Internal Transfer Prices: A Steering Instrument for Value Flows Within the Group

Internal transfer prices are the prices at which services and goods are charged between group-affiliated entities. They steer the economic collaboration between headquarters, plants and sales companies and have a significant impact on profit reporting, liquidity and procurement decisions. For technical buyers, they become relevant as soon as make-or-buy decisions, supply relationships between plants or international sourcing structures need to be evaluated.

As of October 2026 · amplifa-marketplace.ai/en/glossary/interne-verrechnungspreise

Key facts at a glance

01 Internal transfer prices govern price setting between legally independent but group-affiliated entities.

02 Common methods are cost plus mark-up, market price orientation and charging based on reference prices.

03 The arm's length principle and local documentation requirements make transfer prices a tax matter with procurement relevance.

04 A transfer pricing system influences site evaluations, cost driver analyses and make-or-buy decisions.

05 Inconsistent transfer prices distort savings measurement and supplier evaluation within the group.

06 Governance, documentation and regular alignment between procurement, controlling and the tax department are central.

Definition: Internal Transfer Prices

Internal transfer prices are the prices or costing rates at which intra-group deliveries and services between affiliated companies are settled. They form the economic basis for the exchange of services

between plants, development departments, central functions and sales companies. Unlike external supplier prices, they primarily serve internal steering, but are subject to tax requirements.

Distinction from External Procurement Prices

External procurement prices arise from negotiations, tender management or bidder discussions with independent suppliers. Internal transfer prices, by contrast, are set within the group and must withstand the arm's length test for tax purposes. In practice, market prices or cost-based mark-ups are often used as a reference to link the two worlds.

- External: market-based, negotiable, supplier retention
- Internal: tax-compliant, documented, steering-oriented

Typical Use Cases in Industry

Transfer prices are used for intermediate products between production stages, toolmaking services, prototype construction, maintenance services and centrally procured materials. Shared services such as catalogue management or data maintenance are also increasingly mapped via internal transfer rates. For procurement, this is where it is decided whether internal and external sources of supply are genuinely comparable in a price comparison.

Methods and Approach for Determining Transfer Prices

The choice of method depends on the nature of the service, data availability and the tax framework. In principle, a distinction can be made between cost-based, market-based and negotiated approaches. In practice, many groups combine several methods depending on the business model.

Cost-Based Methods

Under the cost-plus method, cost plus a mark-up of typically 3 to 15 per cent is charged. The method is simple to apply, but carries the risk that inefficiencies are preserved through internal pass-through. Regular cost driver analysis helps keep the underlying cost structures plausible.

- Advantage: comprehensible and data-based
- Disadvantage: no efficiency incentive without target cost specifications

Market-Based Methods

Market-based transfer prices are orientated towards comparable external prices, for example from tender management or bid matrix evaluations. Where no market prices exist, price sheet structures or benchmarks serve as a fallback reference. This method strengthens credibility with tax authorities, but requires continuous market observation.

- Strong for standard products with an active market
- Weak for proprietary components and custom-made items

Negotiated and Split-Based Models

For development-intensive services, profits are often split in proportion to the contribution of the entities involved. Such models require clear confidentiality agreements, as business-critical cost data is shared internally. Similar to incentive models for innovation, the incentive mechanism should be set down in writing.

Key KPIs and Steering Variables

Transfer prices can only be steered if their effect is measurable. Relevant metrics relate both to price differences and to the operational performance of internal supply relationships.

Price Difference and Price Deviation

The key metric is the price deviation from the order or from the internal specification, typically less than 5 per cent per year. If internal transfer prices permanently exceed comparable external prices, this creates pressure to act on make-or-buy decisions. Procurement should document these deviations systematically in a savings pipeline.

- Internal price deviation from the external benchmark
- Cost recovery rate of the internal service unit

Delivery and Quality Metrics for Internal Suppliers

Internal supply relationships are also increasingly assessed using parts per million (PPM) and delivery reliability figures. Combined with a Supplier Segmentation Matrix that includes internal plants, it becomes visible which internal sources are genuinely competitive. Slow mover analysis results also show whether small internal order volumes are driving transfer prices disproportionately.

Risks and Controls in Dealing with Transfer Prices

Incorrectly set internal prices distort decisions and create tax and operational risks. Controls must therefore be designed both finance-orientated and process-orientated.

Tax and Legal Requirements

Many jurisdictions impose transfer pricing documentation obligations; specific thresholds and requirements differ from country to country and should be reviewed on a case-by-case basis from a tax perspective. The arm's length principle requires that internal prices would correspond to those between independent third parties. Inadequate documentation can lead to back tax assessments and double taxation.

