TRANSFER PRICING APPLICABILITY: PERCEPTIONS OF THE TAX PROFESSIONALS

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Abstract

Recently, transfer pricing (TP) regulation was introduced in Jordan for the first time in the country's history (Income and Sales Tax Department [ISTD], 2021). This research evaluates the overall awareness of tax professionals on TP and its applicability in the early stage of its implementation. This is mainstream accounting research that adopts the quantitative research approach to collect data. In this context, a research questionnaire consisting of 29 items was designed and distributed to TP specialists to investigate four key aspects of TP applicability and impact. The results of the study revealed that the majority of respondents have a good level of understanding of the TP regulation and the concept itself. In terms of the applicability of TP, the results revealed that less experience in how to implement the TP regulation has been gained so far due to insufficient training. It was also indicated that digitalized systems have a significant role in filing TP transactions efficiently. According to the tax professionals' perceptions, TP has been shown to have a possible influence on lowering the overall tax burden and tackling tax evasion, which leads to increased compliance with the tax law. Statistically, it has been revealed that the perceptions of the tax professionals in Jordan towards the awareness, applicability, and implementation of the TP regulation were not significantly differentiated according to their demographical and professional characteristics. Finally, this research concludes with practical implications and some recommendations for future studies.

Keywords: Transfer Pricing, Intercountry Business, Tax Practitioners, Tax Regulation, Jordan

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1. INTRODUCTION

In recent years, the importance of transfer pricing (TP) has grown significantly, and government regulations are being established and implemented to address and combat income-shifting issues in countries that engage in intercompany transactions. According to Sebele-Mpofu et al. (2021), the multinational enterprises (MNEs) abuse of TP is one of the issues that allow tax evasion and avoidance. Since the 1930s, the concept of TP was adopted by many tax systems. Subsequently, in the 1980s, the United States took the lead in establishing and developing the first TP guidelines proposals which eventually became regulations in 1994. Afterwards, the demand for TP consultation services expanded (Deloitte, 2021). Internationally, there are no generally accepted principles/practices to be applied to TP transactions. The Organisation for Economic Co-operation and Development (OECD) is considered a leader in understanding and assisting the governments of each country with TP concerns. In this context, the OECD published its first Guidelines on TP in 1995 (which were then updated in 1996, 1997, 1998, 1999, and recently 2009) for the MNEs and tax administrators to provide guidance on the application of TP and the evaluation of its disputes (OECD, 2010). According to the OECD (n.d.)[1], 73 countries worldwide have released national regulations that reflect TP guidelines established by the OECD.

OECD (2006) defines TP as "a price, adopted for book-keeping purposes, which is used to value transactions between affiliated enterprises integrated under the same management at artificially high or low levels in order to effect an unspecified income payment or capital transfer between those enterprises" (p. 150). Technically, TP under the "arm's length" criterion is used in the international taxes to allocate earnings to different units of an MNE and to allocate taxable rights to the jurisdictions concerned (Schön, 2012). In terms of the TP's usefulness to businesses, Bhasin (2019) stated that profitability, taxation, goal congruence, performance evaluation, examining international trade in depth, and shifting of profits can be achieved through the implementation of TP. However as mentioned by Valentiam Group (2021), there are five non-technical challenges faced by TP practitioners which include: balancing compliance requirements with the expense of complying with them; keeping track of the TP's operational aspects; ensuring that the TP system adheres to local and international TP principles and requirements; considering whether to centralize or decentralize compliance with TP, and evaluating the COVID-19 pandemic's impact on TP and how to respond to the pandemic's challenges. According to Koutoupis et al. (2022), tax and COVID-19 were the most negatively affecting factors in the hotel corporate financial performance in Europe. In addition to these challenges identified by Valentiam Group (2021), utilizing technology in TP-related transactions is still challenging evidenced by the limited use of information technology for international TP management (Hemling et al., 2022).

It could be stated that the distribution of income as well as the average level of income in a developing country is a crucial factor for social well-being (Selimi et al., 2022). In Jordan, revenue from the income tax is considered a material source of governmental income as it is a constituent of 21% (JOD 1.180 billion, this equals USD 1.67 billion) of the total tax revenue from different internal sources in 2021 (i.e., sales tax, customs, income tax, and taxes on ownership transfer — for details, see Ministry of Finance, 2022). For the year 2021, almost 68% of the income taxes were collected from the shareholding companies including those with international or regional branches (such as banks and industrial companies). According to Sebele-Mpofu et al. (2021), developing countries are claimed to suffer the most from the negative impacts of TP manipulation. Nevertheless, in Jordan, TP regulations were not taken into consideration until June 7, 2021, when the government introduced TP Regulation No. (40)/2021.

As a taxpayer, certain obligatory requirements associated with the application of TP such as compliance with specific reporting requirements (including timeliness), documentation, and disclosure-related forms need to be encountered, which in turn; might be difficult to understand as well as fill. And, because Jordan is implementing the TP regulation as a developing country, tax authorities will be concerned about a variety of issues, including whether or not the TP policies are compatible with Jordan's tax system. Additionally, due to the businesses' pressure to raise their wealth and because TP can allow this, illegal practices may occur that can be costly and difficult to detect. According to Amidu et al. (2019), taxpayers (mainly corporate) may use both TP and earnings manipulative activities to aggressively reduce their tax liabilities. Thus, from the current research perspective, implementing the TP regulation will be challenging.

