRA practice notes, newspapers, websites, blogs, for information that helped explain the factors that have an effect on transfer-pricing tax compliance.

Thirdly, the research conducted online meetings with selected practitioners to get a deeper understanding of the nature of transfer pricing and factors affecting compliance in the context of tax.

3.8 Data Collection Instrument

The primary data survey questionnaire had a number of closed questions and some open ended questions. Employing Likert scales, the closed ended questions enabled the researcher to collect quantitative data for statistical analysis. The questionnaire had three sections. Section one gathered data about the respondents while section two collected data about the transfer-pricing situation in the mining sector. Section three dealt with data about tax compliance in the transfer pricing area. It harvested data concerning the three factors affecting tax compliance of MNEs in the mining sector in the area of transfer pricing, namely: compliance costs, complexity of rules and methods, and the aggressiveness of the tax authority among other factors that affect tax compliance in the area of transfer pricing as regards MNEs operating in Zambia's mining sector.

The questionnaire was considered the appropriate data collection instrument for this study since it provides a high degree of data standardization, it is relatively quick to collect information from people in a non-threatening way and is easy and safe to administer especially in the covid-19 pandemic environment. Questionnaires are capable of giving detailed answers to complex problems such as transfer mispricing (Kombo & Tromp, 2006).

3.9 Validity and Reliability of the Questionnaire

The survey questionnaire was checked for its validity and reliability through pilot testing. A Pilot test was conducted to detect weaknesses in the design of the instrument. A pilot test was used to examine the comprehensibility and usability of the questionnaire and the establishment of its validity and reliability. Before the instrument was administered to the respondents, it was first subjected to nine practitioners. The nine practitioners were drawn from the three sampling frames as follows: One head of tax department each from the four mines, one each from the four big accounting firms and one from ZRA. The aim here was to allow for modification of various questions in order to rephrase, clarify and or clear up any shortcomings in the questionnaire before administering it to the actual respondents. The heads of department themselves did not participate in the actual survey. This pilot run helped the researcher to correct inconsistencies arising from the instrument ensuring it measured what was actually intended. The pilot therefore ensured validity of the instrument. Saunders *et al.*, (2003) suggests that instrument validity indicates the degree to which an instrument measures the construct under investigation. For a data collection instrument

to be considered valid, the content selected and included must be relevant to the need or gap established.

3.10 Data Analysis and Presentation

Qualitative approaches to data collection, analysis, interpretation, and report writing differ from the traditional, quantitative approaches. Purposeful sampling, collection of open-ended data, analysis of text or pictures, representation of information in figures and tables, and personal interpretation of the findings all inform qualitative procedures (Creswell, 2009). The study employed google forms imbedded statistical functionalities as part of the descriptive statistics while some of the data collected through the survey questionnaire was edited, cleaned and analyzed in Microsoft excel (office 2016) for other descriptive statistics.

The descriptive statistics used include frequency distribution tables and measures of central tendency (mean scores), measures of variability (standard deviation) and measures of relative frequencies; they include tables, charts and graphs.

3.11 Ethical Consideration

Informed consent is the major ethical issue in research. Armiger (1997) suggests informed consent means “a person knowingly, voluntarily and intelligently, and in a clear and manifest way, gives his consent” (pp. 330-333) . Informed consent is one of the means by which a research participant’s right to autonomy is protected. Some scholars define autonomy as the ability for self-determination in action according to a personal plan (Beauchamp & Childres, 2001).

In this study, an ethical issue could arise in that participants might have felt quite compelled to participate in the research as the solicitation to do so reached them via their divisional heads. This potential ethical issue was dealt with by ensuring that participants know that the information that was to be harvested in the process was purely for academic purposes and was not in any way going to be used for any other purpose although the analysis and findings thereof may have ramifications for some real practical problems. Further, the survey did not collect any names or email addresses for the actual respondents. The only email address collected was for the head of the tax department concerned who in turn shared the online survey link with all the transfer-pricing practitioners under

their oversight. The supervisor only participated in the pilot of the instrument and not the actual survey itself. The respondents were assured of anonymity and confidentiality of information harvested using the instrument.

CHAPTER 4

DATA PRESENTATION, ANALYSIS AND RESULTS

4.1 Introduction

This chapter presents the data analysis and the core findings of the study derived from the methods applied to gather and analyze information in line with the objectives of the study. The objective of the study was to examine the factors affecting transfer pricing tax compliance in Zambia with particular reference to the MNEs operating in the mining sector. The study findings are presented using descriptive statistics such as mean scores, standard deviations, frequencies, percentages and charts.

4.2 Response rate

The study sample size was 106 respondents who included transfer pricing practitioners from three categories – Direct employees of the big four mining enterprises in the country, Practitioners working as transfer pricing consultants in the big four independent accounting firms and practitioners working as tax inspectors for the Zambia Revenue Authority. Out of this sample, 87 responses were received, representing a response rate of 82%. Mugenda and Mugenda (2003) suggests that a fifty percent response rate is adequate, sixty percent good and above seventy percent rated very good. In his study of response rates in academic studies using questionnaires, Baruch (1999) recommends a response rate of 36% +/-13% and 60% +/-20% for studies directed at top management or representatives of organizations and others such as rank and file, mid-level managers, or conventional populations respectively. Baruchi adds that any deviation from this norm especially downwards must be explained. This study is not about top executives or representatives of organizations but individual transfer pricing practitioners and going by this recommendation, the acceptable response range is 40-80% and standing at 82% response rate is very good and acceptable. The response rate achieved in this survey was therefore appropriate for

the study to proceed and provide reliable results on the basis of which extrapolations can be made on wider transfer pricing issues facing the mining sector and by extension the whole country and other developing countries. Table 4 below shows the survey response rate by count and percentage.

Table 4: Response rate

Response Rate	Frequency	Percentage
Responses	87	82%
None Response	19	18%
Sample Size	106	100%

Source: Researcher.

4.3 Descriptive Statistical Analysis

4.3.1 Respondents

This section presents the demographic information of the respondents. The respondents' demographic information reflects the relevant attributes of the population; it forms the basis under which the study can rightfully access the relevant information. The respondents' information captured included: gender, age of the respondents, level of education, category of practice and number of years respondent practiced transfer pricing in their respective capacities among other attributes.

4.3.1.1 The transfer-pricing field in Zambia is dominated by males

The study sought to establish the gender of the respondents. The study finds that 69% of transfer pricing practitioners that participated in the survey are male by gender. This suggests that males dominate the transfer-pricing field in the country. The findings are presented in the Table 5 below.

Table 5: Gender of respondents

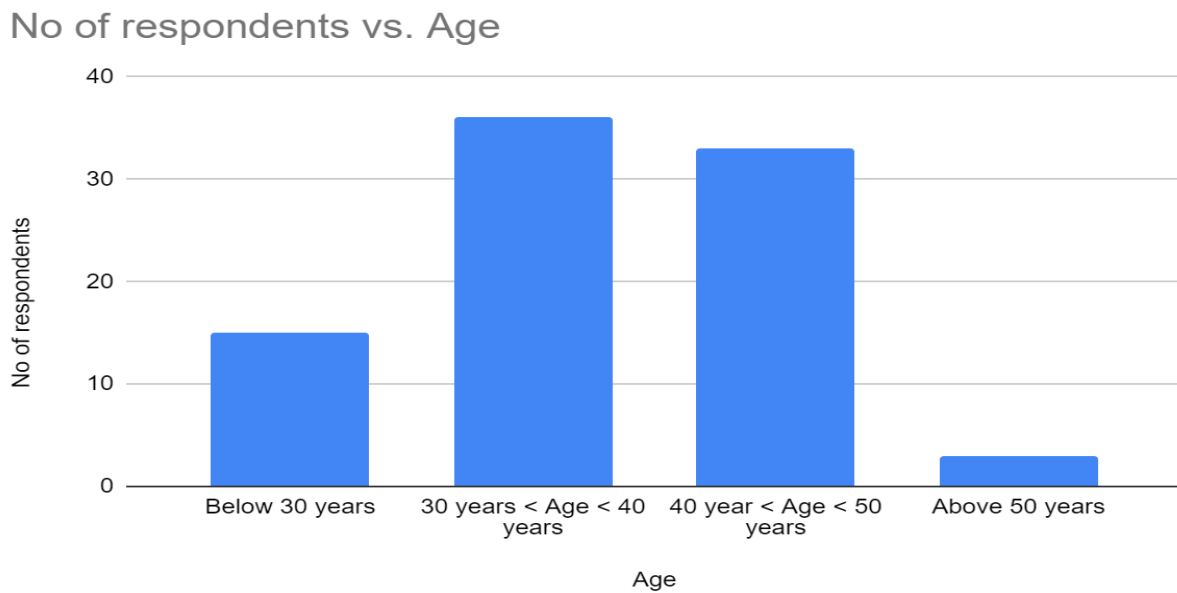
Gender	Frequency	Percentage
Male	60	69%
Female	27	31%
Total	87	100%

Source: Researcher.

4.3.1.2 Respondents' Age

Almost 4 in every 5 or (80%) transfer pricing practitioners are in the 30-50 years bracket. Only about 20% are below 30. The results are presented in Figure 2 below.

Figure 2: Age of respondents.



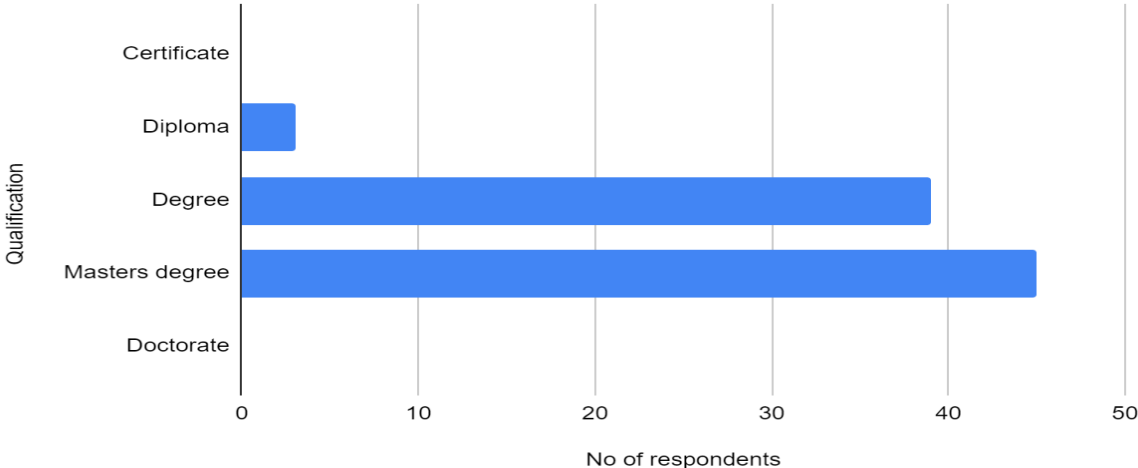
Source: Researcher.

4.3.1.3 TP practitioners in Zambia have a university degree or better.

24 in every 25 (96%) transfer-pricing practitioners in the country have a university degree or better. Only a paltry 1% have a diploma. The findings are presented in Figure 3 below.

