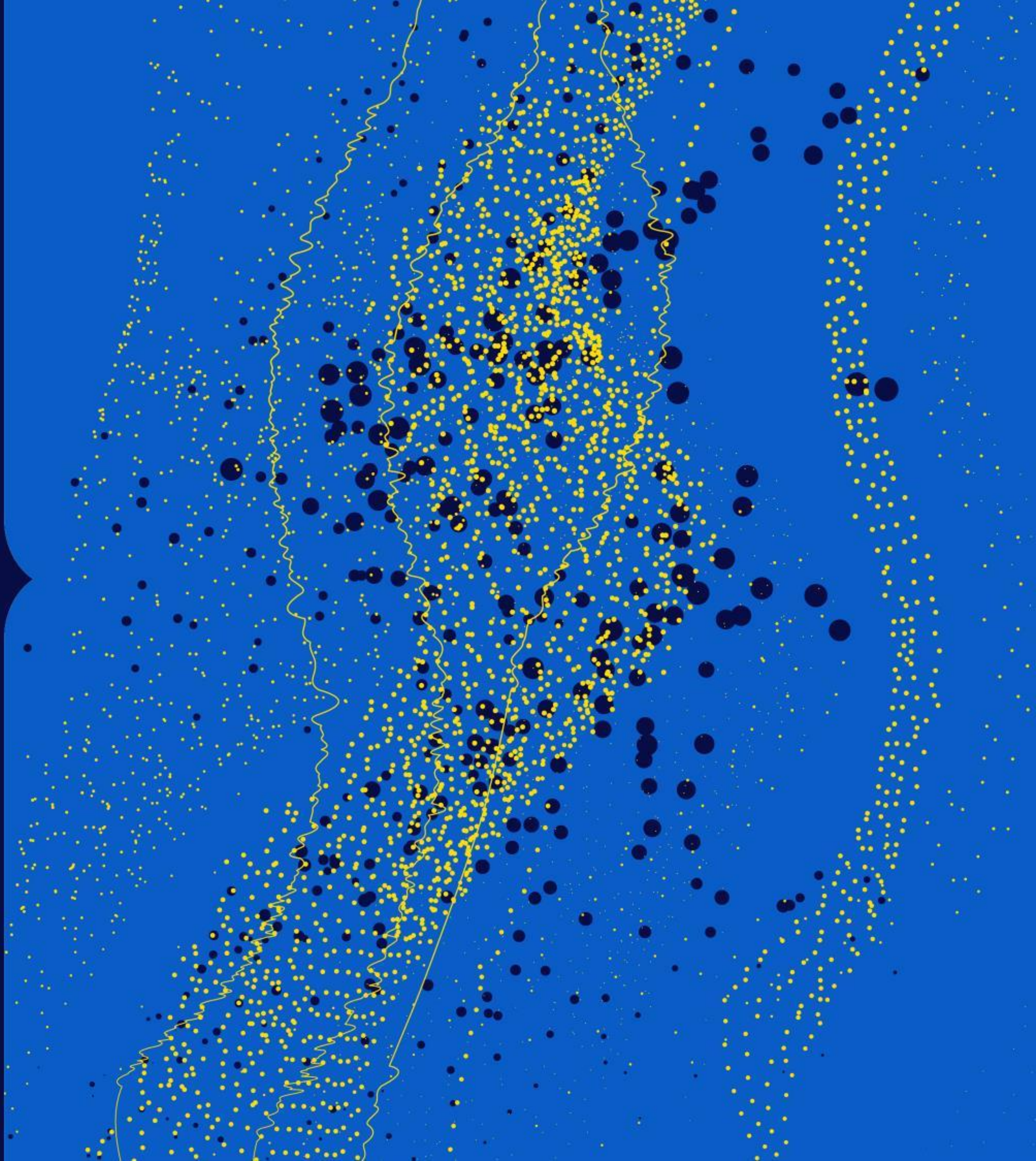
Transfer pricing v Tariff policy + Pillar 1 & 2

Bullet-proof your company in the age of global market uncertainty

Presenter:
Bill Leung
Tax Technical Advisor
8 May 2025



Agenda and time: 1 – 4 pm Vietnam

Time (Vietnam)	Agenda
1.00 - 1.05 pm	**Welcome and opening remarks** **Ms Nguyen Thi Bich Hien** Regional Manager, CPA Australia North Vietnam
1:05 - 1:10 pm	**Housekeeping** **Ms Nguyen Hoang Kim Chi** Event and Member Engagement Manager, CPA Australia North Vietnam
1.10 - 2.25 pm	**Presentation and Panel discussion** **Part 1**: **3 Panel Questions** Topic: US tariffs impact on transfer pricing in Asia and the EU/UK
2:25 - 2:30 pm	**5-minute Break**
2:30 - 3:30 pm	**Presentation and Panel discussion** **Part 2**: **2 Panel Questions** Topic: The US Stance on Pillar 1 & 2 - Global Implications and Strategic Response
3:30 - 3:50 pm	**Q&A**
3:50 - 3:55 pm	**Event survey and CPD**
3:55 - 4:00 pm	**Closing remarks**

HOUSEKEEPING

PANELLISTS:

Kirsty Rockall, Partner, Europe and UK Transfer Pricing Lead, Grant Thornton UK

Ha Tran, Partner, Integrated International Tax, KPMG Vietnam

Tomas Varga, Partner, Tax - Transfer Pricing, PwC Singapore

Travis Qiu, Partner, Greater China Transfer Pricing Leader, EY Greater China

Shahzeb Panhwar, Managing Director, Alvarez & Marsal Australia

MODERATOR:

Bill Leung, Tax Technical Advisor, Policy And Advocacy, CPA Australia

TP v TP + Pillar 1 & 2 - what we will cover

- Introduction
- US Tariffs
- Relationship between tariffs and transfer pricing
- Impact of tariffs on transfer pricing
- Important steps to take in the short and long term
- OECD Pillar 1 & 2
- Pillar 1 & 2 impacts on transfer pricing
- Current status of Pillar 1 and 2
- US rejection of Pillar 1 & 2


U.S. TARIFFS
AHEAD

Introduction

- The US decision to reject Pillar 1 & 2, followed by imposing tariffs on virtually all imported goods globally creates significant economic and business uncertainty for many nations.
- This shock to global trade raises the prospect of a wide range of possible business consequences which has significant transfer pricing (TP) implications.
- During this period, flexibility and professional TP guidance are essential for bullet-proofing your business.