According to the Jordanian Income and Sales Tax Department (ISTD, 2021), the TP regulation was introduced to eliminate the opportunities for transactions being undertaken by related parties with no code of conduct. Therefore, this legislation is seen as regulating transactions relating to TP between taxpayers, their related parties, and the tax authorities. In this context, it is hoped that this legislation will be applied efficiently by providing well-trained employees with proper competencies from all relevant parties (i.e., taxpayers' employees, tax advisory experts, and tax authorities). Accordingly, this study came to assess the status quo with regard to the possibility of applying TP in Jordan at this early stage of its implementation, by investigating the perceptions of the tax professionals in Jordan. In specific, this research addresses the following research questions:

RQ1: To what extent do Jordanian tax professionals aware of the TP concept and the relevant regulations recently released by the tax authorities in Jordan?

RQ2: How can the Jordanian TP regulation be characterized in terms of its comprehensiveness, ease to use, accuracy and reliability, and usefulness?

[1] On June 9, 2022, the OECD published updated information about Transfer Pricing Country Profiles, which in turn; indicate to what extent the rules in these countries follow the OECD Transfer Pricing Guidelines. For further details, see https://www.oecd.org/tax/transfer-pricing/transfer-pricing-country-profiles.htm

RQ3: From the perspective of the tax professionals does the TP regulation has an impact on organizational tax compliance and tax evasion practices?

RQ4: Are there significant differences existing between the Jordanian tax professionals' perceptions towards the TP concept, regulation, and its impact due to their demographical and professional characteristics?

This research adds value to the literature by providing empirical evidence from the emerging business environment (i.e., Jordan). In particular, the current research explores the awareness of tax practitioners in Jordan regarding the TP concept and regulation, and criticizes the tax professionals' perceptions towards implementing the regulation in Jordan "in its early stage of implementation".

The remaining parts of this paper are structured as follows. Section 2 reviews the previous relevant literature. Section 3 presents TP regulations in Jordan. Section 4 describes the research methodology and method applied in the current study. Section 5 provides the research results and discussion. Section 6 presents conclusions and illustrates recommendations along with the limitations of this study.

2. LITERATURE REVIEW

It has been noted that there is limited literature on TP in general with very little empirical research conducted specifically in developing countries, mainly in the Middle East and North Africa (MENA) region. Through examining research in accounting, public finance, and tax disciplines, the concept of TP has been examined to gain multiple perceptions of its applicability, challenges, and other technical and organizational aspects. To the best of the authors' knowledge, this is the first field study on TP being implemented in Jordan.

Among the earliest studies conducted on regulating TP, Sikka and Willmott (2010) highlighted the significance of TP to multinational firms' transactions, as it provides numerous opportunities for corporations to minimize taxes, thus increasing their wealth through setting TP over goods and services and allocating them to a specific geographical jurisdiction depending on their tax-rates. But despite that, TP can be abused leading to tax evasion in case of fraudulently "shifting profits from high to low tax jurisdictions through increasing costs in the former and income in the latter" (PwC, 2021, p. 15). According to Sikka and Willmott (2010), the establishment and emendation of the TP regulations involve many specialized parties including the government, lawyers, accountants, and multinational firms (OECD and NGOs) that collaborate to select the best methods to be used for calculating the prices and to detect any loopholes that facilitate opportunities for manipulation. However, the marshaling of TP for tax evasion is extremely challenging and costly to detect especially with the increase in global trading, which explains the fact that developed countries face more difficulties with TP practices. Sikka and Willmott (2010) suggested the creation of a framework that in turn would place a great emphasis on the politics of TP as it would shed light on the main challenges caused by the manipulation of TP and assist in the application of the regulations in an effective manner.

Holtzman and Nagel (2014) introduced the concept of TP as a wider perspective and how globalization has added new complexities and challenges to managing TP, specifically in terms of establishing and implementing supportable policies for the purposes of monitoring the company's transactions. Moreover, their study investigated the application of strict documentation requirements and advanced audit practices along with the setting of significant penalties for non-compliance. Holtzman and Nagel (2014) focused on the arm's length principle which in short implies that TP between related parties must be consistent with TP that would be set between unrelated parties, and its role in identifying the most appropriate TP method. In the same context, an Advance Pricing Agreement program is suggested as one of the solutions for the continuous TP disputes in which it seeks an agreement between the Internal Revenue Service (IRS) and the corporation which states that once the corporation (taxpayer) files its tax return consistently, the IRS will not attempt a TP adjustment for a covered transaction. According to the IRS (2013), this contract's arrangement lightens the burden of compliance by "providing the corporation more confidence in their TP methods". Holtzman and Nagel (2014) confirmed that there is an increase in challenges faced by multinational companies and the insistence on the need for tax specialists to develop TP policies that are aligned with the company's overall tax structure. Nevertheless, Klassen et al. (2017) confirm that firms assessing TP success using the goal of tax minimization have more experienced personnel, more well-funded internal tax departments, and more resources devoted to tax planning.

In an attempt from a developing country, Amidu et al. (2019) examined how TP and earnings management influence the tax avoidance of multinational companies (MNCs) operating in developing countries (in this study, the case of Ghana). Tax avoidance mechanisms result in loss of revenue which in turn; hinders the ability of the government to undertake its social and economic responsibilities. MNCs seek to achieve the goal of global tax minimization and profit maximization by embracing the benefits of low tax rates and tax-free policies of the host country. According to Amidu et al. (2019), TP is the main mechanism that multinational firms use for their profit-shifting practices which result in tax avoidance. Furthermore, Amidu et al. (2019) examined the relationship between TP and tax avoidance in Ghana's non-financial multinational firms from 2008 to 2015. The results of the study revealed that TP is on average 53.49% and the firm with the maximum TP recorded 80% manipulation of transfer prices for tax avoidance. Ghanaian multinational firms use both TP and earnings manipulative activities to aggressively reduce their corporate tax liabilities. Amidu et al. (2019) found that corporate tax avoidance is positively and significantly correlated with asset tangibility, sales growth, and age while at the same time, it is negatively and significantly associated with leverage. It has been also concluded that the sensitivity of tax avoidance to TP decreases as firms increase their earnings management.