Figure 3: Qualifications of practitioners

No of respondents vs. Qualification

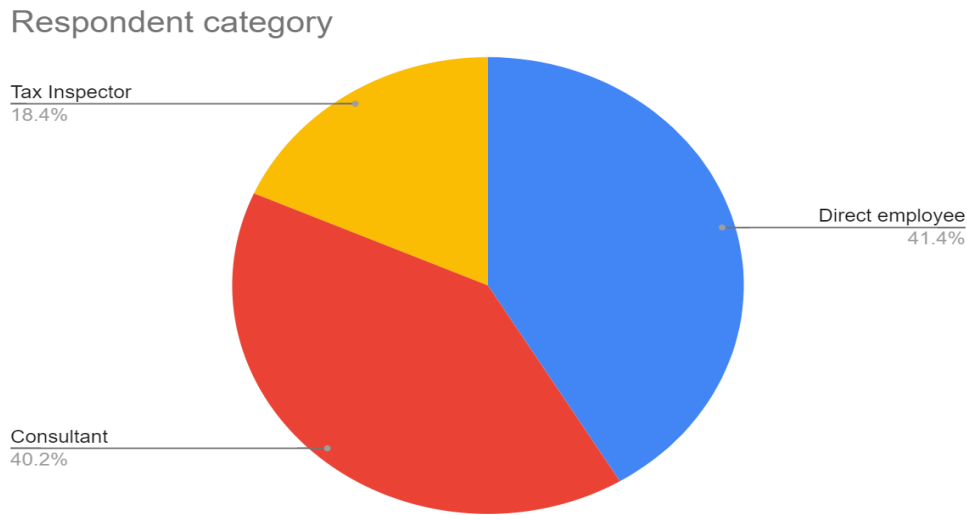


Source: Researcher

4.3.1.4 Transfer pricing practitioner category

The respondents were asked to state in what capacity they were practicing transfer pricing. The results show that 16 respondents or 18.4% were transfer pricing tax inspectors working for the revenue Authority; 35 respondents or 40.2% were consultants working for independent accounting firms while 36 respondents or 41.4% were practitioners that are direct employees of Mining enterprises in the country. Figure 4 below shows the results.

Figure 4: Practitioner by category



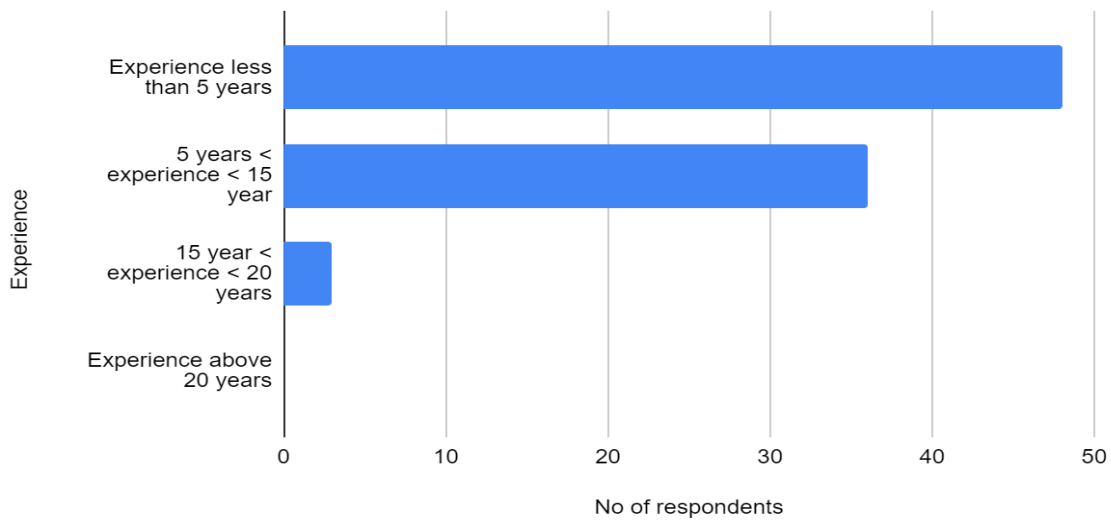
Source: Researcher

4.3.1.5 Transfer pricing experience of respondents

The respondents were asked to indicate the duration they had worked in their respective organizations. 55.2% of the respondents had worked in their respective organizations for a duration of less than 5 years, 41.4% for 5-15 years while only 3.4% have experience between 15 to 20 years. The results show that majority of the transfer pricing practitioners in the country by count have less than 5 years' experience. The findings are presented in Figure 5 below.

Figure 5: Practitioner experience

No of respondents vs. Experience

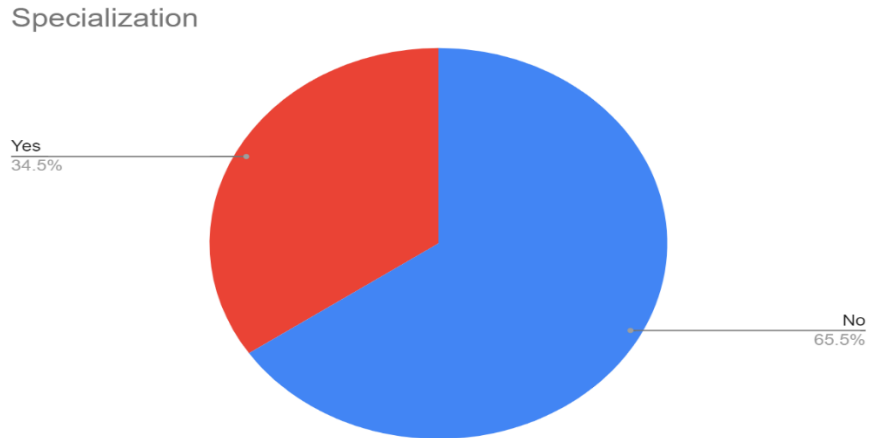


Source: Researcher

4.3.1.6 Transfer pricing practitioners do not specialize in Zambia

Respondents were asked whether they exclusively work on transfer pricing issues in relation to tax. The result shows that 3 out of every 5 (60%) of transfer pricing practitioners do not specialize on transfer pricing issues while 40% said they work exclusively on transfer pricing issues. This result indicates that the majority of the practitioners do not work exclusively on transfer pricing issues. The results are shown in Figure 6 below.

Figure 6: Practitioner specialization



Source: Researcher.

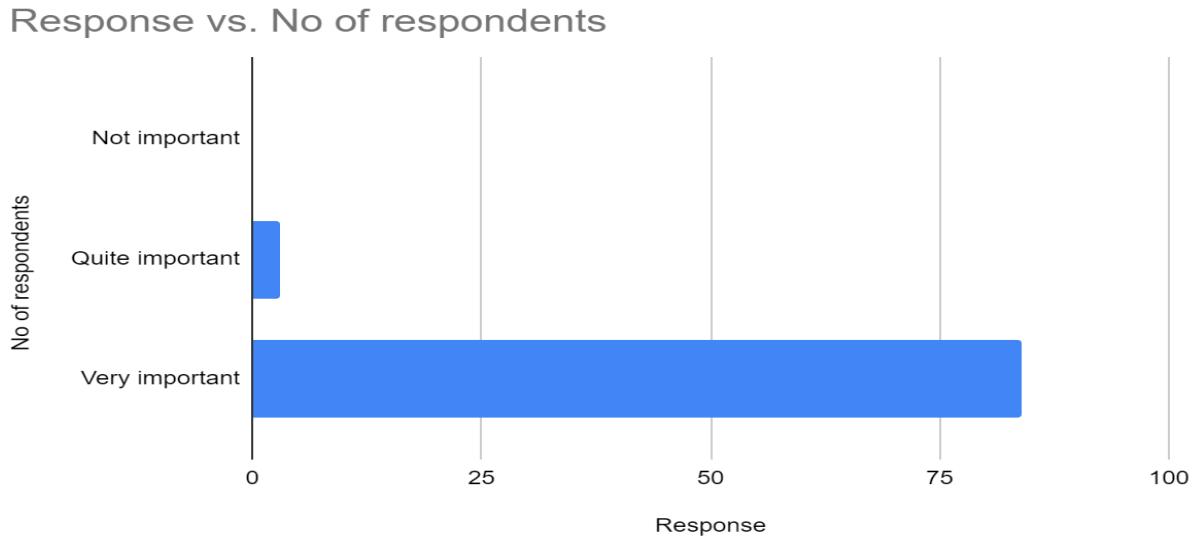
4.3.2 Transfer pricing in Zambia

This section presents issues in the transfer pricing space in Zambia as perceived by transfer pricing practitioners.

4.3.2.1 Transfer pricing in the area of tax is very important in Zambia

Every transfer-pricing practitioner (100%) in Zambia say that transfer pricing in the country is quite important in relation to tax, 97% believe it is very important. The results are show in the Figure 7 below.

Figure 7: Importance of transfer pricing in Zambia

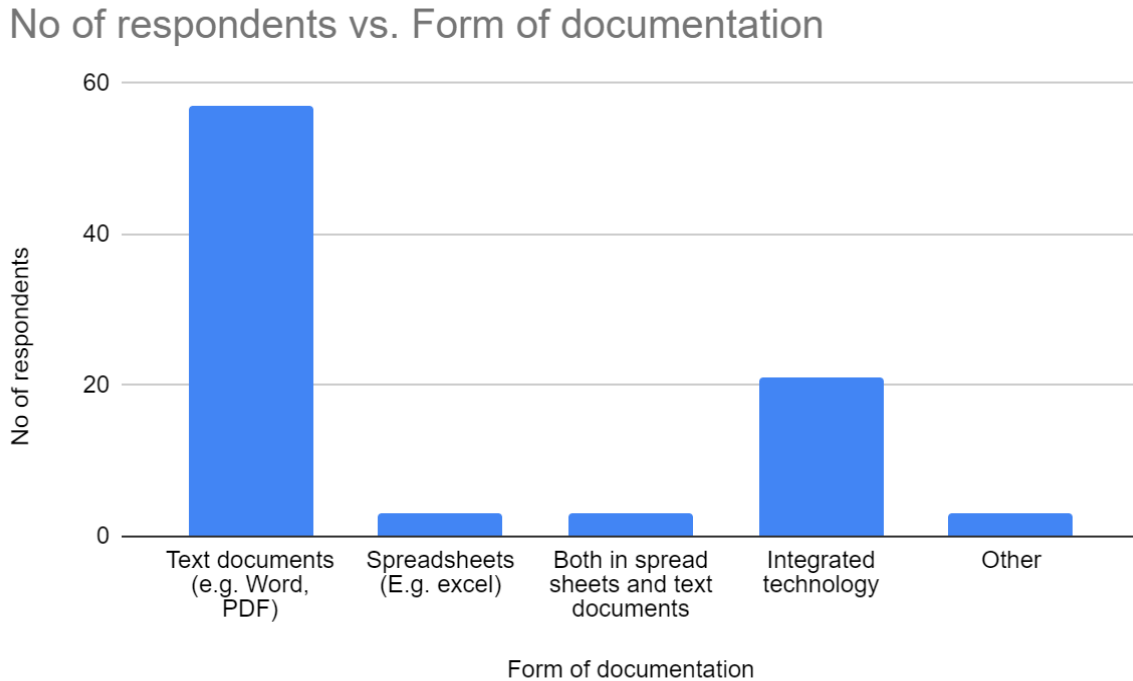


Source: Researcher

4.3.2.2 Tax departments have yet to embrace technology

Respondents were asked to state in what form transfer pricing documentation was kept in the mining houses in Zambia. Almost 7 in every 10 (70%) of transfer pricing practitioners say that transfer-pricing documents in Zambia are kept as word, PDF or excel documents. 65.5% respondents say documentation is kept as text documents including word and PDF; 24.1% say it is integrated technologies; 3.4% say both spread sheets and text documents; 3.4% say they are not sure. This shows that most transfer pricing documents are in text and PDF format. The results are show in the Figure 8 below.