Tariff

[ˈter-əf]

A tax imposed by one country on the goods and services imported from another country to influence it, raise revenues, or protect competitive advantages.

Investopedia

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d`Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

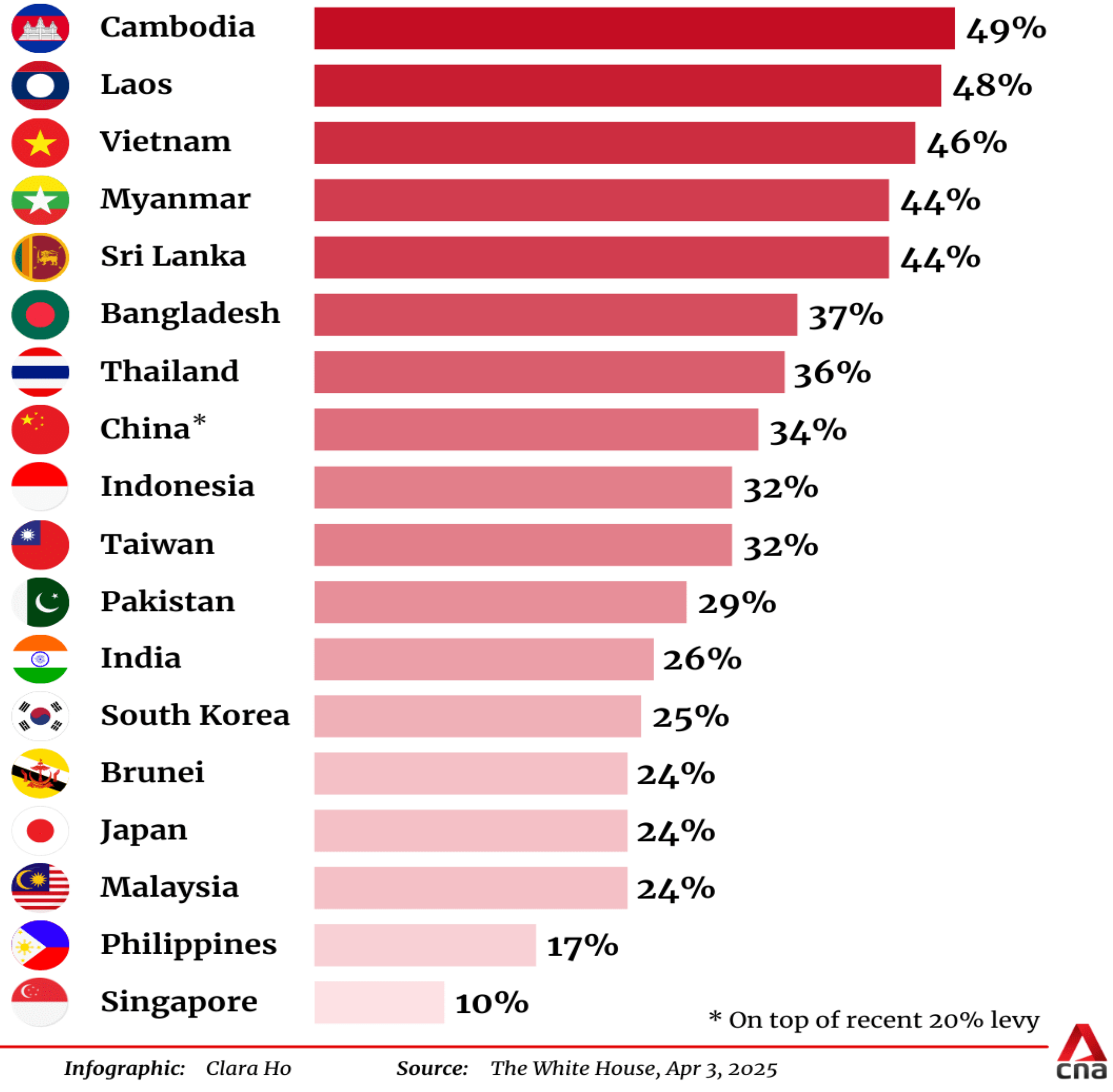
US tariffs on Asia

US tariffs on Chinese goods

145%

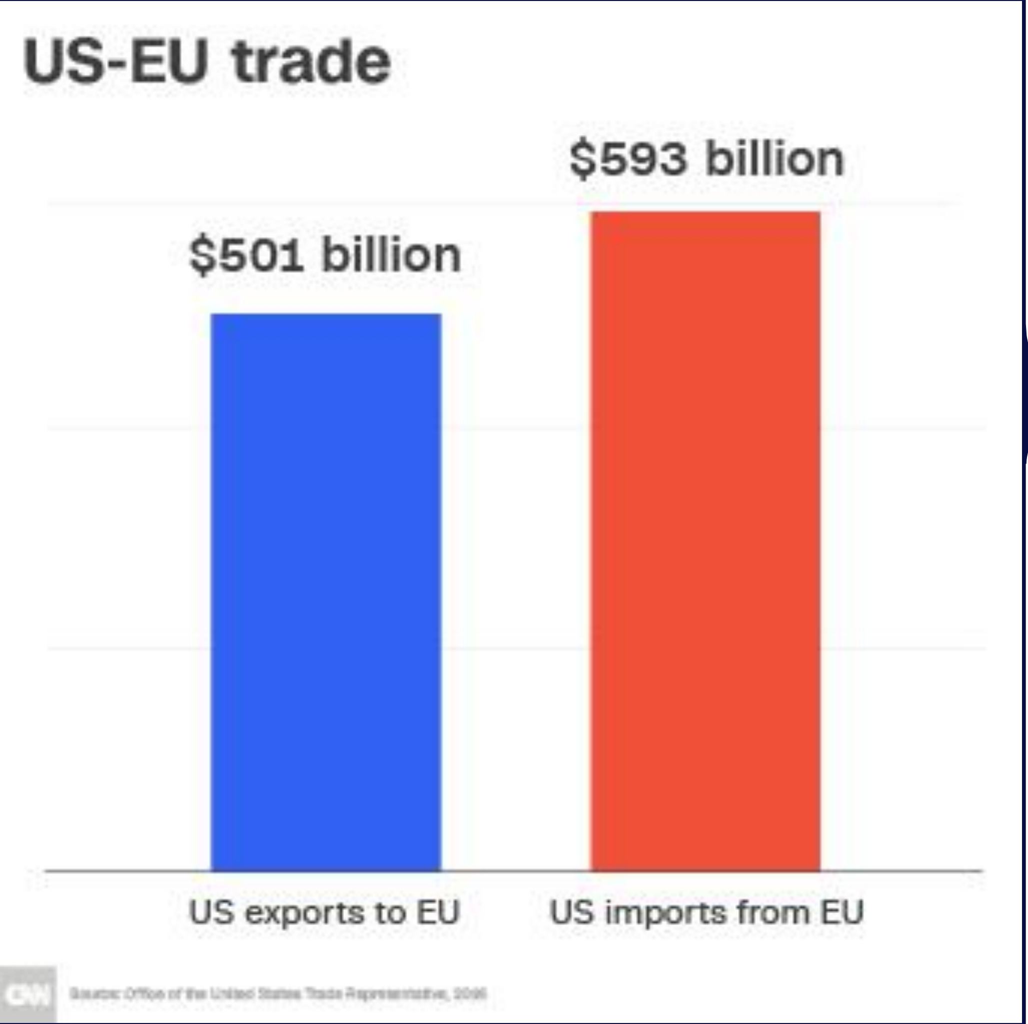
Chinese tariffs on US goods

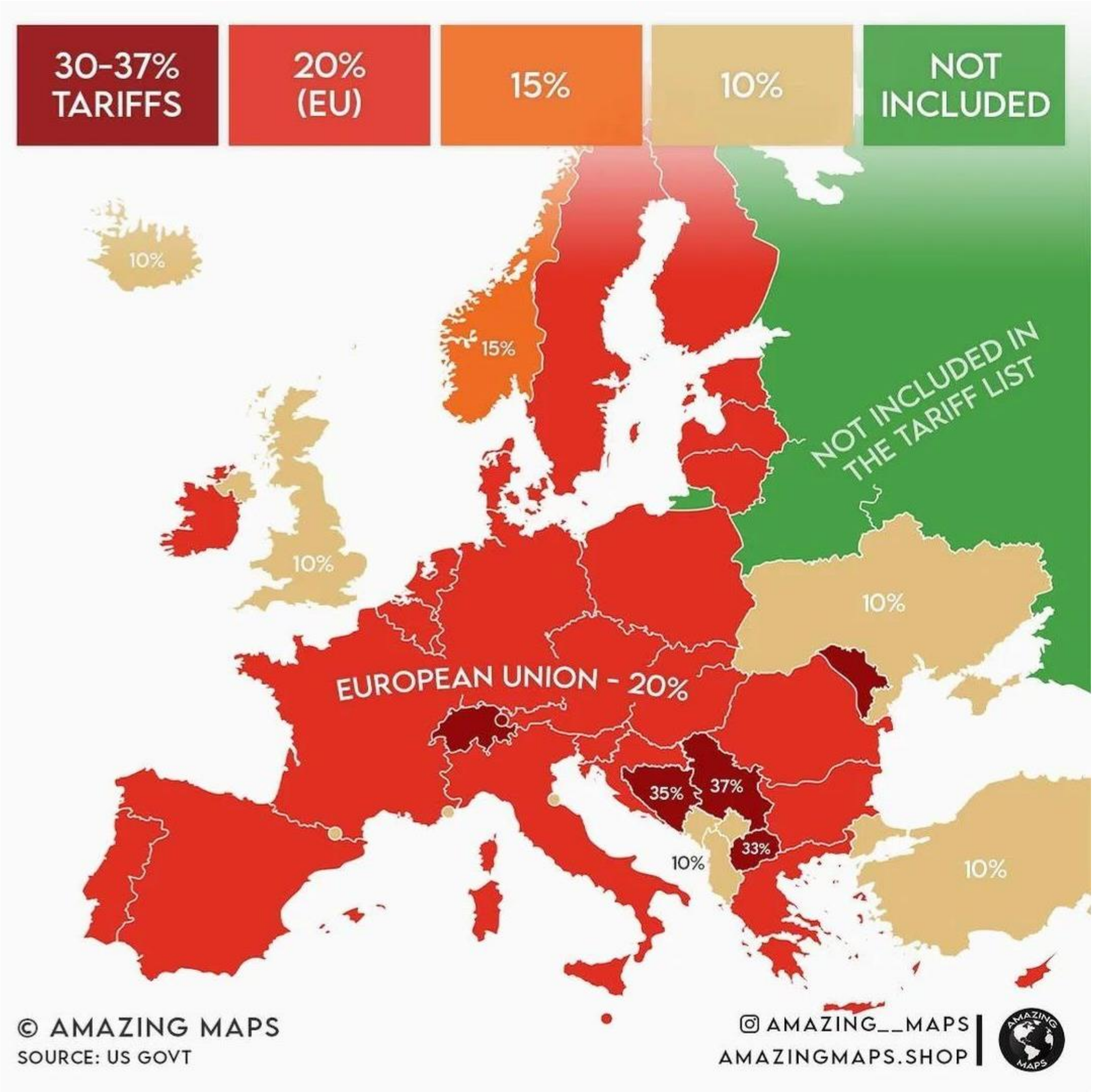
125%



Courtesy CNN

US tariffs on EU & UK





Who pays tariffs?