As mentioned by Choi et al. (2020), tax-motivated foreign direct investment (FDI) may entail inefficient internal production but may benefit consumers as a result. They argued that tax competition between two countries can play a role in the interplay with TP regulations. In specific, Choi et al. (2020) examined how the MNE reacts to TP regulation and corporate taxation in its home country. They argued that more efficient monitoring will lower the maximum TP that will be optimal for the MNE. In particular, if Country 1 selects a relatively high tax rate to allow Country 2 to undercut its tax rate, given the subgame perfect equilibrium of the game. If Country 1 is willing to let its own firm set up a subsidiary in Country 2, and if the regulation is too negligent, tax competition leads to the "race to the bottom" and eliminates any incentive for tax-motivated FDI. Choi et al. (2020) explored the interplay between MNEs' incentives to manipulate an internal transfer price to take advantage of tax differences across countries and the implications of TP regulation as a countermeasure against such profit shifting. They found that tax-motivated FDI may entail inefficient internal production but could benefit consumers. Tax-motivated FDI by the MNE has spillover effects that reduce tax revenue from other final-good producers as well as the MNE. In such a case, Choi et al. (2020) argued that they can uncover a novel mechanism for input foreclosure when the input market is also imperfectly competitive.

Sebele-Mpofu et al. (2021) investigated the strategies being employed by MNEs to minimize their tax burden in developing countries. It has been argued that understanding the motives and strategies is fundamental in tax policy creation and improvements that can effectively respond to TP. Sebele-Mpofu et al. (2021) employed the interpretivist research philosophy through the use of in-depth interviews with tax professionals (including tax officers, tax consultants, and Ministry of Finance Officials). The study concluded that amongst the TP schemes used by MNEs in Zimbabwe, the predominant one was the use of service fees. In the same vein, Rogers and Oats (2022) argued that TP tax rules are underpinned by the arm's length principle in which criticism of the principle itself has grown and there have been increasing calls for change. The study employed the qualitative approach drawing on Bourdieusian concepts where attention was given to exploring the views of senior TP professionals in the UK and the US and considering how their views and TP practices have changed over a period of field disruption. The study found that for the longitudinal study, the senior TP professionals show a degree of adaptability to the use of the arm's length principle, which continues to dominate.

In a developing business environment, Adeyeye et al. (2022) examined the effectiveness of the TP regulations of 2018 and tax compliance among Nigerian companies. The study mainly aimed to examine how effective were the TP regulations in curbing tax evasion through the TP scheme. The population of the study consisted of the staff of the Federal Inland Revenue (FIR) service in Lagos State who was involved in the operation and implementation of TP regulations, whereas the sample of the study was 151 staff randomly selected from the population. Adeyeye et al. (2022) adopted a survey approach by using a structured questionnaire to obtain primary data. The result of the inferential statistical analysis indicated that TP regulations were effective in curbing tax evasion perpetrated through the TP scheme. It was suggested by Adeyeye et al. (2022) that tax authorities should continue to reinvigorate their strategies in checkmating loopholes exploited by taxpayers to perpetrate tax fraud through TP. In this context, emphasis has been given to continuous training that should be done by the tax authorities from time to time on the various dimensions of the strategies used by unscrupulous taxpayers to evade and avoid tax.

In an attempt to examine the impact of information technology (IT) in TP practices, Hemling et al. (2022) investigated the degree to which MNEs use IT for managing international transfer pricing (ITP). In this study, 21 interviews were conducted with in-house accounting and tax professionals in MNEs. The overall key observation of the study was the limited use of information technology for ITP management, whereas some degree of ITP automation was observed in workflow management to produce TP documentation (Hemling et al., 2022). It has been observed that the limited degree of automation was driven by both system- and individual-level barriers. Overall, Hemling et al. (2022) concluded that management accountants and IT experts dominate the enterprise resource planning (ERP) system design agenda, and the tax departments' ITP tax compliance objective plays a relatively limited role. This, in turn, raises concern about the minimal ability for ITP automation partly because the data segmentation that is prioritized for management reporting does not support the tax departments' needs for legal-entity data segmentation to document tax compliance.

In light of the studies reviewed above, the challenges faced by countries in the event of issuing new legislation related to TP and the extent of market readiness (including practitioners) to implement these legislations in an effective manner were not addressed. Hence, this study sheds light on the perspectives of tax practitioners on these legislations and their applicability. According to the accounting literature, associations are existing between the practitioners' characteristics and their perceptions towards accounting-related practices (e.g., job satisfaction, work-related attributes, ethical environment of accounting and tax profession, and accounting-related e-practices (Hite & Hasseldine, 2003; Moyes et al., 2006; Bobek et al., 2010; Şakar & Ayranci, 2014; Murphy, 2017). Given the fact that this research investigates perceptions of the tax professional in terms of the applicability of TP in Jordan, it is expected that the investigated perceptions are significantly differentiated according to the practitioners' characteristics. Thus, the following research hypothesis is formulated:

H1: The perceptions of the tax professionals in Jordan towards the awareness, applicability, and implementation of the TP regulation are significantly differentiated according to the tax professionals' characteristics.