Figure 8: Tax departments yet to embrace integrated technologies

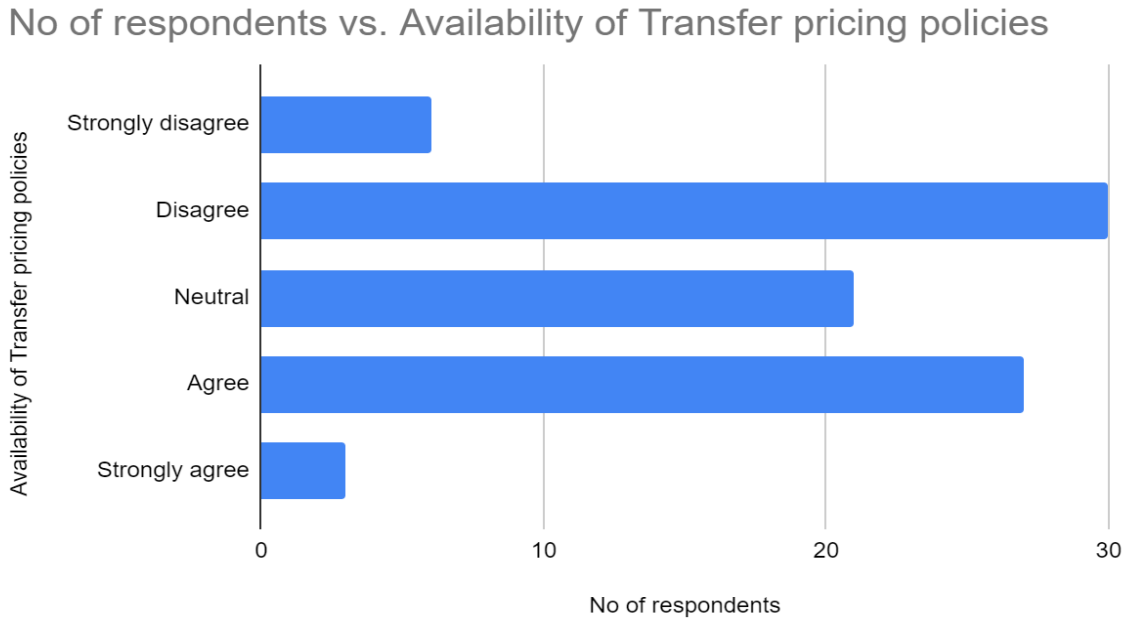


Source: Researcher

4.3.2.3 TP policies not readily available

On a scale of 1-5, from strongly disagree to strongly agree, the average value of the responses was 2.7 meaning that the respondents were neutral as to whether transfer-pricing policies are always available in mining firms. A neutral response on a continuous scale falls-short of agreeing. Actually, 41.4% of the respondents disagree that transfer-pricing policies are readily available with 34.4% of the respondents saying they strongly disagree. This result shows that the majority of experts believe that transfer-pricing policies are not readily available in the mining enterprises working in Zambia. The results are shown in Figure 9 below.

Figure 9: Availability of transfer pricing policies



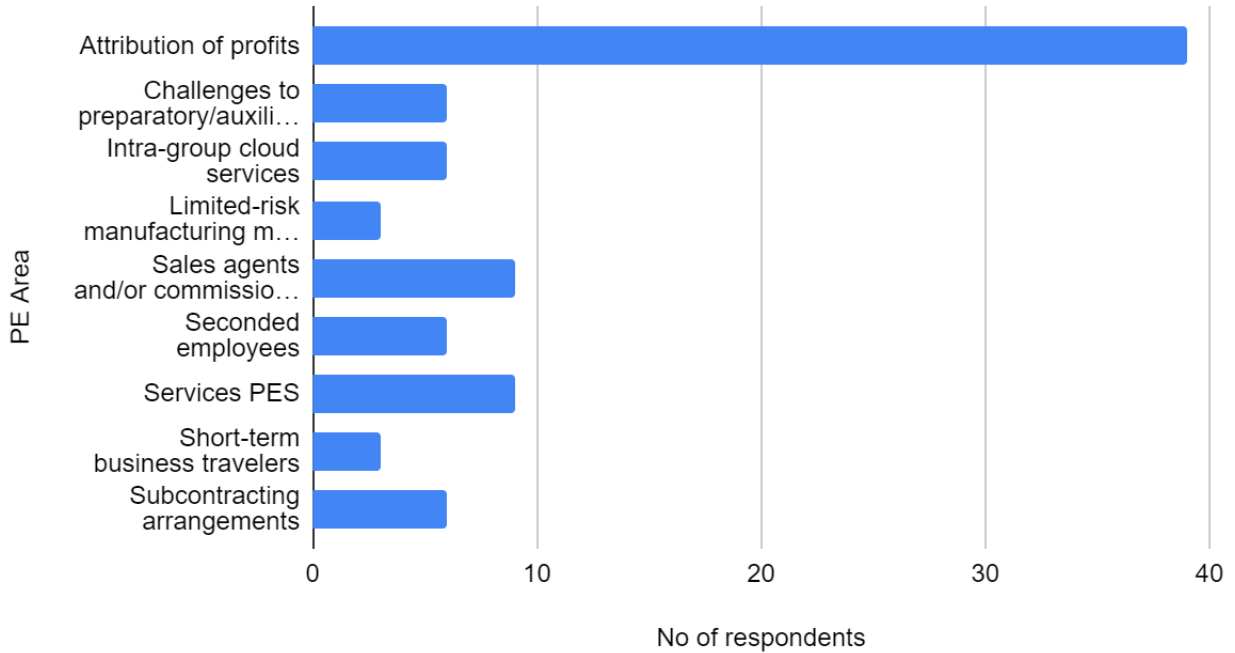
Source: Researcher

4.3.2.4 Attribution of profits the most controversial area of PEs

44.8% of transfer pricing practitioners think that attribution of profits to a permanent establishment is the most controversial area of permanent establishments in the mining sector. Respondents were asked to state which area of PEs would be most controversial in Zambia and the results are shown in Figure 10 below.

Figure 10: PE controversy

No of respondents vs. PE Area



Source: Researcher

4.3.2.5 Most mining transactions are controlled transactions

On a scale of 1-5, from strongly disagree to strongly agree, the average value of the responses was 3.8 meaning that the respondents agree that most transactions of mining firms are internal transactions. 74.7 % of transfer pricing practitioners agree that the bulk of mining enterprises' transactions are with related parties with 31.3% respondents saying they strongly agree. The results are shown in Table 6 below.

Table 6: Volume of controlled transactions

#	Internal transaction volume indicator	N	SD	D	U	A	SA	Mean	Std Dev	Decision
			1	2	3	4	5			
1	Vertically integrated	87	6	3	15	48	15	3.72	1.02	Agree
2	Has sister operating subsidiaries outside Zambia	87	6	0	0	51	30	4.14	0.98	Agree
3	Most of the business in terms of revenue is with sister subsidiaries outside Zambia	87	3	12	6	30	36	3.97	1.17	Agree
4	Most of the business in term of expenditure is with sister subsidiaries outside Zambia	87	3	21	15	21	27	3.55	1.26	Agree
	Aggregate		5%	10%	10%	43%	31%	3.84		Agree

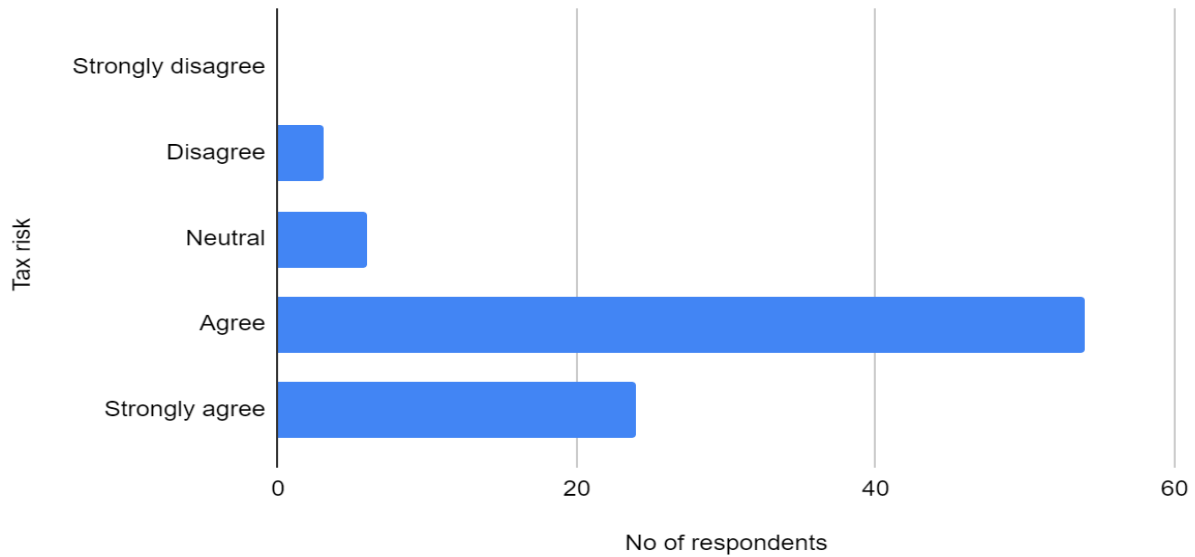
Source: Researcher

4.3.2.6 Tax risk driving transfer pricing policies of respondents

On a scale of 1-5, from strongly disagree to strongly agree, the average value of the responses was 4.1, meaning that the respondents agree that tax risk drives transfer-pricing policy in mining firms. 9 out of 10 respondents (90%) of transfer pricing practitioners in Zambia agree that tax is the chief driver of transfer pricing policies in the mining sector, 27.6 % actually strongly agree. The results are show in Figure 11 below.

Figure 11: Tax risk & Transfer pricing policies

No of respondents vs. Tax risk

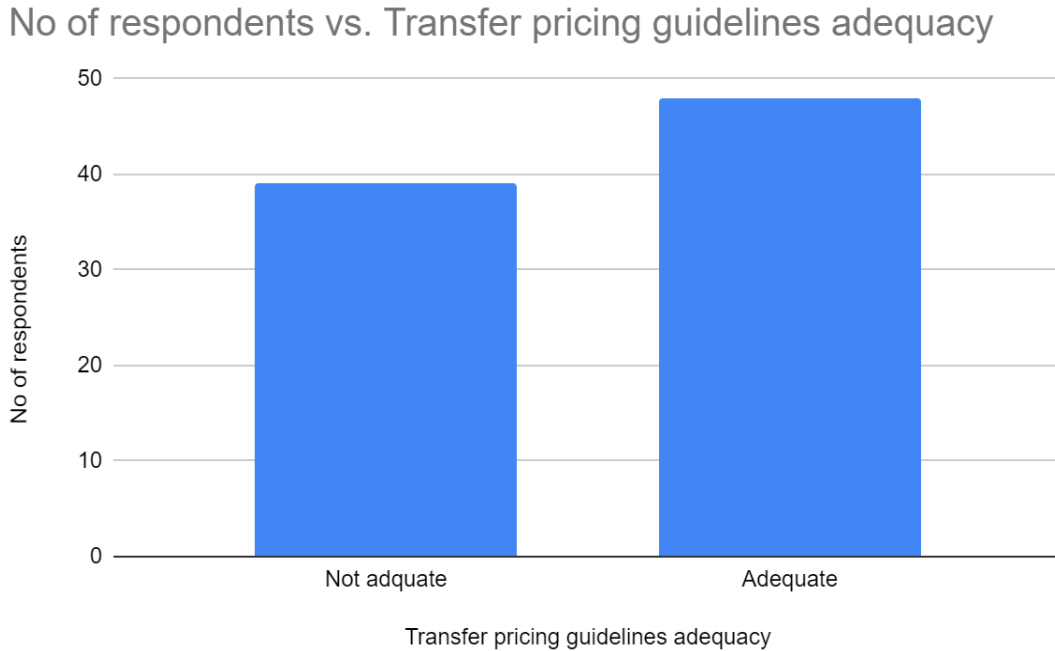


Source: Researcher

4.3.2.7 OECD/UN transfer pricing guidelines adequate

As regards the adequacy of these guidelines for developing countries like Zambia, 55.2% of respondents say the guidelines are adequate for Zambia to deal with transfer pricing issues while 44.8% say the guidelines are not adequate. This is shown in Figure 12.

