Synopsis of Principles for the Authorities and Controlled Transactions

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http://dx.doi.org/10.18415/ijmmu.v11i6.5724

Abstract

This paper shows the conclusions about the key elements that authorities and on the other hand the companies of controlled transactions should follow to maximize their utility. Therefore, based on the analysis of the cycle of money are presented significant bullets about the issue of the cycle of money, showing both sides. The conclusions of this paper are about the behavior of the companies that participate in controlled transactions that determine the cycle of money performance. The current paper is descriptive.

Keywords: Regulation Policy; Authorities; Control Transactions; Cycle of Money

Introduction

This paper discusses the issues of the cycle of money, the tax and public policies, using the velocity of escaped savings, and the velocity of financial liquidity (Altman, 2012; Arabyan, 2016; Guardino & Mettler, 2020; Haigh, 2020; Kananen, 2012; Muñoz & Flores, 2020; Ng, 2018; Reeves et al., 2019; Snow, 1988; Williamson & Luke, 2020). This means that the structural economic elements affect the dynamic of any economy and its robustness. Thereupon, are used the equilibriums of the cycle of money to analyze the appropriate conclusions, which are needed about the adequate policies that must be followed by the authorities (Arai et al., 2018; Brownell & Frieden, 2009; dos Santos Benso Maciel et al., 2020; Ewert et al., 2021; Fan et al., 2020; Mackean et al., 2020; Rizzo & Throsby, 2006; Sánchez et al., 2020; Shamah-Levy et al., 2019; Turner, 2010). On the other hand, the same happens for the companies that participate in controlled transactions. Therefore, the authorities and the companies of controlled transactions have opposite roles on many points, but not to all of them. Because, there are mixed savings that serve the tax and public policies, and the same happens in factories and research and development services (Berchin et al., 2019; Biernaski & Silva, 2018; Forson, 2020; Hasselman & Stoker, 2017; Hausman et al., 2016; Islam et al., 2020; Kiktenko, 2020; Kreft & Sobel, 2005; Menguy, 2020; Spiel et al., 2018; Tümmers, 2019).

Literature Review

The contracts and the agreements between the participants of control transactions are those that determine the allocation of profits and losses (Feinschreiber, 2004; Fernandez & Raine, 2019; Jomo &
The contracts and the agreements determine control transactions as the allocation of profits and losses is the key element to avoid tax payments. To the agreements should be mentioned the changes in the contracts. This is the reason why the tax authorities should make periodic inspections (Challoumis, 2018d, 2018f, 2020d, 2021b, 2021i, 2021k, 2022a, 2023x, 2023ae, 2023k, 2023af, 2024d, 2024f). The periodic specification of contracts is important for comparability analysis. These periodic inspections of the companies that participate in controlled transactions are crucial for the arm’s length principle. Then, the determination of the cost sharing depends on the periodic check of companies that are tested parties. The scope of the companies of controlled transactions is to face the issues that are connected with the taxation of their activities (Arbel et al., 2019; Azzone, 2018; Blundell & Preston, 2019; Bowling et al., 2019; Challoumis, 2018c; Daceygier & Laitin, 2014; Davidson, 2020; Dollery & Worthington, 1996; Fronzaglia et al., 2019; Grabs et al., 2020; Jensen, 2020; Jeon et al., 2020; Laplane & Mazzucato, 2020; Mancuso & Moreira, 2013; Nielsen et al., 2019; Oueslati, 2015; Scholvin & Malamud, 2020). Then, the requirements for the companies of controlled transactions with the tax authorities should be in the range of the arm’s length principle (Challoumis, 2018a, 2018c, 2019d, 2019b, 2021j, 2023r, 2023j, 2023ad, 2023t, 2023aa, 2023a, 2024b, 2024h, 2024m, 2024g). Thereupon, the appropriate agreement of the companies of controlled transactions is that which permits them the maximization of their profits in tax environments with low tax rates, and the maximization of costs in economic environments with high tax rates.

Moreover, should be notified that the companies of controlled transactions and the same time the inspections of tax authorities are done under the condition of proportional adjustments. The interpretation of the condition of the proportional adjustments is that the companies that participate in controlled transactions many times don’t have the appropriate data and uncontrolled transactions of similar circumstances to compare and therefore they proportionally adjust their data (Challoumis, 2019g, 2019a, 2021h, 2021g, 2022b, 2023s, 2023o, 2023z, 2023i, 2023l, 2023n, 2023c, 2024l, 2024c, 2024i). This means that if the companies that are tested parties conclude that the profits and losses of companies from uncontrolled transactions are much higher or much fewer, they make a proportional analogy to compare them with their data.