- Importers (buyers) are generally responsible for paying tariffs when products are imported.

How tariffs impact exporters?

- Tariffs impact on exporters directly if price increases in the US lead to reduced demand for their products.
- Difference in tariff rates between nations means exporters may also face indirect impacts such as increased competition in other markets and decreased export sales.

US Tariffs: possible business consequences

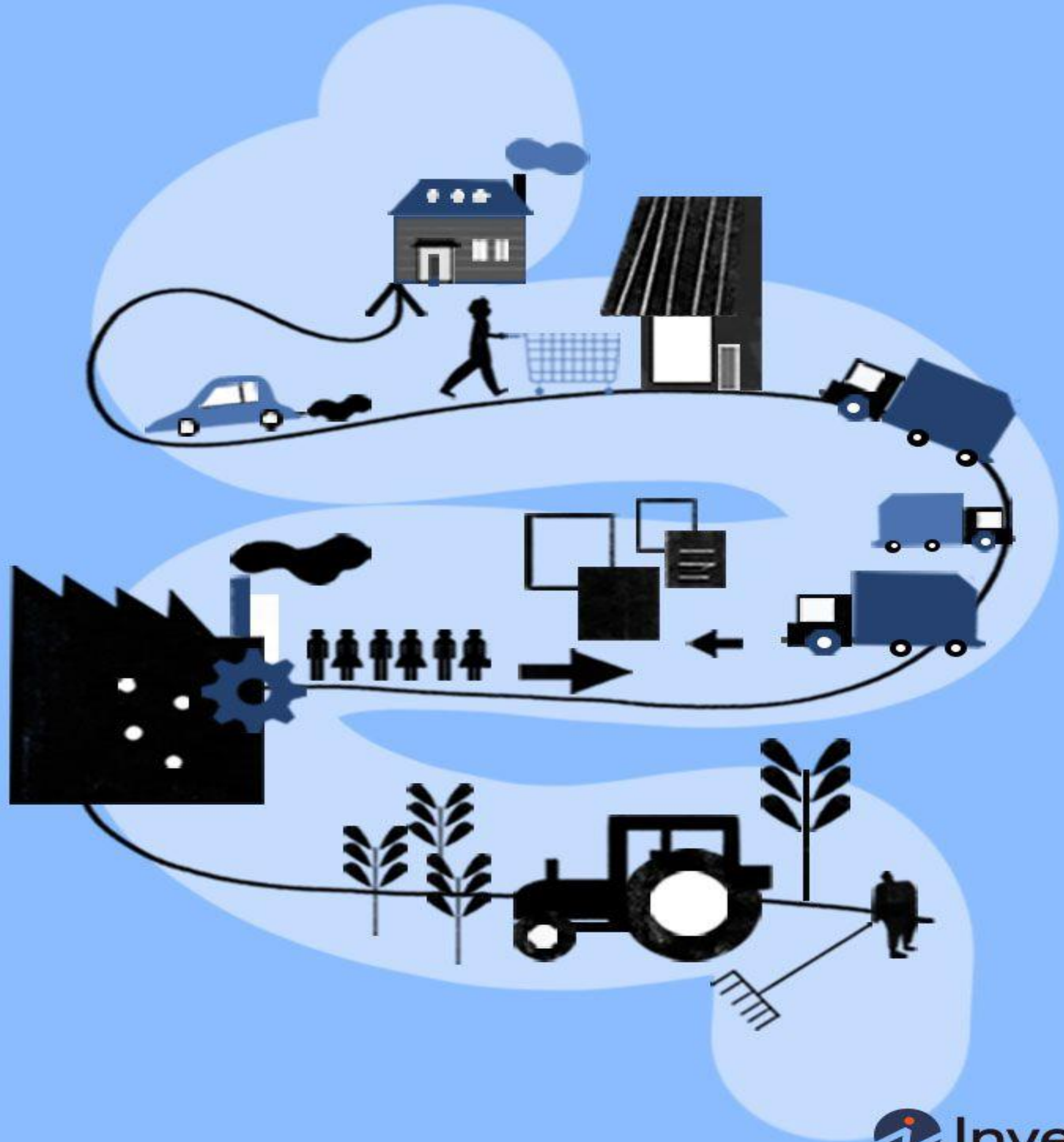
Reduced sales:

- for products exported to the US due to higher costs.
- of US-made products you might sell, due to consumer boycotts and retaliatory measures.
- due to an increase in cheaper alternative products, as businesses increase sales to non-US markets.

Increased sales:

- for products exported to the US if they come from a lower tariff jurisdiction.
- outside of the US for alternatives to US products.

Supply chain disruption as businesses move production to lower tariff markets or make other changes to reduce costs.



Supply Chain

[sə-ˈplī ˈchān]