Figure 12: Adequacy of OECD/UN transfer pricing guidelines



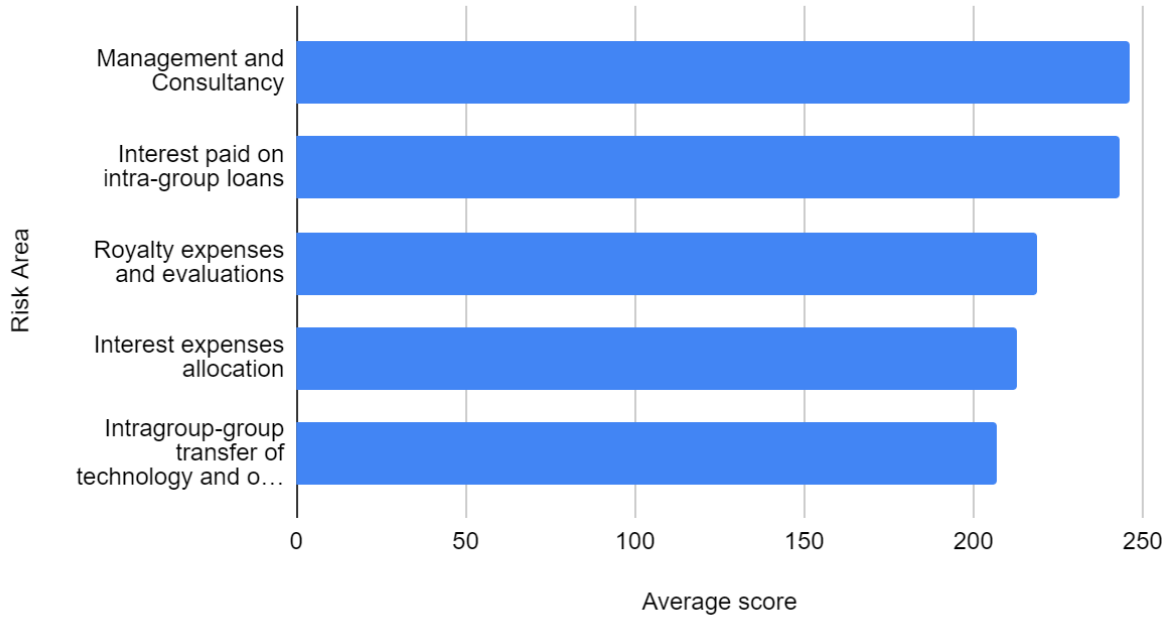
Source: Researcher

4.3.2.8 Management and consultancy area most risky

Out of 14 transfer-pricing areas, practitioners believe management and consultancy at 246 average score, is the most certain area ZRA will question in the event of an audit. Interest paid on intra-group loans at an average score of 243 points comes second. This finding suggests that the top five areas used by MNEs in Zambia to erode the country's tax base are Management and consultancy, interest paid on intra-group loans, royalty expenses, interest expense allocation and intra-group transfer of technology. The results are show in Figure 13 below.

Figure 13: Risky transfer pricing areas

Average score vs. Risk Area



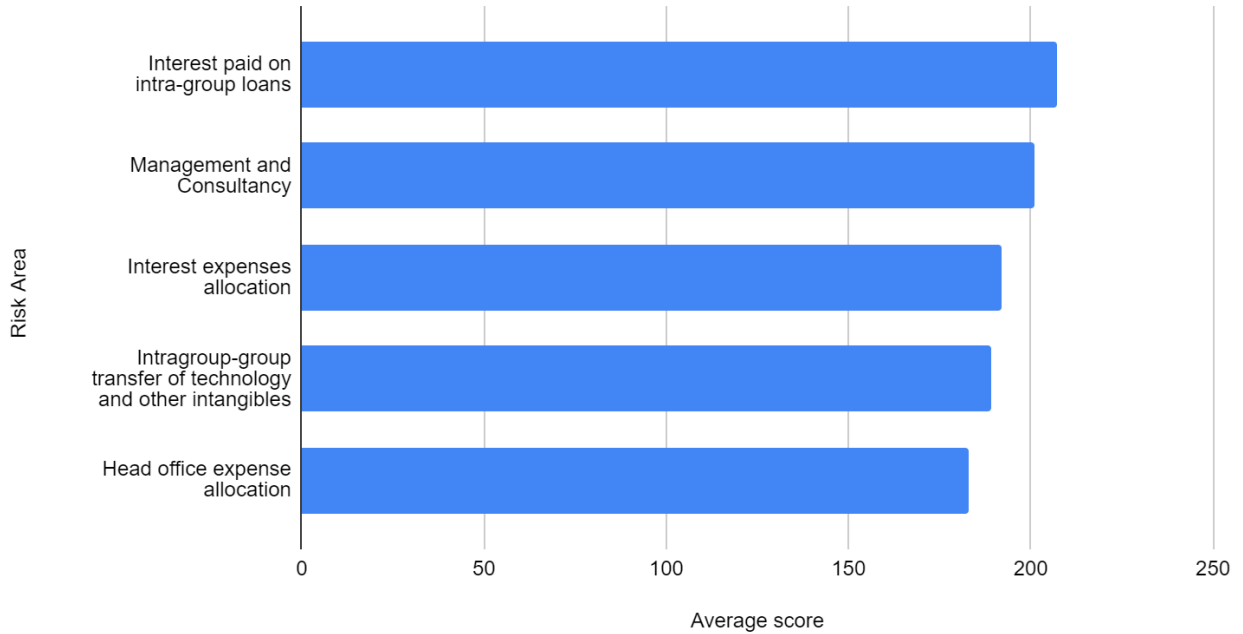
Source: Researcher

4.3.2.9 Interest paid hardest to defend when challenged

Out of 14 transfer pricing areas, practitioners believe interest paid on intra-group loans at 207 average score, is the one area they find hardest to defend when challenged by the ZRA. Management and consultancy fee follows interest at an average score of 201 points. The results are shown in Figure 14 below.

Figure 14: Difficult areas to defend in the event of a ZRA audit

Average score vs. Risk Area

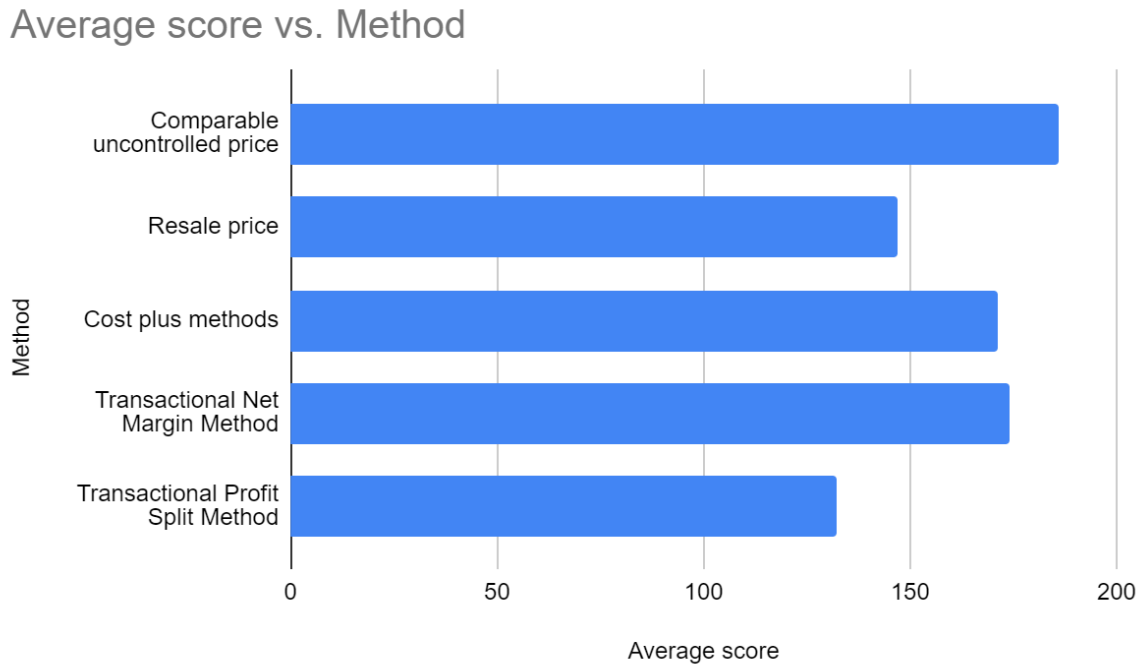


Source: Researcher

4.3.2.10 The comparable uncontrolled price most preferred method.

The comparable uncontrolled price standing at 240 points is the most preferred method in Zambia according to transfer pricing practitioners. It is seconded by the transactional net margin method while the transactional profit split method ranks last at 168 points. The results are shown in Figure 15 below.

Figure 15: TP method preference



Source: Researcher

4.3.3 Factors affecting transfer pricing

The overarching objective of the research was to examine three factors on transfer pricing tax compliance. These factors are compliance costs, complexity of rules and methods and the aggressiveness of enforcement by the Zambia Revenue Authority. This section presents the results of these factors.

4.3.3.1 Transfer pricing compliance costs are very high in Zambia.

This section addresses the first objective of the study, which sought to describe the compliance costs of transfer pricing in the Mining sector in Zambia in the context of tax. A five point Likert scale was used to interpret the responses whereby the scores of “strongly disagree” and “disagree” were represented by mean scores on the continuous Likert scale as $(1 \leq \text{Strongly disagree} \leq 1.8)$ and $(1.9 \leq \text{Disagree} \leq 2.6)$ respectively. The scores of “Undecided” were equivalent to $(2.7 \leq \text{Undecided} \leq 3.4)$ while the score “Agree” and “Strongly Agree” were represented by $(3.5 \leq \text{Agree} \leq 4.2)$ and $(4.3 \leq \text{strongly agree} \leq 5)$ respectively.

The results shows that compliance overall has a mean score 3.7 on the continuous scale indicating that industry experts agree that compliance costs in the mining sector as far as transfer pricing is concerned are very high. Although overall practitioners agree that compliance costs are very high in the mining sector, they are neutral on specific issues of costs related to ZRA audits and those related to the arm's length based methods used at 3.3 mean score. The respondents were also neutral on the penalty regime for non-compliance at a mean score of 3.1.