- Function and risk analysis per entity
- Periodic updating of the documentation

Distorted Decision-Making Basis

If internal prices are set too high or too low, make-or-buy analyses, planning horizon evaluations and site comparisons turn out incorrect. Supply planning and inventory management also suffer if internal upstream products are artificially cheapened or made more expensive. Procurement should therefore explicitly show transfer prices as an input variable in every cost driver analysis and single source management review.

Conflict Resolution and Governance

Disputes between receiving and supplying entities are common. A defined escalation procedure, clear responsibilities and an annual alignment cycle reduce friction. Pilot project with suppliers approaches can also be used internally to test new transfer pricing models with low risk.

Current Developments and Digital Implementation

Transfer prices are increasingly being mapped digitally and more closely integrated with procurement processes. At the same time, global regulatory pressure is raising the requirements for transparency and documentation.

Integration into Source-to-Pay Processes

Modern source-to-pay (S2P) platforms make it possible to map internal and external sources of supply in a single price comparison. Catalogue structure and catalogue management can list internal services alongside external catalogues, which simplifies the comparison. The prerequisites are a sound data basis and uniform item logic in the price sheet.

- Uniform material numbers across sites
- Automatic benchmarking against external quotations

Regulatory Pressure and Transparency

International initiatives against profit shifting are further increasing documentation requirements. Groups are responding with central transfer pricing teams and standardised processes. For buyers, this means: internal price logic must be incorporated early into tender management and bidder discussion strategies in order to avoid later adjustments.

Incentive-Based Development

Increasingly, internal transfer prices are linked to performance incentives, for example for improvements in parts per million (PPM) or lead times. Such incentive models for innovation promote continuous improvement across site boundaries. The prerequisite is a robust, automated measurement of target achievement.

Typical metrics

Metric	Typical value
Price deviation internal vs. external benchmark	typically < 5% *Trigger make-or-buy review for larger deviations*
Cost-plus mark-up rate	typically 3–15% *Depending on depth of value added and risk profile of the entity*
Update interval of the price logic	at least annually *Special adjustment in case of significant cost or market changes*
Documentation coverage of internal service relationships	> 95% *Proportion of transfer relationships with robust documentation*

Practical Example

A mid-sized mechanical engineering company with three European plants charged the services of its central toolmaking department via flat-rate hourly rates. A site comparison showed that internal orders were permanently around 20 per cent above comparable external quotations, without the quality justifying this. Procurement subsequently initiated a cost driver analysis and also tested selected orders externally using a bid matrix.

- Introduction of a Supplier Segmentation Matrix that explicitly includes internal toolmaking capacity
- Switch to cost-transparent price sheets instead of flat-rate hourly rates
- Pilot project with suppliers for two tool families as an external source of supply
- Quarterly alignment between procurement, controlling and the tax department on the price deviation per order

Conclusion

Internal transfer prices are far more than an accounting matter: they determine whether make-or-buy decisions, site comparisons and savings measurement rest on sound figures. Procurement should actively use internal prices as a benchmark variable and systematically track deviations. At the same time, tax documentation obligations must be observed, which should be professionally reviewed on a case-by-case basis. Those who set up governance, data basis and alignment processes properly turn the transfer pricing system from a source of friction into a steering instrument.

Frequently asked questions

? What are internal transfer prices in simple terms?

Internal transfer prices are the prices at which group-affiliated entities charge each other for goods

and services. They serve internal steering and profit reporting. For tax purposes, they must withstand the arm's length test, i.e. correspond to comparable prices between independent companies.

? What methods are there for determining transfer prices?

Commonly used methods are the cost-plus method, market-based approaches using comparable external prices, and negotiated or profit-share-based models. The choice depends on the type of service, data availability and tax requirements. In practice, groups combine several methods depending on the business area.

? How do internal transfer prices affect procurement?

They determine whether internal or external sources of supply appear cheaper in price comparisons. Excessive internal prices can distort make-or-buy decisions and create apparent savings. Procurement should therefore always show internal transfer rates separately in cost driver analyses and tendering comparisons.

? Why do transfer prices have to be documented?

In many countries, tax authorities require comprehensible documentation in order to verify the arm's length principle. Missing or inadequate documentation can lead to back tax assessments. The specific requirements differ from country to country and should be reviewed on a case-by-case basis from a tax perspective.

? What is the difference between transfer price and internal transfer price?

The terms are often used synonymously. Strictly speaking, the transfer price refers to cross-border accounting between affiliated companies, whereas transfer price also covers purely domestic and internal service relationships. In common business usage, the two terms are largely equivalent.

? How often should internal transfer prices be updated?

In practice, an annual review has become established, supplemented by adjustments in the event of significant cost or market changes. Long-term framework agreements often contain adjustment mechanisms, for example linked to material price indices. What is crucial is that price logic and documentation always correspond.

Find the right suppliers on Amplifa

Verified industrial suppliers in Germany, Austria and Switzerland. Describe your requirement and receive comparable offers.

amplifa-marketplace.ai