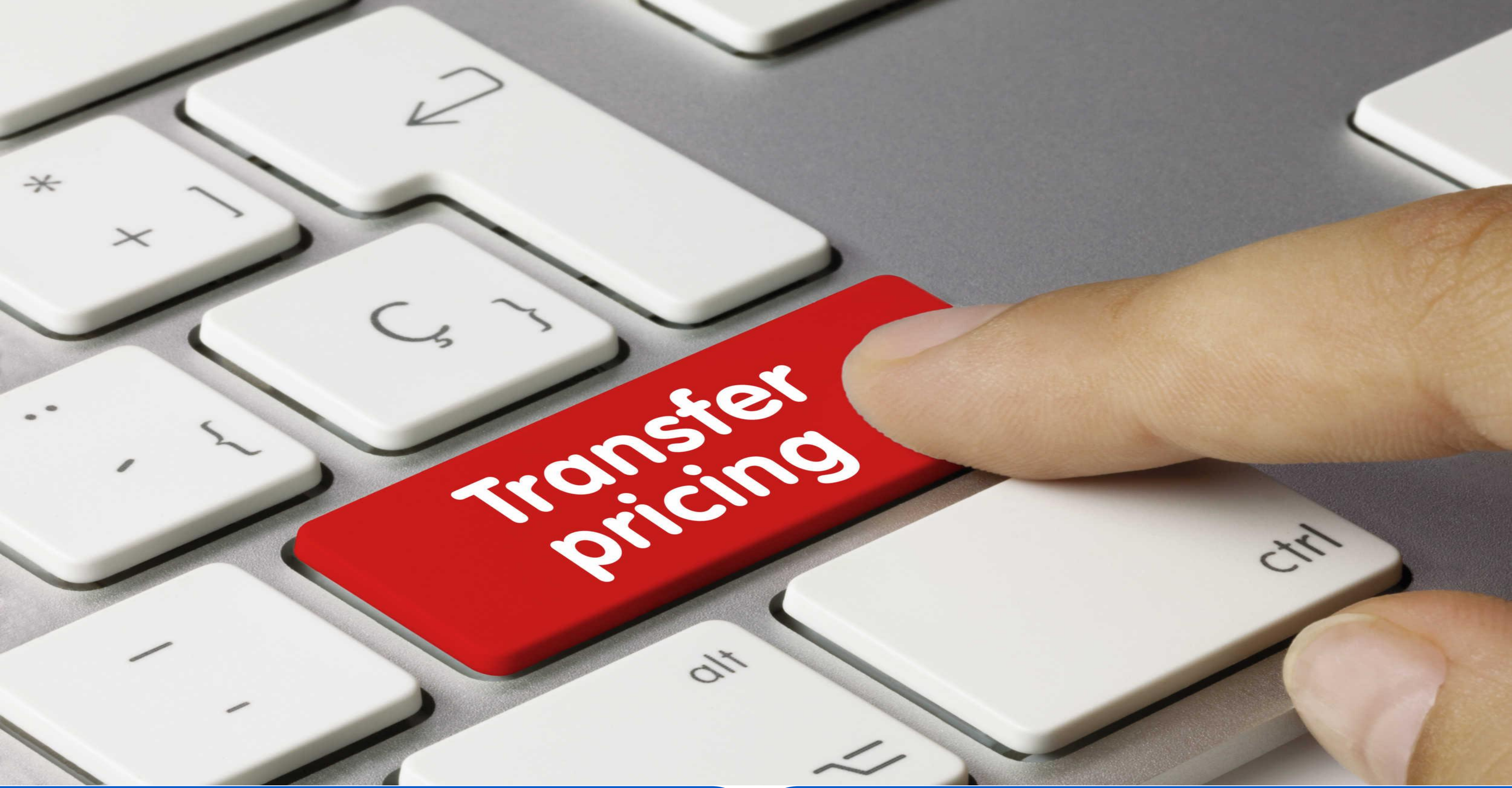
A network between a company and its suppliers to produce and distribute a specific product to the final buyer; it includes different activities, people, entities, information, and resources.

Investopedia

Key strategies dealing with US tariffs

1. Assess your exposure
2. Conduct a financial health check
3. Maintain your profit margins by passing on tariff costs and/or reducing your costs and improving efficiencies
4. Diversify your markets and suppliers
5. Adjust your product
6. Strengthen cash flow
7. Market your unique selling proposition
8. Seek professional advice
9. Look for opportunities
10. Additional considerations: review contracts, stay informed

See CPA Australia's Managing through geopolitical uncertainty


Transfer
pricing
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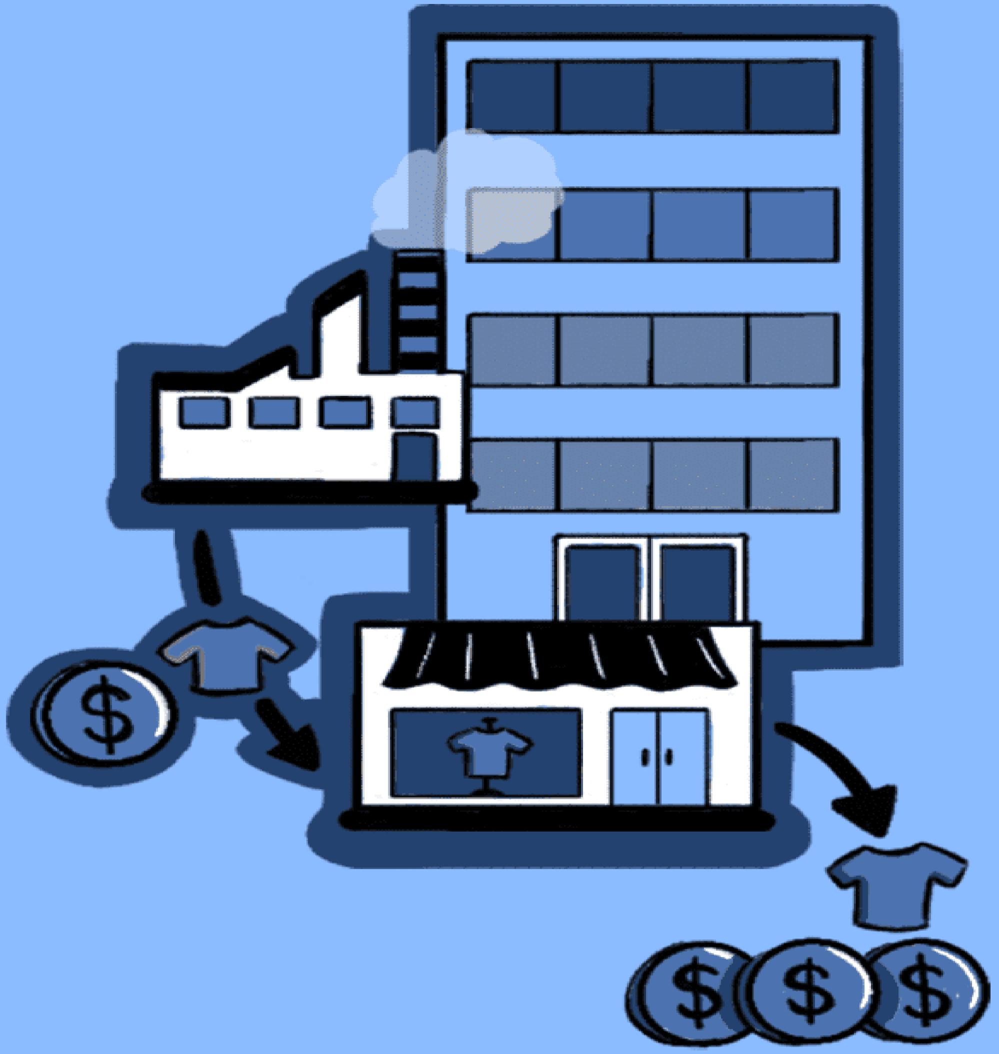