Further analysis also reveals that 13 out of every 20 transfer pricing practitioners (or 66%) agree that transfer pricing compliance costs are high in the mining sector and of these 1 out of every 4 practitioners (or 25%) strongly agree. This result shows that the majority of transfer pricing practitioners believe that compliance costs are high. Table 7 below shows the results.

Table 7: Compliance costs

#	Cost level indicator	N	SD	D	U	A	SA	Mean score	Std Dev	Decision
			1	2	3	4	5			
1	Zambia Revenue Authority compliance audits are very expensive to the enterprise	87	6	30	6	24	21	3.28	1.34	Undecided
2	The costs involved in documenting transactions are very high	87	6	15	9	30	27	3.66	1.27	Agree
3	The cost is a direct consequence of the arms' length principle on which recommended methods are based.	87	6	15	27	27	12	3.28	1.11	Undecided

#	Cost level indicator	N	SD	D	U	A	SA	Mean score	Std Dev	Decision
			1	2	3	4	5			
4	The cost of databases (e.g. TP catalyst) used for analyses are too high for developing countries.	87	0	9	6	36	36	4.14	0.94	Agree
5	Consultancy services are very expensive	87	0	9	12	42	24	3.93	0.91	Agree
6	Vacancies in transfer pricing are very difficult to fill.	87	0	6	15	48	18	3.90	0.80	Agree
7	It is very expensive to train a practitioner and keep them abreast with changes in practice.	87	0	15	6	39	27	3.90	1.03	Agree
8	There is very little awareness among stakeholders leading to protracted processes that make it expensive for all stakeholders.	87	0	9	18	39	21	3.83	0.91	Agree
9	The current income tax penalty regime for non-compliance is not a deterrent enough for would be offenders.	87	15	15	15	33	9	3.07	1.28	Undecided
Aggregate			4%	16%	15%	41%	25%	3.66		Agree

Source: Researcher

4.3.3.2 Transfer pricing in the area of tax is very complex.

This section addresses the second objective of the study, which sought to describe the complexity of transfer pricing as a tax concept in the context of Zambia and the Mining sector in particular. A five point Likert scale was used to interpret the responses whereby the scores of “strongly disagree” and “disagree” were represented by mean scores on the continuous Likert scale as ($1 \leq$ Strongly disagree ≤ 1.8) and ($1.9 \leq$ Disagree ≤ 2.6) respectively. The scores of “Undecided” were equivalent to ($2.7 \leq$ Undecided ≤ 3.4) while the score “Agree” and “Strongly Agree” were represented by ($3.5 \leq$ Agree ≤ 4.2) and ($4.3 \leq$ strongly agree ≤ 5) respectively.

The results shows that complexity overall has a mean score of 3.7 on the continuous scale indicating that industry experts agree transfer pricing is a very complex subject matter in the area of taxation. Although overall, practitioners agree that transfer pricing is very complex in the context of tax compliance, they are neutral on specific issues of complexity related to clarity of regulatory framework and the level of digitalization of the economy at 3.3 mean score.

Further analysis also reveals that 19 out of every 25 transfer pricing practitioners (or 76%) agree that transfer pricing is very complex in the context of tax compliance in the mining sector, in fact 6 out of every 25 practitioners or 24% strongly agree. This result shows that the majority of industry experts agree that transfer pricing is very complex. The results are shown in the Table 8 below.

Table 8: Complexity of transfer pricing

#	Complexity level indicator	N	SD	D	U	A	SA	Mean score	Std Dev	Decision
			1	2	3	4	5			
1	Existing regulatory framework lacks clarity and gives rise to uncertainty	87	0	24	12	45	6	3.28	0.97	Undecided
2	The level of complexity in pricing methods	87	0	21	3	39	24	3.66	1.11	Agree

#	Complexity level indicator	N	SD	D	U	A	SA	Mean score	Std Dev	Decision
			1	2	3	4	5			
	based on the arms' length principle [comparability adjustments, functional analysis. etc.) is very high.									
3	The level of digitization of the world economy has further complicated transfer pricing.	87	0	9	3	42	33	3.28	0.90	Undecided
4	Changes in practices are becoming more and more rapid.	87	0	6	18	39	24	4.14	0.87	Agree
5	The borderline between lawful and fraudulent transfer pricing is always not clear.	87	0	12	3	57	15	3.93	0.86	Agree
6	There are different business approaches that can lead to different tax outcomes.	87	0	6	9	51	21	3.90	0.79	Agree
	Percentage		0%	15%	9%	52%	24%	3.70		Agree

Source: Researcher

4.3.3.3 ZRA is not aggressive in conducting compliance activities.

This section addresses the third objective of the study that sought to determine the aggressiveness of ZRA on tax compliance as far as mining enterprises operating in Zambia are concerned. A five point Likert scale was used to interpret the responses whereby the scores of “strongly disagree” and “disagree” were represented by mean score on the continuous Likert scale as ($1 \leq$ Strongly

disagree ≤ 1.8) and ($1.9 \leq \text{Disagree} \leq 2.6$) respectively. The scores of “Undecided” were equivalent to ($2.7 \leq \text{Undecided} \leq 3.4$) while the score “Agree” and “Strongly Agree” were represented by ($3.5 \leq \text{Agree} \leq 4.2$) and ($4.3 \leq \text{strongly agree} \leq 5$) respectively.

The results show that aggressiveness overall has a mean score 3.3 meaning that industry experts are neutral on the issue of ZRA being aggressive in conducting compliance audits on the mining sector in the area of transfer pricing. On a continuous scale, neutral is lower than agree and therefore this result shows that experts do not agree that ZRA is aggressive in the execution of activities aimed at curbing transfer mispricing. Although overall experts are neutral on the aggressiveness of ZRA, they agree that ZRA tax inspectors always exhibit high levels of professionalism when conducting transfer pricing compliance audits with a mean score of 3.7.

Further analysis also revealed that 27 out of every 50 (or 54%) of practitioners answered in the negative concerning the aggressiveness of ZRA in compliance activities. This result shows that ZRA is not aggressive. The results are show in the Table 9.

Table 9: ZRA aggressiveness

#	Aggressiveness level indicator	N	SD					Mean score	Std Dev	Decision
			1	2	3	4	5			
1	A ZRA audit always includes valuable taxpayer education that helps in future compliance.	87	8	20	20	52	12	3.4	1.10	Undecided
2	Transfer pricing audits always end up in huge assessments.	87	0	28	32	32	20	3.4	1.04	Undecided
3	Transfer-pricing audits always end up as media items.	87	8	52	16	32	4	2.8	1.07	Undecided

#	Aggressiveness level indicator	N	SD	D	U	A	SA	Mean score	Std Dev	Decision
			1	2	3	4	5			
4	Voluntary disclosures always follow in years after audits.	87	0	28	44	32	8	3.2	0.89	Undecided
5	Frequency and volume of internal transactions always trigger audits	87	0	20	40	44	8	3.4	0.85	Undecided
6	Transfer pricing tax inspectors always exhibit high levels of professionalism.	87	0	16	28	44	24	3.7	0.96	Agree
	Every big mine has had a transfer pricing compliance audit within the past 5 years	87	4	20	40	40	8	3.3	0.95	Undecided
	Aggregate		3%	23%	28%	35%	11%	3.3		Undecided

Source: Researcher

4.3.4 Other factors affecting compliance

The fourth objective sought to identify other factors affecting tax compliance in the area of transfer pricing. The survey collected data on other factors affecting compliance other than the three study areas. In this regard, interviewees were asked what other factors they thought affected compliance to transfer pricing laws and regulations as regards tax in the mining sector in Zambia and a number of factors were identified which were summarized into broad categories.

4.3.4.1 ZRA documentation requirements burdensome.

The respondents were asked to state whether ZRA documentation requirements for transfer pricing purposes were onerous. On a scale of 1-5, from strongly disagree to strongly agree, the mean score of the responses was 3.5 meaning that the respondents agree that the ZRA documentation requirements are burdensome. 56% of all transfer-pricing practitioners agree that ZRA

documentation requirements are very onerous on the enterprise, in fact 28% strongly agree. 28 % and 3% of respondents disagree and strongly disagree respectively while 14% were indifferent. This result shows that the majority of respondents agree that the documentation required by ZRA to prove a transfer pricing transaction are very onerous on the enterprise. The result is shown in Table 10 below.

Table 10: ZRA documentation requirements

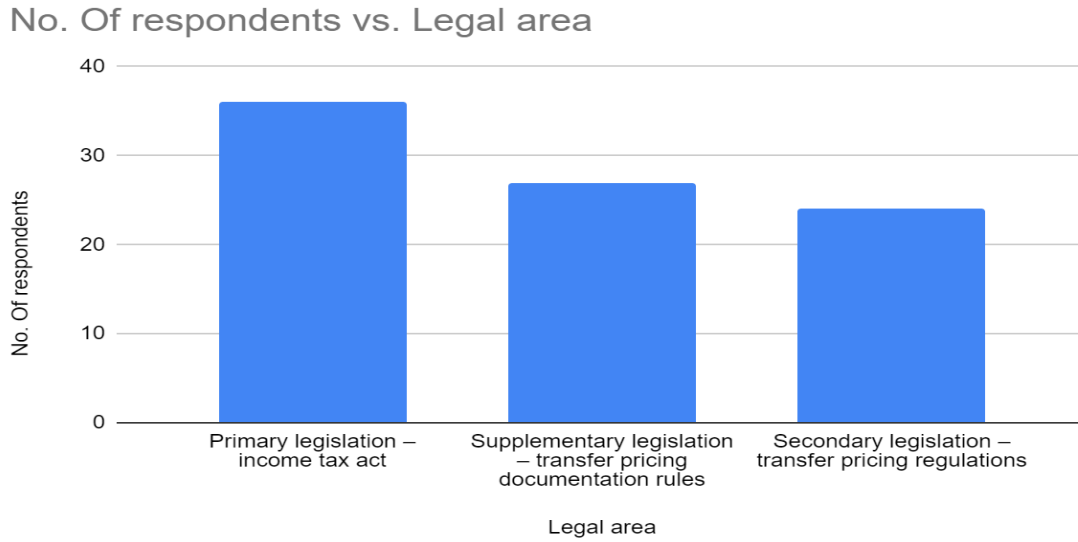
#	Internal transaction volume indicator	N	SD	D	U	A	SA	Mean	Std Dev	Decision
			1	2	3	4	5			
1	ZRA documentation requirement is very burdensome	87	3	24	12	24	24			
	Aggregate		3%	28%	14%	28%	28%	3.48	1.26	Agree

Source: Researcher

4.3.4.2 The income tax ACT needs improvement

The respondents were asked to state which area of the legal framework can benefit from improvement. This result shows that 41.4% think that the primary legislation needs improvement; 27.6% think that secondary legislation needs improvement and 31% think that supplementary legislation can benefit from improvement. This result indicates that while the respondents think that all components of legislation can benefit from improvements, primary legislation is the one that most needs improvement. The results are shown in Figure 16 below.