H_0: The perceptions of the tax professionals in Jordan towards the awareness, applicability, and implementation of the TP regulation are not significantly differentiated according to the tax professionals' characteristics.

3. TRANSFER PRICING REGULATIONS IN JORDAN

In 2013, the OECD and the G20 developed a 15-point Base Erosion and Profit Shifting (BEPS) Action Plan. The Final Report, which was released in 2015, outlines a set of policies that governments should pursue. Jordan has become the 135th country to join the BEPS Inclusive Framework as an Associate Member, pledging to follow the agreed international consensus on tax avoidance. The framework attempts to bring international tax standards closer together and create a more transparent tax environment (EY Global, 2021).

On June 7, 2021, Transfer Pricing Regulation for Income Tax Purposes No. (40)/2021 was released in accordance with the provisions of Article (77/a) of the Income Tax Law No. (34)/2014 which introduced the application of tax-related TP in the Hashemite Kingdom of Jordan for the first time in the history of the country. This regulation states that the MNCs operating in Jordan should do business with relevant parties across borders according to the arm's length principle. In other words, MNCs need to deal with related parties as if they were dealing with an independent third party (KPMG, 2021). According to the General Director of the ISTD the issuance of the TP Regulation No. (40)/2021 aimed to "boost tax fairness and transparency among taxpayers by using a fair pricing method among related parties" (ISTD, 2021). To achieve this goal, on September 16, 2021, Executive Instructions No. (3) were published to clarify the application of TP in relation to income tax purposes which allows taxpayers to follow the regulation inconsistent with the norms outlined in the regulation. Later on, on February 2, 2022, the ISTD released new guidance in accordance with TP Regulation No. (40)/2021 which contains all the essential methods and techniques to complete the country-by-country (CBC) report by answering specific inquiries which relate to the policies and requirements applied to the companies to prepare the report (ISTD, 2022a). Also, a series of workshops were conducted by the ISTD in collaboration with the Public Financial Management and Administration and the private sector to assure readiness to begin implementing the regulation in Jordan's tax system (ISTD, 2022b). As the significance of TP rises in Jordan, additional training and orientations from tax advisory/consultancy firms and other professional accounting firms are expected in order to provide their practitioners with competent knowledge while dealing with TP-related transactions.

Like almost all countries, in Jordan, there are five TP methods authorized in the regulation to be used to determine a fair price for TP-related transactions. These methods include the comparable uncontrolled price method, resale price method, cost plus method, transactional net margin method, and the profit split method. There is no priority in the application for any of the listed methods, however, PwC (2021) confirms that another approach can be applied if neither of the methods mentioned can be executed reliably. Explaining content, the approach of application, in addition to pros or cons of these methods are out of the scope of the current research.

In accordance with the TP Regulation No. (40)/2021, the transfer prices are applied to transactions between related parties, including, but not limited to, the exchange of goods, services, loans, financing, or dealing related to movable and immovable funds. Accordingly, ISTD requires taxpayers (either corporate or individual) to file yearly all information related to transactions with intercountry-related parties that are valued at JOD 500,000+ (nearly USD 706,200). Through the Jordanian Online Tax Return System, the targeted taxpayer should submit the required TP information under the following two subsections[2] (ISTD, 2022c):

1) Disclosure of information about transactions between related parties/persons;
2) Country-by-country (CBC) report.

Accordingly, there are three different types of documents to be submitted to the tax authorities. These are:

1) Disclosure form that is submitted in addition to the tax return (end of April each year);
2) A local file that is submitted on December 31 of each year; and
3) Finally, notify the tax authorities in Jordan that the CBC report was submitted to the parent entity's tax authorities (e.g., if the headquarter is located in the UK the CBC report will be submitted to His Majesty's Revenue and Customs (HMRC)[3] in the UK).

Assessment of the above-mentioned detailed requirements (as described by accessing the Online Tax Return System) is out of the current research scope. However, the general applicability of the TP requirements is considered in this research.

4. RESEARCH METHODOLOGY

According to Chua's (1986) classification, this is mainstream-critical accounting research. The current research tends to present criticism of the TP practices in Jordan through presenting critically-based questions to the targeted respondents as well as presenting our critical views. In order to answer the research questions addressed in this study, a questionnaire was designed based on relevant literature on tax systems and TP surveys (Alghamdi & Rahim, 2016; KPMG, 2017[4]) to gather primary data from the tax professional practitioners towards the applicability of the TP regulation in Jordan.

For the purpose of this study, the research questionnaire adopted in this study consists of two parts: 1) demographical data of the respondents (respondent's type, age, gender, educational background, professional qualification, and experience); and 2) questions related to collecting

[2] Under each subsection, specific information need to be submitted. For example, disclosure of information about transactions between related-parties/persons should include three parts: 1) related party name, type, nature of relation, percentage of ownership %, HQ location, country of establishment, country of residency, original owner, beneficiary owner, gross revenues, gross expenses, net income/loss, and void/amendment of items; 2) related party name, type, nature of relation (business activities), total purchase/sales of goods, provided/received services, sales/purchase of PPE, value of commercial representative activities, leases transactions, R&D financing, licensing and franchise agreements, value of financing the loans/owners' contributions [in cash or noncash items], TP applied method, disposal/exchange value (noncash) — presented as free of charge item, and disposal/exchange value (noncash) — presented as noncash/tangible item; 3) business restructuring information for the multinational group or the taxpayer (if any). Other detailed information should be presented under CBC report, which in turn, should be submitted by the parent company at the HQ location/country.

[3] The tax authority of the UK government.