Transfer Pricing

[tran(t)s-ˈfər ˈprīs-iŋ]

An accounting practice that represents the price that one division in a company charges another division for goods and services provided.

Investopedia

Tariffs and transfer pricing relationship

Tariffs puts pressure on the local profits of importers that buy goods from:

- related parties (intercompany transactions)
- from unrelated parties

For importers that buy from <u>related parties</u>, it can also create exposures and uncertainty in:

- customs duties
- transfer pricing

which affects the intercompany price (transfer price).

Transfer Price

[ˈtran(t)s-ˈfər ˈprīs]

The price at which related parties transact with each other.

Investopedia

Transfer pricing challenges from tariffs

- For Multinational Corporations (MNCs), tariffs and transfer pricing are intertwined.
- For tax, the transfer price from the seller to a related buyer determine the allocation of taxable income between these two entities.
- The transfer price also becomes the customs value used for calculating tariffs.
- Any tariff cost must now be factored into the transfer price to ensure the price paid reflects market conditions for transfer pricing and complies with customs valuation rules.

Transfer pricing challenges from tariffs

Apart from affecting the immediate costs of doing business, tariffs will likely change:

- profit allocations
- tax liabilities
- compliance exposures
- potentially trigger double tax disputes.

Transferring tariff costs means making changes in:

- the operational transaction models
- customs valuation
- transfer pricing methods.

Arm's Length Transaction

[ˈärmz-ˈleŋ(k)th tran-ˈzak-shən]

A business deal in which buyers and sellers act independently without one party influencing the other.

Investopedia

Tariffs - key transfer pricing implications

1. Compliance with arm's length principles
2. Impact on benchmarking and comparability analysis
3. Supply chain management challenges
4. Tariff risk allocation and intercompany agreements
5. Impact on profitability between entities and TP results
6. TP and customs valuation risks between tax authorities
7. Risks of double taxation

PANEL QUESTION 1

What do you think are the most important transfer pricing implications for affected companies in light of the US tariffs?

Steps companies should take – short term

Consider tariff risks when determining transfer prices:

- prices must reflect the true economic substance of a transaction
- Assess not just the tariffs but also the broader operational functions and responsibilities of affected entities
- Transfer price adjustments align and comply with both TP and customs regulations

Steps companies should take – short term

- Quantify the financial impact & determine the optimal operational/supply chain alternatives
- Review and update intercompany agreements
- Assess TP policies
- Review benchmarking analysis
- Prepare for further tariff changes
- Have robust documentation demonstrating pricing is arm’s length for tax authorities

Steps companies should take – short term

- Assess and reflect tariffs impact on profit margins in comparability analysis and TP results
- Re-align intercompany relationships
- Carry out necessary negotiations with both suppliers and customers
- Engage with your TP advisors for informed business decisions.

PANEL QUESTION 2

What do you think are the most important steps companies should take in the short term to get their transfer pricing right in light of the US tariffs?

Steps companies should take – long term

- Re-examine global strategic structure and transaction models
- Repositioning the functional risks of entities within the group
- Re-establish new strategic business partners
- Re-planning TP policies to reduce the tax burden
- Engage with government and industries bodies for updates and coordinated activities.