Figure 16: Legislative from work needing improvement

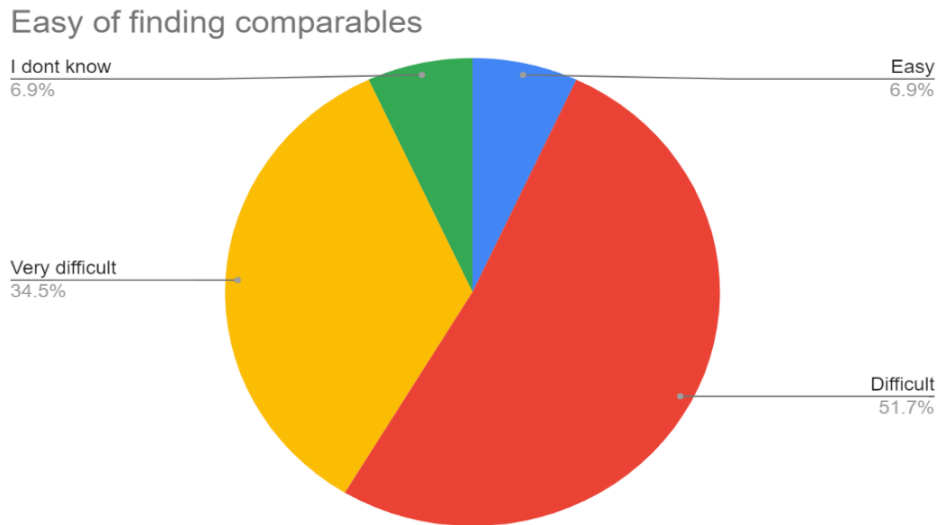


Source: Researcher

4.3.4.3 Comparable arm’s length prices are difficult to find in Zambia

Almost 4 in every 5 respondents (80%) say that it is very difficult to identify comparable arm’s length prices in Zambia. The results are shown in Figure 17 below.

Figure 17: Scarcity of comparables in Zambia



Source: Researcher

4.3.4.4 Policy inconsistencies

Experts interviewed said that policy inconsistency in the mining sector is detrimental to the growth of the industry and to tax compliance. They added that a bad consistent policy was actually better than inconsistent policies noting that mining investments were long term and frequent changes did not help proper planning for long-term projects. Experts were asked whether the changes in the tax regime were too frequent and what the impact of such changes were on the sector development and tax compliance in particular.

4.3.4.5 Political interference

Experts believe some key human resource allocations, including transfers, hiring, and promotions at tax administration level are politically motivated. They also cited interference in enforcement activities as some of the factors affecting compliance. Respondents were asked directly the following two questions: 1) During the last 4 year, have you had any experience with elected officials, their appointees, or political party officials trying to influence any hiring decisions and/or promotions in your department? 2) During your entire time of practice in transfer pricing, do you have any experience with elected officials, their appointees, or political party officials trying to influence the course of an audit or enforcement activity?

4.3.4.6 Corruption of Government officials

Experts cited corruption by government officials as a factor affecting tax compliance. Non-compliant mining houses are able to remain non-compliant by corrupting key government officials. In this regard, interviewees were asked whether corruption was a factor in tax administration in Zambia.

4.3.4.7 Inadequate enforcement capacity

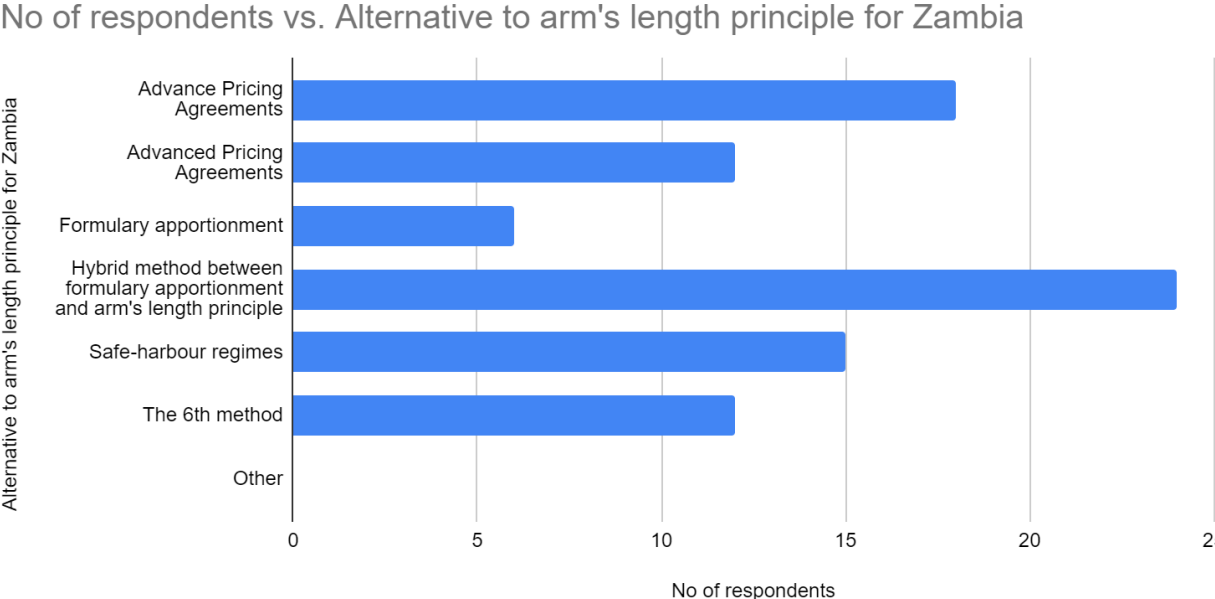
Experts believe the country has inadequate enforcement capacity to deal with transfer pricing policies based on the arm's length principle. The inadequacy is mainly on account of technical and other resources. Experts add that while ZRA has made some efforts to improve capacity with the creation of the dedicated transfer-pricing unit, it still falls short of the capacity required to police mining houses that wield much resource in the context of defending their tax avoidance schemes.

In this regard, interviewees were asked whether the country has the capacity to enforce transfer-pricing regulations as provided for in the law books of the country.

4.3.4.8 Hybrid system recommended by experts

Experts think that a hybrid system between formulary apportionment and arm’s length principle would be appropriate for a developing country like Zambia adding that partial integration of formulary concepts into current arm’s length practices would offer a reasonable alternative to transfer pricing methodology. Experts in this regard were asked to suggest alternatives to the arm’s length rule with reference to Zambia given the compliance issues as highlighted from the survey. The results are shown in Figure 18 below.

Figure 18: Alternatives to arm's length methods



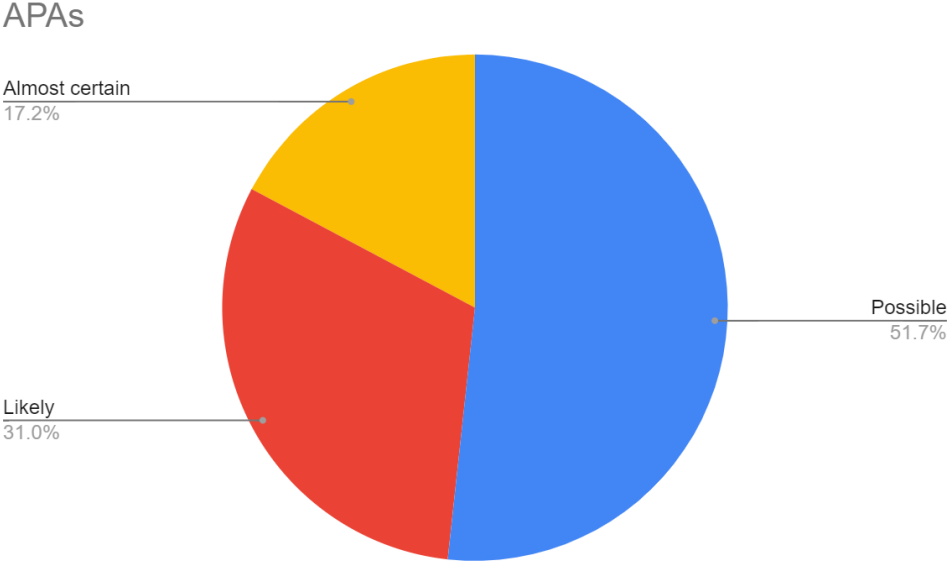
Source: Researcher

4.3.4.9 Unpopularity of APAs as an alternative

On a scale of 1-3, from possible to almost certain, the average value of the responses was 1.7 meaning that the respondents think an APA in Zambia is barely possible. 1 in every 2 practitioners think that a mining enterprise in Zambia considering an APA is barely possible while only 17% think that it is almost certain. Given that enterprises need certainty, this result is indicative of the

fact that the regulatory framework does not adequately cover APAs. The results of the survey are shown in Figure 19 below.

Figure 19: APAs' unpopularity



Source: Researcher

CHAPTER 5

DISCUSSION OF RESULTS

5.1 Discussion of findings

This chapter discusses the results of the study in line with the objectives. The results are elaborated and evaluated. The significance and implications of the results are also discussed.

The study set out to examine factors affecting transfer pricing tax compliance in Zambia with a specific look at MNEs operating in the Mining sector. Transfer pricing tax compliance is an important subject because MNEs using transfer mispricing are able to reduce their tax bill in the country leading to less revenue that would otherwise be available to the treasury. Although the study has a special focus on three factors (compliance costs, complexity of transfer pricing, and aggressiveness of ZRA), it also sought to identify other factors affecting compliance in the context of transfer pricing in Zambia.

This study was based on transfer pricing practitioners working in various capacities in the mining sector of the country. These practitioners were chosen because of their knowledge of the transfer-pricing problem in the country. The transfer pricing field in the country is dominated by males at 69% and 4 in every 5 practitioners are in the age bracket of 30-50 years. 24 in every 25 practitioners have a degree or better attesting to the level of education required to comprehend transfer-pricing complexities. Although direct employees represented the highest number of practitioners that participated in the survey at 41.4%, some practitioners were found to have worked on transfer pricing issues in the mining sector in all capacities at different times of their careers – as ZRA employees, as direct employees or as consultants in independent accounting firms.

The results of this study indicate that transfer pricing in the context of tax is a very big concern for Zambia at 100% of all responses received. This is consistent with the study by PWC (2012) that concluded that developing countries meet particular capacity problems when dealing with transfer pricing. While experts believe transfer-pricing policies are not readily available in mining enterprises at a mean score of 2.7, they agree that transfer pricing is very important in the context of tax in Zambia adding that tax risk is the major driver of transfer pricing policies in the mining

sector at a mean score of 4.1 and by extension, the country and other developing countries. Tax risk for MNEs has increased for a number of reasons. Risk is increased by shifting global tax rules and policy inconsistency in the mining tax regime coupled with the need to adjust to opportunities for tax minimization. In addition, transparency considerations have also driven the tax risk upwards. Tax risk is therefore by far the most critical issue driving transfer-pricing strategies according to over 90% of respondents. The concern about tax risk driving policies lies in the fact that if tax risk is a major consideration in drawing up a transfer pricing policy, then prices are potentially being fixed purely for purposes of minimizing the global tax bill and not necessarily to reflect the real economic substance of transactions. The global tax bill is minimized through tax base erosion. This is achieved by deliberately implementing tax avoidance schemes that use transfer mispricing to shift profits from a jurisdiction of higher tax rate to that of a lower tax rate and to that extent, the study finds evidence for the theory of planned behavior which suggests that in any society, the behavior of the members is always incited by certain dynamics in a deliberate style (Klee, Bamberg, Erten, & Graf, 2000). In the theory of tax morale Torgler (2012) describes such persons who deliberately avoid tax on account of having a less inherent motivation to pay taxes as having a low tax morale. This finding suggests that the country is exposed to potential and actual abuse in terms of transfer mispricing at a large scale given the volume and value of transactions that the mines engage-in. This exposure is motivated by factors that need to be understood in their right context if this risk is to be minimized. Transfer pricing practitioners described these factors during the study.