[4] The Questionnaire on General Transfer Pricing Matters was designed by KPMG Luxembourg in 2017. This questionnaire aims to perform a high-level self-assessment on whether the business entity is prepared with respect to changes in the tax landscape (mainly when it relates to transfer pricing). The questionnaire covered six concerns, which includes: intercompany agreements, documentations' requirements, CBC reporting, reflection of the underlying economic situation, intra-group financial activities, and permanent establishments.

perceptions of the professional practitioners towards four key aspects related to the TP regulation and practice in Jordan. In total, 29 questions have been structured to cover the following aspects: awareness of TP; applicability of TP; evaluation of the TP regulation; and perceptions towards implementation of TP regulation and its impact on tax evasion and tax-related transactions.

A well-designed questionnaire is of utmost importance as it affects the willingness and ability of the respondents to provide reliable and valid answers. The reliability of a questionnaire is highly influenced by the data collection technique. A validation test was performed by refereeing the content of the questionnaire by two professional experts. The first one is a tax partner at one of the Big 4 organizations, and the second expert is a university professor specializing in accounting and taxation. Additionally, the reliability of the dependent-variables-related questions was verified by computing Cronbach's alpha coefficient (Cronbach's test). The results of this test show that the coefficient value is 0.874 (should be ≥ 0.70), which means that the questionnaire is reliable enough to measure the tested variables. Table 1 presents the results of the reliability test.

Table 1. The questionnaire reliability test

Cronbach's alpha	*Valid cases*	*Cronbach's alpha based on standardized items*	*No. of items*
0.874	104	0.890	22

Note: n = 104.

To gather the most reliable data, an e-copy of the questionnaire was emailed to specific audiences depending on their demographic characteristics specifically their place of work, job title, and experience, in which the aim was to target tax practitioners that work at one of the Big 4 accounting firms, an independent tax consultancy and accounting firm or a tax employee in private businesses who apply TP regulation. In total 150 e-questionnaires were distributed through emailing the targeted tax professionals, while only 104 questionnaires were received and considered valid for data analysis purposes. In this case, the response rate is 69.33%. In the next section, data analysis results are presented.

5. RESEARCH RESULTS AND DISCUSSION

As previously indicated in the introduction, this research examines the tax professionals' perceptions towards the application of the TP in Jordan. In addition to presenting the respondents' demographical characteristics (i.e., respondent type, age, gender, education, qualification, and experience), this section provides answers to the questions addressed in this study. In specific, descriptive analysis results are presented in relation to the respondents' perspectives on the general awareness of the TP regulation; the applicability of the regulation in Jordan, and the tax professionals' perception of implementing TP and its impact on tax evasion and tax-related transactions, while the multivariate analysis is utilized to examine whether there are statistically significant differences between the tax professionals perceptions in Jordan towards the application of TP due to any of the demographic characteristics.

Results in Table 2 present frequencies and percentages of the respondents' type, age, and gender. It is indicated that almost 35% (36) of the respondents are tax employees in the business sector, while almost 31% (32) are professionals working in one of the Big 4 accounting firms. The remaining findings are shared between tax practitioners at independent local accounting firms (21%) and consultancy/tax advisory firms (13.5%). The results also indicated that respondents between the ages of 20–30 are the most among all other age categories as they represent 40% of all respondents. In terms of gender, males outweighed females by 24 respondents representing 61.5% of the total responses.

Table 2. The respondents' demographical characteristics

Demographics	*Frequency*	*Percentage (%)*
Type		
Professional practitioner — Big 4	32	30.8%
Professional practitioner — Independent local accounting firm	22	21.2%
Consultancy firm — Tax advisor	14	13.5%
Business sector — Tax employee	36	34.5%
Age		
20–30 years	42	40.4%
30–40 years	18	17.3%
40–50 years	22	21.2%
50 + years	22	21.2%
Gender		
Male	64	61.5%
Female	40	38.5%

Note: n = 104.

In addition to the demographical characteristics presented above, Table 3 demonstrates results connected to the respondents' professional-related characteristics. These include educational background, professional qualifications, and years of experience. Overall, the results indicate that the majority of respondents (72%) share the same educational background (Bachelor's degree) and have either less than 5 years of experience or more than 20 years. Almost half of the respondents do not have any professional qualifications, while 44% of them indicated that they have at least one professional qualification (among those suggested in the questionnaire), and only 8 practitioners (7.7%) stated that they have different professional qualifications than those suggested in this study.

Table 3. Educational background, professional qualifications, and experience

Demographics	*Frequency*	*Percentage (%)*
Educational background		
Secondary diploma	1	1.0%
Diploma	0	0%
Bachelor degree	75	72.1%
Postgraduate degree	28	26.9%
Professional qualification		
JCPA, ACCA, CPA, CMA, CIA	46	44.2%
Other qualifications	8	7.7%
No professional qualification	50	48.1%
Experience		
Less than 5 years	30	28.8%
6–10 years	20	19.2%
11–15 years	10	9.6%
16–20 years	14	13.5%
More than 20 years	30	28.8%

Note: n = 104.