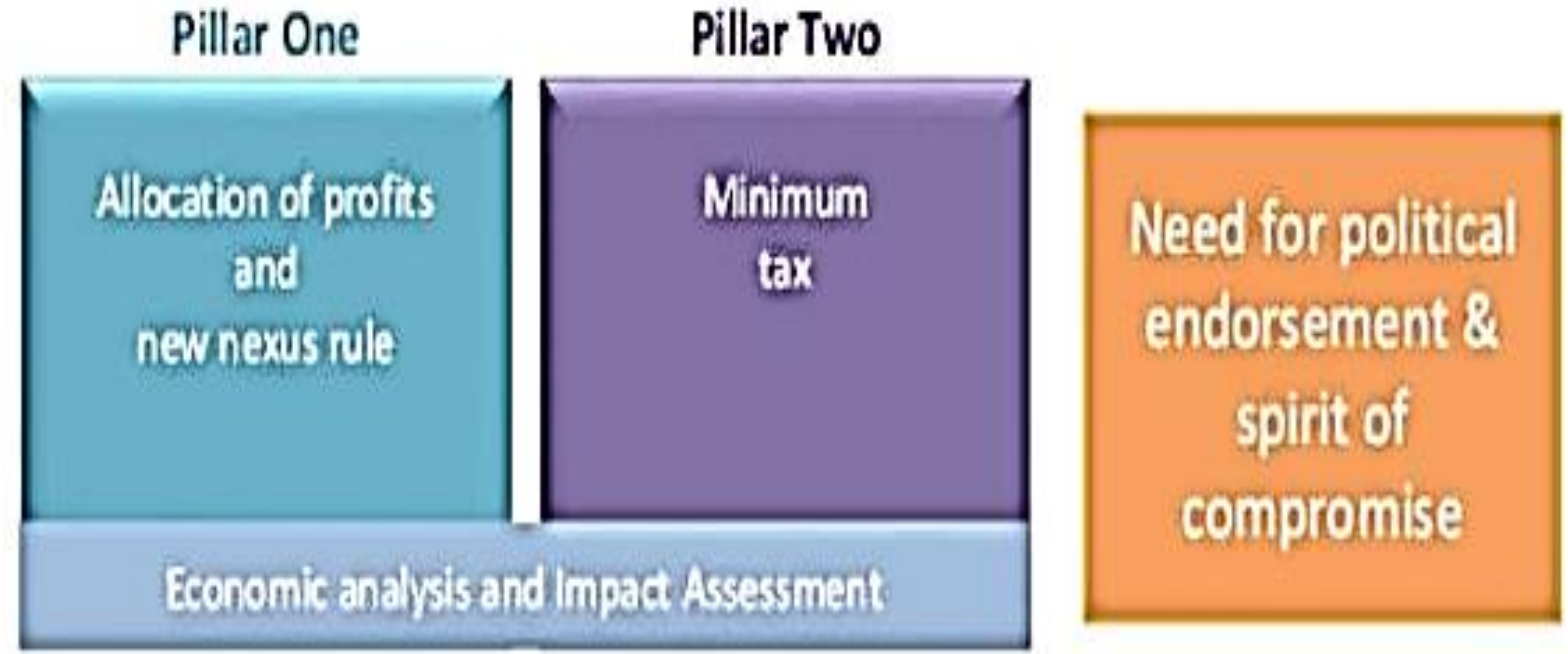
PANEL QUESTION 3

What do you think are the most important steps companies should take in the long term to get their transfer pricing right in light of the US tariffs?

OECD
Pillar 1 & 2

OECDPillars

OECD Pillar 1 & 2

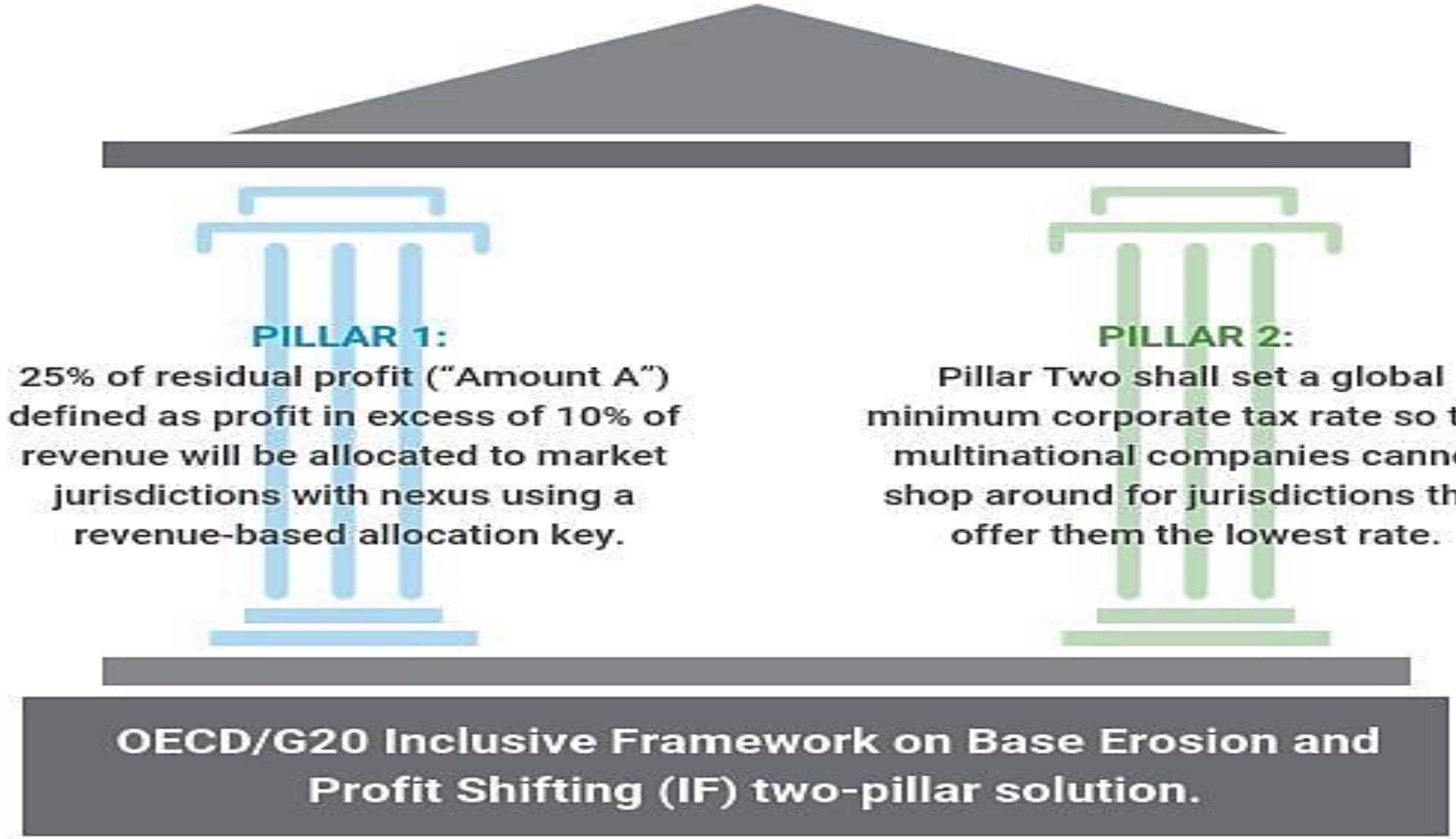


Courtesy OECD

OECD Pillar 1 & 2

- The OECD has developed a two-pillar solution to address the tax challenges arising from the digitalisation and globalisation of the economy.
- The two pillars aim to ensure MNCs pay a fair share of tax wherever they operate and create value, and to prevent the erosion of the tax base and the shifting of profits to low-tax jurisdictions.

OECD Pillar 1 & 2



Courtesy RSM Global

Effective Tax Rate

[i-ˈfek-tiv ˈtaks ˈrāt]

The percent of their income that an individual or a corporation pays in taxes.