The study finds that Zambia's mining sector is dominated by MNEs. MNEs expose the country to transfer mispricing through internal trading also referred to as "controlled transactions". Practitioners agree that most Mining transactions in Zambia are controlled transactions at a mean score of 3.84. Experts submitted 14 areas used by mining enterprises to erode the country's tax base. The top five suggested areas include – management and consultancy fees, interest on intra-group loans, royalty expenses, interest expense allocation and intra-group transfer of technology. While the ownership of two big mines has changed and or is being contested in the courts of law, the perceptions by expert can be sustained because these changes are too recent to influence the outcome of the study.

One major factor that is causing tax non-compliance in the area of transfer pricing the study finds is high compliance costs. This finding is in agreement with OECD (2004) guidance note on compliance risk management where high compliance costs are associated with decrease in tax compliance. The finding is also in agreement with the study of Chisumpa et al., (2020) who found that high compliance costs were a contributing factor to tax non-compliance. Experts agree that compliance cost in Zambia are very high in the context of transfer pricing with a mean score of 3.66 on a 5-point continuous scale. These costs are on both sides of the aisle, the revenue authority on the one hand and the mining enterprises on the other hand. Contributing to these are commercial transfer pricing databases that are very expensive. While the mining enterprise may afford to absorb this cost, ZRA may find this cost prohibitive perhaps this partly explains the lack of aggressiveness by ZRA as the study also finds. Further, experts believe ZRA transfer pricing documentation requirements are very burdensome. Burdensome requirements increase the cost of compliance and if the benefit thereof does not exceed the reward, non-compliance takes place. In this regard, this study finds evidence of the economic theory. According to Berker (1968), taxpayers are rational in behavior and tax non-compliance is a direct result of the perception they develop about the benefits and risks associated with the vice.

Further, the costs of compliance are very high because tax departments in the Mining sector have yet to embrace integrated technology. Technology presents another opportunity for improving transfer pricing policy and implementation. Today, most companies use text documents and spreadsheets as their principal tools. Only 24.1% of the businesses according to the practitioners said they have more integrated technologies at their disposal for purposes of transfer pricing documentation. According to some respondents, ZRA is becoming more and more automated – other than e-filing that is already implemented; the revenue authority will eventually shift toward e-audits. Integrated technologies harvest transfer-pricing documentation at the time of the transaction during processing and this has an effect of reducing costs in the long term. Tax units in the mining enterprises will find it worthwhile to embrace integrated technologies. These technologies can be used for monitoring transfer pricing margins or keeping track of service charges. Integrated technologies can be employed to lighten workloads, reduce inaccuracies and free resources for more value-added activities other than documenting transfer pricing

transactions. With these technologies, tax units will be in a much better position for managing and documenting their transfer pricing transactions.

As regards compliance costs, experts suggest Zambia as a developing country should re-consider whether a transfer pricing policy based purely on the arm's length principle is sustainable given the cost implications of managing such a system, otherwise tax compliance will continue to elude the country.

The study finds that the second major factor affecting compliance is the complexity of transfer pricing concepts based on the arms' length principle. This is collaborated by Cuccia and Carnes (2001) and Cuccia and Gregory (2001) studies that established a negative relationship between tax complexity and the tendency to comply with tax regulations. The OECD/UN transfer pricing guidelines for MNEs and tax administrations provide guidance on the application of the arm's length principle – the international consensus on transfer pricing on the valuation for tax purposes of cross-border transactions between associated enterprises. Although the study findings were not decisive on the adequacy of the OECD guidelines in dealing with transfer pricing issues for developing countries like Zambia, experts agree that transfer pricing in the context of tax is very complex at a mean score of 3.7 on a 5-point continuous scale. This result shows the complex nature of transfer pricing. The principles are given but they have to be construed in the context of the complex nature of their application hence the almost middle-split of the results.

One other area of complexity of transfer pricing is in permanent establishments. A permanent establishment creates a minimum threshold below which the source country does not attempt to tax a foreign enterprise's business income. That threshold is set in terms of a minimum physical connection to the jurisdiction. The income tax ACT section 81AA deals with that minimum threshold for taxability. This study finds that PEs are very controversial in taxation and specifically the aspect of attributing profits to a PE as the most controversial area of permanent establishments. Experts also believe that the lack of clarity of the legislative framework contributes to the complexity and uncertainty adding that it can benefit from improvement especially primary legislation, which is the income tax ACT in this case. Experts cited 14 areas that are very complex in the context of defending them in the event of an audit by ZRA. The hardest to defend area of

transfer pricing according to experts is interest paid on intra-group services followed by management and consultancy fees. The difficulty is as a result of complexity, documentation burden and cost of consultancy in putting-up a transfer pricing case. The study also finds that the comparable uncontrolled price is the most preferred transfer pricing method in the mining industry. However, it is less often used according to the findings. Experts think that the chosen price is often rejected on account of not matching one or more of the comparability criteria, such as similar markets, volumes and position in the supply chain adding that in many industries, even a small difference between the circumstances of two transactions could affect the price. This comparability problem is also used by MNEs to discredit proposed assessments by ZRA. While APAs would have lessened the complexity of transfer pricing by providing certainty, the study finds that APAs are very unpopular in Zambia and the country does not even have a legal framework in that regard with experts recommending that hybrid methods would work well for a developing country like Zambia.

Finally, the study finds that aggressiveness of the revenue authority is a factor affecting tax compliance. Aggressiveness of the tax authority has the potential effect of increasing tax compliance. This is in agreement with past studies where a positive relationship was found between tax audit and tax compliance (Feld & Larsen, 2012). This study finds that ZRA is not aggressive in conducting compliance audits on the mining enterprises at mean score of 3.3 on a 5-point continuous scale. Several factors may explain the finding. Experts say comparables that are critical elements in transfer pricing management are very difficult to find in Zambia. In fact 4 in every 5 experts or 80%, say that it is very difficult to find comparable arm's length prices. Experts also cited inadequate enforcement capacity, political interference and corruption as other factors impeding tax compliance in the area of transfer pricing other than compliance costs, transfer pricing complexity, and the aggressiveness of ZRA.

In summary, these results show that the country has an urgent issue in transfer pricing that needs to be dealt with otherwise resource mobilization for development will continue to elude the country.

CHAPTER 6

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter provides a summary of findings, conclusions and recommendations based on the objectives of the study. It highlights the key findings with reference to the objectives of the study.

6.2 Approach, limitations and future research suggestions

This study sought to investigate the factors that affect MNEs tax compliance in the area of transfer pricing. It investigated three main specific factors – compliance costs, complexity of rules and methods, and the aggressiveness of the tax authority. The study further sought to identify other factors affecting tax compliance with respect to transfer pricing in Zambia with a focus on the mining sector. The overarching aim of the study was to describe the phenomenon of tax non-compliance and its characteristics from the perspective of the factors that influence it using a descriptive methodology.

The target population for this study was transfer-pricing practitioners working in different capacities in the mining sector of Zambia. This is a rare population because transfer pricing is a complex subject and as such, it is a small population. The population for the study was broken down into three categories namely –practitioners working as direct employees of the four biggest mines in Zambia, practitioners working for independent accounting firms but providing consultancy services to MNEs in the mining sector or practitioners working in ZRA as tax inspectors. The objectives of the MNEs and the tax authorities on transfer pricing are always conflicting and including representation from both sides gives the study a balanced view of the current state of affairs. The study adopted a survey-sampling method involving the total population. Glen (2018) suggests that total population sampling is appropriate when the target group is small and set apart by an unusual and well-defined characteristic. The number of people that are practitioners in the area of transfer pricing in Zambia is very small and therefore total population survey sampling was considered suitable.

The study collected primary data through a survey questionnaire administered online. The researcher also had structured interviews with practitioners to get deeper insights in the subject matter. Further secondary data including books, ACTs of parliament, published sources, journals, ZRA practice notes were reviewed. The study employed google forms imbedded statistical functionalities as part of the descriptive statistics while some of the data collected through the survey questionnaire was edited, cleaned and analyzed in Microsoft excel for other descriptive statistics.

The results of this study should be considered in the light of some limitations. This is a descriptive study of factors affecting transfer pricing tax compliance in Zambia with a focus on the mining sector. The study has not investigated neither the extent of the transfer-pricing problem in Zambia – although this has been established from previous works on Zambia and developing countries, nor has the study measured to what extent those factors investigated impact tax compliance and the significance thereof. To the best of the researcher’s knowledge, there has also not been any study in Zambia about tax compliance in the context of transfer pricing in general and in the mining sector in particular. Thus, prior research in this area is very limited. Future studies can therefore focus on establishing the extent of the transfer-pricing problem in the mining sector or investigating to what extent identified factors impact on transfer pricing tax compliance, the relationship between factors and the significance thereof.

6.3 Summary of findings

The study set out to examine factors affecting tax compliance in Zambia with respect to transfer pricing with a specific look at MNEs operating in the Mining sector. The study evaluated three factors that drive compliance behaviour namely: - compliance costs, complexity of transfer pricing, and aggressiveness of ZRA.

The study finds that transfer pricing in the context of tax is a very big concern for Zambia as a developing country. This exposure is motivated by factors that need to be understood in their right context if this risk is to be minimized. Transfer pricing practitioners described these factors during the study.

The study finds that Zambia's mining sector is dominated by MNEs. MNEs expose the country to transfer mispricing through internal trading also referred to as "controlled transactions". Practitioners agree that most Mining transactions in Zambia are controlled transactions. Experts suggested 14 areas are used by mining enterprises to erode the country's tax base with management and consultancy fees being the chief of them.

One major factor that is causing tax non-compliance in the area of transfer pricing the study finds is high compliance costs. Experts agree that compliance cost in Zambia are very high in the context of transfer pricing. Transfer pricing is expensive for both the MNEs and ZRA.

The study finds that the second major factor affecting compliance is the complexity of transfer pricing concepts based on the arms' length principle. Experts agree that transfer pricing in the context of tax is very complex. Experts also believe that the lack of clarity of the legislative framework contributes to the complexity and uncertainty in transfer pricing management.

Finally, the study finds that aggressiveness of the revenue authority is a factor affecting tax compliance. Aggressiveness of the tax authority has the potential effect of increasing tax compliance. This study finds that ZRA is not aggressive in conducting compliance audits on the mining enterprises. Experts say comparables that are critical elements in transfer pricing are very difficult to find in Zambia.

In view of the foregoing findings, experts suggest Zambia should reassess whether a transfer pricing policy grounded purely on the arm's length principle is sustainable given the implications of such a policy at management level.

6.4 Conclusion

The findings of this study bring to light important aspects about transfer pricing management in Zambia. The country like other resource rich developing countries is exposed to transfer mispricing conducted by MNEs operating in the critical sector of mining. This exposure is to the extent of an eroded tax base where profits are shifted away from the country to other jurisdictions depriving the country of much needed revenue for development.