Regarding the general awareness of the TP, the results indicate that tax professionals are aware of the concept and its impact on organizations. According to the results presented in Table 4, almost 85% of the respondents are well aware of Jordanian TP Regulation No. (40)/2021 and the conditions that must be met. The results also demonstrated that the respondents have a moderate knowledge of the TP policies established by the OECD. In terms of the level of training and orientation received towards applying the TP requirements, the majority of the respondents (i.e., 63%) indicated that they either did not receive any training or very basic training was delivered. Overall, 40 (38.5%) practitioners stated that they did not receive any training on how to apply the TP regulations, 26 (25%) practitioners stated that they received very basic training, 16 (15.3%) stated that they received moderate training, and only 22 (21.2%) stated that they received intensive training. In this context, only 21% (almost all of them represent the Big 4) of the respondents indicated that they have received intensive training on TP and applying the legal requirements. Overall, these results are contradictory given that the respondents' responses (64%) confirmed that their companies have established internal TP guidelines that guide the tax professionals to implement the national TP regulation and treat business transactions with related parties.

Table 4. General awareness of the TP regulation in Jordan

Code	*Item*	*Mean*	*Standard Deviation*
B.1	I am well aware of the TP concept and its impact on the organization.	2.500*	0.574
B.2	I am aware of the TP compliance requirements recently released by the Tax Authorities in Jordan (TP Regulation No. (40)/2021).	0.846	0.362
B.3	I am knowledgeable of the international TP policies established by the OECD.	2.134*	0.522
B.4	My company has developed an internal TP policy/guideline that guides me to implement the national TP regulation and to treat business transactions with related parties.	0.644	0.481
B.5	During the last four months, I have received professional training and orientation toward applying for the TP requirement.	2.192**	1.166

*Note: n = 104. The scale of measurement is * 3-point Likert scale, ** 4-point Likert scale.*

As for the applicability of the TP regulation in Jordan, based on the results presented in Table 5 a mean of 4.1346 is derived, confirming the consensus on the need for competent and specialist TP practitioners to avoid fraudulent tax-related acts. Moreover, findings (see C.4) imply that the transactions monitoring system will have a significant impact on applying the regulation more efficiently and effectively. This result corresponds to the need of developing the accounting information system (e.g., ERP or any specific purpose "in-house developed" accounting package) in order to ensure tracking of the relevant transactions in compatibility with the TP legal requirements.

In terms of the TP documentation requirements, a mean of 3.538 indicates that respondents agree with the availability of clear documentation guidelines attached to the regulation. In the same vein, the results signify the simplicity of carrying out the comparability analysis on transactions of foreign commerce in order to be able to apply the arm's length principle. These results confirm the validity of TP legislation in enhancing the applicability of such legislation.

Table 5. Applicability of TP regulation in Jordan

Code	*Item*	*Mean**	*Standard Deviation*
C.1	Clear guidelines for the documentation required for TP transactions are available.	3.538	0.869
C.2	In the case of international trade, it is easy to carry out comparability analysis on TP transactions to determine the arm's length range for audit purposes.	3.519	0.824
C.3	Competent TP specialists can help in avoiding/detecting fraudulent acts.	4.134	0.624
C.4	Providing a TP transaction monitoring system will increase the framework's applicability and efficiency.	4.077	0.618

*Note: n = 104. * 5-point Likert scale is used.*

In regards to the evaluation of the TP regulation, three variables were taken into consideration in this study: comprehensiveness and ease to use, accuracy and reliability, and usefulness. Starting with the comprehensiveness and ease to use, Table 6 shows a percentage range between 71.2% and 84.6% which aligns with the respondents' perspectives that TP guidelines and requirements are well-described and easily accessible. However, a disagreement occurs over the respondents' understanding of the TP methods and their conditions as almost 54% support this statement while 46% believe otherwise. This issue should be taken into consideration especially by the ISTD and other concerned authorities to enhance the criteria for defining TP approaches/methods to reach a larger percentage of comprehension.

The majority of the respondents' responses suggest a high level of knowledge of the arm's length principle, as 94 (90.4%) of the total respondents shared the same perspective. This is likewise similar to the fairness of the enforced penalties for non-compliance as 67% of the respondents believe that these penalties are well justifiable and fair.

Table 6. Comprehensiveness and ease to use of TP regulation

Code	*Item*	*Frequency*	*Percentage (%)*
D.1	TP guidelines and related forms are easily accessible.	88	84.6%
D.2	Information and documents required to be maintained are clearly identified.	76	73.1%
D.3	The disclosure requirements applied to the taxpayer are clearly stated.	74	71.2%
D.4	I am familiar with the forms required to be filed (TP tax file).	86	82.7%
D.5	TP methods and their conditions are clearly defined.	56	53.8%
D.6	I am well informed about the role of the arm's length principle.	94	90.4%
D.7	I think the enforced penalties for non-compliance are comprehensible and fair.	70	67.3%

Note: n = 104.

As for the accuracy and reliability, Table 7 presents almost similar results for the three concerns addressed as 78.8% of the respondents agree on using the TP policies as an accurate source of information and that the content of the TP framework assists the respondents in understanding the tax filing system which relates to the existence of a well-informed documentation structure (i.e., TP file, disclosure forms, the master file, and the CBC report) as 75% admit to this statement. In this context, Valentiam Group (2019) confirms that the existence of a well-informed documentation structure enables MNEs to comply with the legislation imposed by the tax authorities, thus decreasing the risk of double taxation and facing penalties due to incorrect or late submission of the required files.

Based on this outcome, and even though the majority of the respondents share the same opinion in regard to the high accuracy and reliability of the TP policy and guidelines, the ISTD should also consider the rest of the results that showed a percentage of 21.2% of respondents do not fully rely on the TP policies as an accurate source of information. This in turn would raise some concerns about the accuracy of the TP policies.

Table 7. Accuracy and reliability of TP regulation

Code	*Item*	*Frequency*	*Percentage (%)*
D.8	The TP policies provide an accurate source of information for me.	82	78.8%
D.9	The content of the TP framework helps me to understand the tax filing system.	82	78.8%
D.10	A well-informed documentation structure is available (TP file, disclosure forms, master file, CBC report).	78	75.0%

Note: n = 104.