**Methodology**

The current paper is descriptive but for the clarification of the concept is presented the mathematical background. Tax revenues correspond to the savings that the companies could have if the taxes were avoided. The way that these savings are administrated is different from case to case. Then the benefits of the companies could be managed in a completely different way, as could be saved or could be taxed (Challoumis, 2018e, 2020c, 2021c, 2021e, 2021d, 2023v, 2023ai, 2023ag, 2023y, 2023w, 2023m, 2023h, 2023ab, 2023ac, 2024e). The theory of money cycle shows when the savings robust the economy and when the taxes robust the economy. This determination must be a separation of savings into the non-retumed savings (or escaped savings) and the returned savings (or enforcement savings). For the scope of this analysis below are demonstrated the equations which are:

\[
\alpha = \alpha_x + \alpha_z + \frac{1}{\nu} + \alpha_e
\]  

(1)

\[
x_m = m - \alpha
\]  

(2)

\[
m = \mu + \alpha_p
\]  

(3)

\[
\mu = \sum_{i=0}^{n} \mu_i
\]  

(4)

\[
\alpha_p = \sum_{j=0}^{n} \alpha_{pj}
\]  

(5)
The variable of $\alpha$ symbolizes the case of the escaped savings. This means that there are savings that are not returning to the economy or come back after a long-term period. The variable of $\alpha_s$ symbolizes the case that there are escaped savings that come from transfer pricing activities. The variable of $\alpha_t$ symbolizes the case that there are escaped savings not from transfer pricing activities but from any other commercial activity (Challoumis, 2018b, 2019e, 2019f, 2020a, 2022c, 2022d, 2023e, 2023ah, 2023p, 2023g, 2024j). For instance, $\alpha_t$ could refer to the commercial activities that come from uncontrolled transactions. The variable of $\mu$ symbolizes the financial liquidity in an economy. The variable of $\mu$ symbolizes the consumption in an economy. The variable of $\alpha_p$ symbolizes the enforcement savings, which come from the citizens and small and medium-sized enterprises. The variable of $x_m$ symbolizes the condition of financial liquidity in an economy. The variable of $c_m$ symbolizes the velocity of financial liquidity increases or decreases. The variable of $c_\alpha$ symbolizes the velocity of escaped savings. Therefore, the variable of $c_y$ symbolizes the term of the cycle of money (Challoumis, 2019c, 2020b, 2024a, 2024k, 2021a, 2021f, 2023q, 2023d, 2023f, 2023u, 2023b, 2024a). Thereupon, the cycle of money shows the level of the dynamic of an economy and its robustness.

An economy close to the value of 0.5 can face an economic crisis immediately. Results close to this value represent an appropriate index of the cycle of money, revealing an adequate economic structure of society and then the fine distribution of money between the citizens and consumers. The cycle of money to a quantity value is expressed by GDP, which is an expression of $\frac{\partial(GDP)}{\partial(S+I+X)}$ according to $\frac{dx_m}{dm}$ and $\frac{\partial(GDP)}{\partial(S'+I'+M)}$ based on $\frac{dx_m}{da}$. Then, $c_y = \frac{d(GDP)}{d(S+I+X)}d(S+I+X) - \frac{\partial(GDP)}{\partial(S'+I'+M)}d(S'+I'+M)$, formed on $c_y = \frac{dx_m}{dm} - \frac{dx_m}{da}$. Thus, $S$ is the savings, $I$ is the investments and $X$ is the exports. Then, $S'$, is about the savings which are for banks out of the country’s economy, $I'$, is about the investments which are for banks out of the country’s economy, and $M$ is the imports. The cycle of money expresses the GDP as the following one: $Y = S_T + I_T + (X - M)$, or $Y = (S - S') + (I - I') + (X - M)$ or $Y = \Delta S + \Delta I + \Delta X$. According to the theoretical background, for the lost money from the economies, the problem of controlled transactions could be administrated, if an organization could identify the money transitions between the economies, by a comparison of the global economies, by $\Delta S$, $\Delta I$, and $(X-M)$:

$$c_{y_{total}} = \sum_{i=1}^n \sum_{t=1}^m c_{y_{i,t}} = \sum_{i=1}^n \sum_{t=1}^m \left[ \frac{\partial(GDP)}{\partial(S+I+X)}d(S+I+X) - \frac{\partial(GDP)}{\partial(S'+I'+M)}d(S'+I'+M) \right]_{i,t}$$
Then, there are the following basic principles about the cycle of money:

- The citizens, the small and the middle-sized enterprises substitute the services and the property of the companies which save their money and do not invest them or consume it proportionally in the economy. Thereupon, the companies of the controlled transactions are the main cause of the escape savings.
- The escaped savings are responsible for the decline of the economic dynamic of the economy. The key point of escape savings is that the companies of controlled transactions of transfer pricing are responsible for not reentering this amount of money in the market. This situation causes a lack of financial liquidity in an economy.
- The substitution of controlled transactions is not substituted by the citizens and small and middle-sized companies when it is not plausible to offer the same added value to the products and the services. This case happens especially in the instance of factories, in the research centers, etc. Therefore, these cases in the appropriate tax policy should taxed as uncontrolled transactions independently if they participate in controlled transactions (using the fixed length principle).
- The enforcement savings are responsible for the high economic dynamic of the economy. Therefore, investments and consumption are elements that come from the savings of the citizens and the small and the middle-sized companies.
- The velocity of financial liquidity shows how rapidly the economy's robustness grows or declines accordingly. Then is an index for how well structured any economy is.
- The velocity of escaped savings shows how rapidly the non-return savings are lost from the market, or by the lack of investments, or by the lack of consumption.
- The cycle of money represents the condition of the economy. The level of a well-structured tax system, and in general the dynamic of the economy. If this indicator is high then the economy could have high robustness otherwise has low financial liquidity.
- Controlled transactions in the theory of cycle of money are considered not only the cases of transfer pricing but also any kind of administration of profits and losses to avoid taxation.
- Uncontrolled transactions in the theory of the cycle of money are the case of the commercial activity of citizens, small and medium-sized enterprises, factories, research centers, and any kind of commercial activity that cannot be substituted by the companies of controlled transactions.
- The fixed length principle tackles issues subjects like the case cycle of money. But this doesn’t mean that restriction must apply the fixed length principle as the cycle of money is more widely theory which exceeds the transfer pricing scope.

Therefore, it has been obtained that the cycle of money grows when there is a tax system like the case of the fixed length principle which permits the low taxation of uncontrolled transactions and the higher taxation of controlled transactions. Should be mentioned that as uncontrolled transactions are considered the same happens with the cases of the financial liquidity of citizens and the small and middle-sized companies.

**Conclusions**

Enforcement savings are extremely large compared to escape savings where no money leaves the economy, serving its robustness, through the dispersion and reuse of money, resulting in the operation of all economic units, affecting the structure of the economy. This is because its structure and functioning are correct, in line with their interrelation, since an appropriate reuse of money means that the structure of this economy is correct, and vice versa. This presupposes an economic policy based on low taxation of companies that do not engage in controlled transactions, or on companies that do not substitute economic functions of smaller companies that can provide these economic functions, or on an economic system that achieves high savings in the economic system. The money cycle is the evolution of GDP and reflects both the proper structure and the functioning of the economy. Then, neither borrowing from the central bank...
nor interventionist policy is needed, as these are prevented by the regulatory economic policy provided by the money cycle, with the structure of the economy through tax policy. Conclusions about the authorities and the companies that participate in controlled transactions. The taxation of the companies which participate in controlled transactions must be subject to the fixed-length principle. The units which could not be substituted should have lower taxation (i.e. factories, R&D – Research and Development centers).

The taxation of middle and small companies should be very low, and the same happens for the citizens as are considered as small economic units. In general, the wide investments (from the small and middle companies) increase the cycle of money. On the other hand, the compact investments from big-size companies, which substitute for small and middle enterprises decrease the cycle of money. This doesn’t happen for the factories and the R&D centers, which use mixed savings.

The maximization of the utility for the enterprise of controlled transactions is that the companies of controlled transactions should initially aim at economies with high financial liquidity. Then, when these economies become weaker, based on the analysis of the cycle of money, should change economic environments, and transact to these economies that have a higher cycle of money. Therefore, these companies should not stay for a long term in any economy, as the enforcement savings, by their attitude, will be diminished by the increase of the escaped savings. These companies will become monopoly or oligopoly companies as the economies where they are will become weaker. Then the authorities will increase the taxation on them, and if this doesn’t happen then these companies will not have any more profits. Therefore, should change the economic environment to increase their profits.

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