The study finds also that the country has no capacity to manage a transfer pricing policy based on the arms' length principle. This is notwithstanding the efforts and progress that has been made to curb the vice. Transfer pricing is resource intensive, the application of its concepts are constantly and rapidly changing to catch-up with changing world business commence. For as long as the legal framework remains anchored on the ALP, countries, especially developing countries will always play catch-up to these MNEs because of the speed with which they can change practices that cannot match that of governments including the government of Zambia. The efforts in minimizing the leakages the country is making are acknowledged in the short to medium term but in the long term Zambia should look towards a method of managing transfer mispricing that is less resource intensive, predictable and easy to implement. This will however, require international cooperation since transfer pricing is mainly about international transactions. The cooperation may not be guaranteed but to have this on the table is to have hope that perhaps posterity will have a system that is simple and cost effective for ease of administration. In the final analysis, Zambia has no capacity to manage transfer mispricing in the current set-up.

6.5 Policy recommendations

In view of this study, the following recommendations are made to address the problem of tax-noncompliance in the area of transfer pricing, not just in the mining sector but other sectors of the economy as well, wherever there are MNEs. The study hereby makes two fold- recommendations in the short to medium term and long term.

1. In the short to medium term, the government should improve transfer-pricing capacity in the country. Capacity needs to be build first in the ZRA in terms of training and skills and access to databases. In addition, ZRA capacity alone may not be as helpful; this capacity needs to improve in other agencies of the country including, MMMD, MOF, the Courts, NPA. Transfer pricing disputes are more likely to end-up in court;
2. Explore complementary tax avoidance measures such as capping management fees. These measures will help safeguard the tax base and reduce the transfer pricing monitoring burden;
3. Establish a legal framework for APAs. There is currently no provision for companies to request advance-pricing agreements;

4. Implement BEPs action 15 by ratifying the multilateral Instrument (MLI) on treaty abuse; and in the long term;
5. Work with regional groupings such as SADC to explore formulary apportionment or parts thereof to reduce complexity and compliance costs.

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APPENDICES

Appendix 1

Online survey questionnaire cover note

Dear respondent,

**RE: SURVEY OF FACTORS AFFECTING TAX COMPLIANCE WITH RESPECT TO
TRANSFER PRICING IN ZAMBIA.**

I am a Master of Science Degree (MSc.) candidate at the University of Zambia (UNZA). I am conducting a study on factors affecting transfer pricing in Zambia in the context of tax. I am particularly looking at Zambia's Mining industry. This study is in partial fulfillment of the requirements for the award of the said degree. You have been sampled because of your knowledge of transfer pricing issues in the country.

The survey responses will be treated with utmost confidence and the study findings will be reported in aggregated format and will solely be used for academic purposes.

Please complete this 10-minute survey and if you have any questions relating to the survey, please contact me, Robby Litho on 0961751595 or email: robbielitho@gmail.com.

Thank you in advance for your participation.

Robby Litho

APPENDIX II

Questionnaire

Section A – Respondent profile

1. Gender

Mark only one oval.

- Male
- Female
- Other: _____

2. Indicate your appropriate age bracket

Mark only one oval.

- Below 30 yrs.
- 30 yrs. < Age < 40 yrs.
- 40 yrs < Age < 50 yrs.
- above 50 yrs.

3. Kindly indicate your highest level of academic qualification

Mark only one oval.

- Certificate
- Diploma
- M.Degree
- Doctorate

4. In relation to transfer pricing in the context of tax and the mining sector in Zambia, you are: *

Mark only one oval.

- An employee in the tax department of a mining enterprise
- A consultant in an independent accounting firm
-

Inspector of taxes for Zambia Revenue Authority

5. How long have you been working on transfer pricing issues? *

Mark only one oval.

- Experience less than 5 years
- 5 years < experience < 15 year
- 15 year < experience < 20 years
- Experience above 20 years

6. Do you exclusively work on transfer pricing issues in relation to tax in your organization?

*

Mark only one oval.

- No
- Yes

Section B – Transfer pricing

7. How important are transfer-pricing issues in Zambia? *

Mark only one oval.

- Very important
- Quite important
- Not important

8. Transfer pricing documentation requirements needed to justify an arm's length pricing structure to Zambia Revenue Authority are very onerous. *

Mark only one oval.

- SD
- D
- N
- A
- SA

9. What area of the transfer pricing legal framework in Zambia would benefit from improvement? *

The advantage of establishing general principles in the primary law and more detailed specific rules in secondary law is the flexibility for future updates.

Mark only one oval.

- Primary legislation – income tax act
- Secondary legislation – transfer-pricing regulations
- Supplementary legislation – transfer pricing documentation rules

10. In what form is transfer pricing documentation most likely kept in Zambia? *

Mark only one oval.

- Text documents (e.g. Word, PDF)
- Spreadsheets (E.g. excel)
- Integrated technology
- Other: _____

11. The mining enterprises operating in Zambia's mining sector have transfer-pricing policies covering all inter-company transactions always readily available.*

Mark only one oval.

- SD
- D
- N
- A
- SA

12. How easy is it to identify a comparable arm's length transaction in Zambia? *

Mark only one oval.

- Very difficult
- Difficult
- I do not know
- Easy

Very easy

13. Tax risk is the highest priority in driving transfer-pricing policies in the mining sector in Zambia. *

Mark only one oval.

- SD
- D
- N
- D
- SA

14. How likely is a mining enterprise to consider an advance pricing agreement in Zambia? *

An Advance Pricing Agreement (APA) is a procedural agreement between one or more taxpayers and one or more tax authorities that aims to avoid any transfer pricing disputes, by determining in advance a set of criteria to apply, within a specified period, for specific cross-border controlled transactions, to ensure their compliance with the arm's length principle.

Mark only one oval.

- Possible
- Likely
- Almost certain

15. What do you consider would be the most controversial area of permanent establishments in Zambia? *

Mark only one oval.

- Attribution of profits
- Sales agents and/or commissionaires
- Services PES
- Short-term business travelers
- Seconded employees
- Intra-group cloud services
- Challenges to preparatory/auxiliary activities

- Limited-risk manufacturing models
- Subcontracting arrangements

16. To what extent do you agree with the following statements about the operations of mining enterprises in Zambia? *

Mark only one oval per row where: 1 is strongly disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is Strongly Agree.

#	Statements on internal operations	1	2	3	4	5
1.	Vertically integrated					
2.	Has sister operating subsidiaries outside Zambia					
3.	Most of the business in terms of revenue is with sister subsidiaries outside Zambia					
4.	Most of the business in term of expenditure is with sister subsidiaries outside Zambia					

17. Do you think the OECD model and or the UN model and the guidelines thereof are adequate to deal with transfer pricing challenges facing Zambia as a developing country?

*

Mark only one oval.

- Adequate
- Not adequate

18. Which alternative to the arm's length principle would you recommend Zambia should focus on in the mining sector? *

Mark only one oval.

- Formulary apportionment Safe-harbour regimes
- Advance Pricing Agreements
- The Sixth method
- Hybrid method between formulary apportionment and arm's length principle
- Other: _____

19. What other factors do you think affect compliance to transfer pricing laws and regulations as regards tax in the mining sector in Zambia?

20. When determining a transfer price for internal transactions, which areas do you consider that Zambia Revenue Authority will likely question? *

Mark only one oval per row. [Where: 1 is Possible, 2 is likely, 3 is Almost certain.]

#	Statements on risk areas	1	2	3
1.	Commissions			
2.	Head office expense allocation			
3.	Information technology expenditure			
4.	Interest expenses allocation			
5.	Interest paid on intra-group loans			
6.	Intragroup-group transfer of technology and other intangibles			
7.	Management and Consultancy			
8.	Permanent establishments			
9.	Research and Development			
10.	Royalty expenses and evaluations			

#	Statements on risk areas	1	2	3
11.	Hedging & similar financial instruments			
12.	License Fees			
13.	Franchise Fees			
14.	Forward contract sales			

21. In terms of setting a transfer price for internal transactions, which areas do mining enterprises in Zambia often find hardest to defend when challenged?*

Mark only one oval per row. [Where: 1 is Possible, 2 is likely, 3 is Almost certain.]

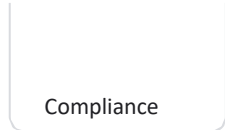
#	Statements on risk areas	1	2	3
1.	Commissions			
2.	Head office expense allocation			
3.	Information technology expenditure			
4.	Interest expenses allocation			
5.	Interest paid on intra-group loans			
6.	Intragroup-group transfer of technology and other intangibles			
7.	Management and Consultancy			
8.	Permanent establishments			
9.	Research and Development			
10.	Royalty expenses and evaluations			
11.	Hedging & similar financial instruments			
12.	License Fees			
13.	Franchise Fees			
14.	Forward contract sales			

22. What is the likelihood that a Mining enterprise in Zambia will use any of the following arm's length pricing methods? *

Mark only one oval per row. [Where: 1 is Possible, 2 is likely, 3 is Almost certain.]

#	TP method	1	2	3
1.	Comparable uncontrolled price			
2.	Resale price			
3.	Cost plus methods			
4.	Transactional Net Margin Method			
5.	Transactional Profit Split Method			

Section C



23. To what extent do you agree with the following statements on transfer pricing compliance costs in Zambia with reference to tax? *

Mark only one oval per row. [Where: 1 is strongly disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is Strongly Agree]

#	Statements on transfer pricing compliance costs	1	2	3	4	5
1.	Zambia Revenue Authority compliance audits are very expensive to the enterprise.					
2.	The costs involved in documenting transactions are very high.					
3.	The cost is a direct consequence of the arm's length principle on which recommended methods are based.					
4.	The cost of databases (e.g. TP catalyst) used for analyses are too high for developing countries.					
5.	Consultancy services are very expensive.					
6.	Vacancies in transfer pricing are very difficult to fill.					
7.	It is very expensive to train a practitioner and keep them abreast with changes in practice.					

#	Statements on transfer pricing compliance costs	1	2	3	4	5
8.	There is very little awareness among stakeholders leading to protracted processes that make it expensive for all stakeholders.					
9.	The current income tax penalty regime for non-compliance is not a deterrent enough for would be offenders.					

24. To what extent to you agree with the following statements about the complexity of transfer pricing from a Zambian perspective. *

Mark only one oval per row. [Where: 1 is strongly disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is Strongly Agree]

#	Statements on Transfer pricing complexity	1	2	3	4	5
1.	Existing regulatory framework lacks clarity and gives rise to uncertainty.					
2.	The level of complexity in pricing methods based on the arm's length principle(comparability adjustments, functional analysis. etc.) is very high.					
3.	The level of digitization of the world economy has further complicated transfer pricing.					
4.	Changes in practices are becoming more and more rapid.					
5.	The borderline between lawful and fraudulent transfer pricing is always not clear.					
6.	There are different business approaches that can lead to different tax outcomes.					

25. To what extent do you agree with the following statements about the aggressiveness of the Zambia Revenue authority in conducting transfer pricing compliance audits on Mining enterprises? *

Mark only one oval per row. [Where: 1 is strongly disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is Strongly Agree]

#	Statements on ZRA aggressiveness	1	2	3	4	5
1.	A ZRA audit always includes valuable taxpayer education that helps in future compliance.					

#	Statements on ZRA aggressiveness	1	2	3	4	5
2.	Transfer pricing audits always end up in huge assessments.					
3.	Transfer-pricing audits always end up as media items.					
4.	Voluntary disclosures always follow in years after audits.					
5.	Frequency and volume of internal transactions always trigger audits					
6.	Transfer pricing tax inspectors always exhibit high levels of professionalism.					
7.	Every big mine has had a transfer pricing compliance audit within the past 5 years.					

THANK YOU FOR YOUR PARTICIPATION