Regarding the general usefulness of the TP regulation for the business, the percentages derived varied between 75% and 92.3% as indicated in Table 8.

In total, 78 (75%) of the total respondents believed that the TP regulation plays a significant role in maximizing the firm's wealth which corresponds to 84.6% of the respondents that agree on the fact that optimal resource allocation can be achieved with the use of TP. Also, most of the responses implied that TP addresses the tax confusion with international business as 90.4% approved this statement. Another use of applying the TP policies is that it would increase the adherence to the global principles for responsible tax practice as believed by 92.3% of the respondents. From this use, more confidence will be gained by tax authorities leading to higher tax compliance and thus, a reduced level of tax-related disputes.

Table 8. Usefulness of TP

Code	*Item*	*Frequency*	*Percentage (%)*
D.11	TP plays a significant role in maximizing a firm's wealth.	78	75.0%
D.12	TP addresses the tax confusion with international businesses.	94	90.4%
D.13	Resource allocation is improved using TP.	88	84.6%
D.14	Applying TP policies will increase adherence to the global principles for responsible tax practice.	96	92.3%

Note: n = 104.

This study also assesses TP practitioners' viewpoints towards implementing the TP regulation and its influence on the Jordanian's tax system, as well as whether it addresses tax confusion. Results shown in Table 9 demonstrate the respondents' perspectives on the Jordanian tax system readiness and capabilities to implement the TP regulation and to perform further development on the practice as 73.1% of the total respondents agree with this assertion. Moreover, the results indicated that TP could assist in achieving optimal income-related allocations (revenues and costs) between the subsidiaries and business divisions as 90 (86.5%) of the total respondents confirmed that it has a significant effect in this regard.

The results also indicate that the practitioners strongly believe that the TP regulation is capable of reducing the tax burden as (71%) of the responses resemble and approve of this statement. This result is consistent with the discussions previously addressed which state that TP assists in minimizing tax burden by reducing tax revenue risk on governments (Sikka & Willmott, 2010). Moreover, 92 (88.5%) practitioners agreed that using TP will boost tax compliance by taxpayers which corresponds with earlier results that respondents are well aware of the consequences of non-compliance and approve of their fairness.

Regarding the relation between tax evasion and TP, the results indicate that 86.5% of the respondents believe that TP can be used as a method to reduce tax evasion. As previously noted, tax evasion is extremely costly to detect due to globalization, however, implementing the TP regulation in Jordan may lead to a beneficial impact as it will strengthen investors' trust and confidence in the country's investment environment as reflected by almost 83% of the tax professionals' perspectives.

Table 9. Perceptions towards implementation of TP regulation and its impact on tax compliance

Code	*Item*	*Frequency*	*Percentage (%)*
E.1	The Jordan tax system is capable of implementing and further developing TP requirements in the country.	76	73.1%
E.2	TP provides the optimal allocation of costs and revenues amongst subsidiaries and divisions.	90	86.5%
E.3	TP can reduce the overall tax burden.	74	71.1%
E.4	Applying TP will increase tax compliance by taxpayers.	92	88.5%
E.5	TP can be used as a method to reduce tax evasion.	90	86.5%
E.6	Implementing TP regulation in Jordan will increase investors' confidence in the business environment and thus, will positively impact FDI in the country.	86	82.7%

Note: n = 104.

In this study, multivariate tests were employed to examine the key hypothesis developed in this study (see Section 2). These tests were utilized based on the nature of the data gathered as well as the research question addressed. In general, multivariate testing is used to identify which combination of variations performs the best out of all possible combinations. The utilized statistical methods are used to test the research hypothesis at a significance level of (0.05). Table 10 illustrates the results of the multivariate tests performed in this study.

Table 10. The multivariate analysis tests

Factors	*Dependent variable*	*Type III sum of squares*	*DF*	*Mean square*	*F*	*Sig.*	*Partial Eta squared*
Type	totB	0.433	3	0.144	0.663	0.580	0.052
	totC	2.060	3	0.687	2.623	0.065	0.179
	totD	0.326	3	0.109	1.886	0.149	0.136
	totE	0.219	3	0.073	1.466	0.240	0.109
Age	totB	0.334	3	0.111	0.512	0.677	0.041
	totC	1.830	3	0.610	2.330	0.091	0.163
	totD	0.145	3	0.048	0.841	0.480	0.065
	totE	0.214	3	0.071	1.430	0.250	0.107
Gender	totB	0.722	1	0.722	3.318	0.077	0.084
	totC	0.025	1	0.025	0.094	0.761	0.003
	totD	0.006	1	0.006	0.104	0.749	0.003
	totE	0.090	1	0.090	1.801	0.188	0.048
Education	totB	0.011	1	0.011	0.050	0.824	0.001
	totC	0.101	1	0.101	0.387	0.538	0.011
	totD	0.042	1	0.042	0.733	0.398	0.020
	totE	0.087	1	0.087	1.756	0.193	0.047
Qualification	totB	0.006	2	0.003	0.013	0.987	0.001
	totC	0.133	2	0.067	0.255	0.776	0.014
	totD	0.241	2	0.120	2.090	0.138	0.104
	totE	0.021	2	0.010	0.210	0.812	0.012
Experience	totB	0.971	4	0.243	1.115	0.364	0.110
	totC	2.238	4	0.560	2.137	0.096	0.192
	totD	0.185	4	0.046	0.803	0.531	0.082
	totE	0.309	4	0.077	1.552	0.208	0.147

Note: n = 104.

Based on the statistical results presented above, it could be stated that the perceptions of the tax professionals in Jordan towards the awareness, applicability and implementation of the TP regulation are not significantly differentiated according to the tax professionals' characteristics

(Sig. level > 0.05). Thus, the research hypothesis (*H1*) is rejected and the alternative (null) hypothesis (H_0) is accepted. From the researchers' point of view, this would indicate that the practitioners are sharing the same perspectives, concerns, and challenges regarding the Jordanian TP regulation in its early stage of implementation.

6. CONCLUSION

This study investigated the tax professionals' perceptions of implementing the TP in Jordan. It primarily focused on the tax professionals' understanding of TP, the application of the related rules, and its impact on organizations, tax evasion phenomena, and tax compliance. As stated by previous literature (Borkowski, 1997; Swenson, 2001; Bartelsman & Beetsma, 2003; Cools et al., 2008; Sikka & Willmott, 2010; Holtzman & Nagel, 2014; Amidu et al., 2019; Choi et al., 2020), TP can impose many challenges due to the complexity of the guidelines. For that reason, this research specifically focused on evaluating the TP regulation (in its early stage of implementation) in terms of its comprehensiveness and ease to use, reliability and accuracy, usefulness, and ultimate impact on tax compliance.

Based on the data analysis results, it has been concluded that Jordanian tax professionals are fairly aware of the wide concept of TP and the introduced TP Regulation No. (40)/2021 and its requirements. Furthermore, the responses obtained suggested the availability of well-informed guidelines that were published by the ISTD. On the other hand, other respondents implied that the guidelines provided were not prepared comprehensively due to the lack of knowledge in relation to TP methods to be applied in Jordan. In the same context, it has been significantly indicated that Jordanian companies and tax-services providers have started to develop an internal TP policy to guide practitioners in dealing with TP transactions. However, the majority of respondents have only received an average level of training regarding the application of TP. In this regard, it has been indicated that competent TP specialists have been shown to have a major impact in detecting fraudulent acts. For a more efficient implementation of the TP regulation, respondents necessitated providing a monitoring system to track and observe TP transactions which in turn would improve the applicability of the TP regulation in Jordan.

The findings on the accuracy and reliability of TP policies suggested that the majority of tax professionals relied on the guidelines and framework produced by the tax authorities (i.e., ISTD) to get a more thorough understanding of TP requirements and the tax filing system. In the same context, the tax professionals agreed that TP plays a significant role at the organizational level by maximizing firms' wealth, addressing tax confusion, and providing optimal resource allocation. From the perspective of tax professionals, the implementation of TP will increase adherence to the global principles for responsible tax practice.

This study also examined perspectives of the TP implementation along with its corresponding impact on tax evasion and its relation to tax compliance. Based on the perceptions of the tax professionals, it has been demonstrated that Jordan's tax system is capable of establishing and executing the TP regulation, which in turn, would significantly reduce the overall tax burden as it will increase tax compliance by taxpayers. As a consequence, investors' confidence in the national business environment will grow, which will have a favorable influence on FDI in the country.

Finally, this study revealed that the perceptions of the tax professionals in Jordan towards the awareness, applicability, and implementation of the TP regulation were not significantly differentiated according to their demographical and professional characteristics, this in turn; would lead to an inference that the practitioners have the same perspectives, concerns, and challenges facing the Jordanian TP regulation on its early stage of implementation.

In terms of the practical implications of the current research on the TP practice in Jordan, some recommendations are proposed to enhance awareness of the TP practitioners to gain a proper implementation of the TP regulation. In this context, it is recommended to give special consideration to the current tax system structure and its compatibility with TP regulatory requirements. In specific, this requires consistent monitoring and assessing the frequent tax changes to adapt TP approaches to the tax system established; conducting consistent and intensive training for tax/TP practitioners to increase their TP-related knowledge and skills; conducting seminars to address the overall concept of TP and to assess the risk level accompanied with its application, and further, the ISTD should focus more on providing guidelines that direct practitioners in implementing the most suitable TP method in Jordan.

On the organizational business-related level, attention should be given to implementing the TP transactions monitoring system to efficiently apply the framework. This implies developing some more advanced technologies for TP documentation. As technology can assist practitioners in enhancing their TP expertise in order to perform their tasks more efficiently and effectively.

In addition to the practical implications outlined above, recommendations for future research have also been proposed. Researchers may investigate the relationship between other demographical features of taxpayers and their opinions of the various aspects examined in this study. The following issues are proposed for future investigation in this regard: reevaluating the applicability of the TP regulation after a considerable period of implementation through interviewing senior tax professionals; exploring the influence and variation on tax evasion among intercountry businesses after applying the TP regulation; studying the tax authorities' role in raising awareness among practitioners towards TP; evaluating the correlation between the characteristics of the taxpayers and their perspectives towards the concept of TP in Jordan or the degree of their compliance with the TP regulation and its related policies.

Throughout the study, several limitations were faced. Among these is the limited literature concerning the application of TP in Jordan and the MENA region, which resulted in some challenges in evaluating results revealed in the current study with relevant literature; limited literature with empirical data available to assess the effect of TP on tax evasion and compliance, and the little number of TP practitioners in Jordan, which resulted in gathering only 104 responses from the submitted questionnaire. Finally, the information gathered in this study is solely relevant and restricted to the Jordanian tax context and business environment. As a result, the findings cannot be generalized to other societies. Matching these results with those of other similar societies should be done with caution.

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