Investopedia

Pillar 1 & 2 impacts on transfer pricing

- Pillar 1 aims to reallocate some profits to jurisdictions where revenue is made, changing the effective tax rate (ETR) and cash tax obligations.
- It also impacts existing TP arrangements, requiring adjustments to ensure compliance with the rules.
- Pillar 2 ensures global income is taxed at a minimum effective rate of 15%, and both pillars require transactions between group entities to be priced consistently with the arm's length principle.

Pillar 1 & 2 – US rejection

- President Trump issued an Executive Order (EO) on 20 January 2025 declaring that the OECD global minimum corporate tax initiative “has no force or effect” in the US. It effectively withdraws the US from any participation.
- He also instructs the US Treasury to investigate whether any foreign countries have tax rules in place or that are likely to be put in place that disproportionately affect American companies, and then to come up with options for “protective measures”.

Pillar 1 – current status

- One of the aims of Pillar 1 is to curb the proliferation of digital service taxes (DST).
- Despite intensive negotiations and the extended deadline of 30 June 2024, the OECD made little progress and has not achieved consensus on Pillar 1
- The main hurdles have been geopolitical and economic disagreements among member countries of the OECD/G20 Inclusive Framework

Pillar 1 – US rejection and TP implications

- Without U.S. participation, the global OECD agreement risks ineffectiveness.
- This could lead to a resurgence of unilateral measures like DSTs.
- This could increase the tax burden and compliance costs for US MNCs operating in countries that adopt Pillar 1.

PANEL QUESTION 4

With OECD members not achieving consensus on Pillar 1, what do you think are the biggest impacts for companies and what should they do?

Pillar 2 framework

Pillar 2 framework - acronyms

QDMTT *(Qualified Domestic Minimum Top-up Tax)*	→→→	FLOOR *(First Locate Own Overreduced Revenue)*
IIR *(Income Inclusion Rule)*	→→→	ROOF *(Revenue Overlay on Overseas FLOOR)*
UTPR ***(Undertaxed profits rule)***	→→→	WALL *(Worldwide Auxiliary Linking Levy)*
GloBE *(Global anti-Base Erosion)*	→→→	HOUSE *(Holistic Overlay on Undertaxed Structures & Entities)*

Courtesy @taxleonard

Pillar 2 framework

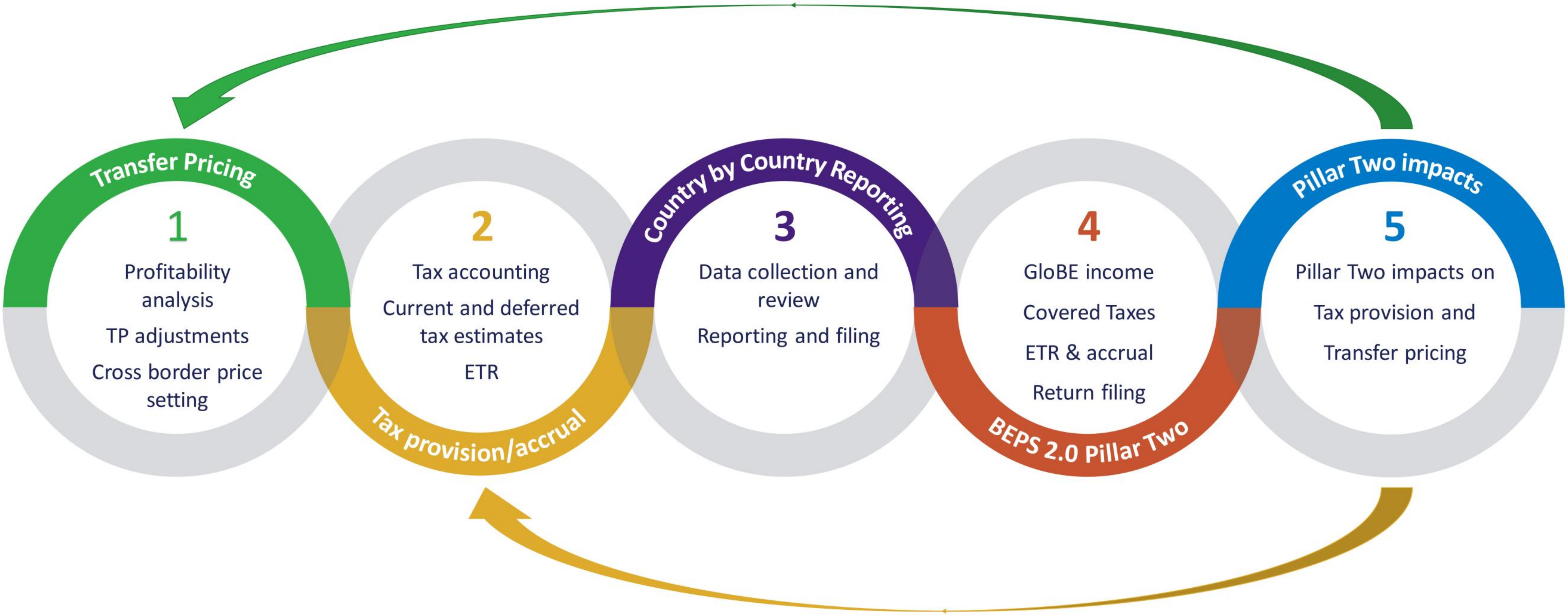
Pillar 2 is a complex system of interlinked taxes. The framework consists of three interlocking rules:

- the IIR and the UTPR are rules that impose a top-up tax on the income of an MNC group that is taxed below the minimum rate in a jurisdiction.
- While the QDMTT rule ‘tops up’ tax on domestic entities to 15% in the local jurisdiction before another country’s UTPR or IIR applies.

Pillar 2 framework

- The framework applies to MNC groups that have a consolidated accounting revenue of more than EUR 750 million in the previous fiscal year, which is the same threshold as the Country-by-Country (CbC) reporting requirement.

Pillar 2 and transfer pricing relationship

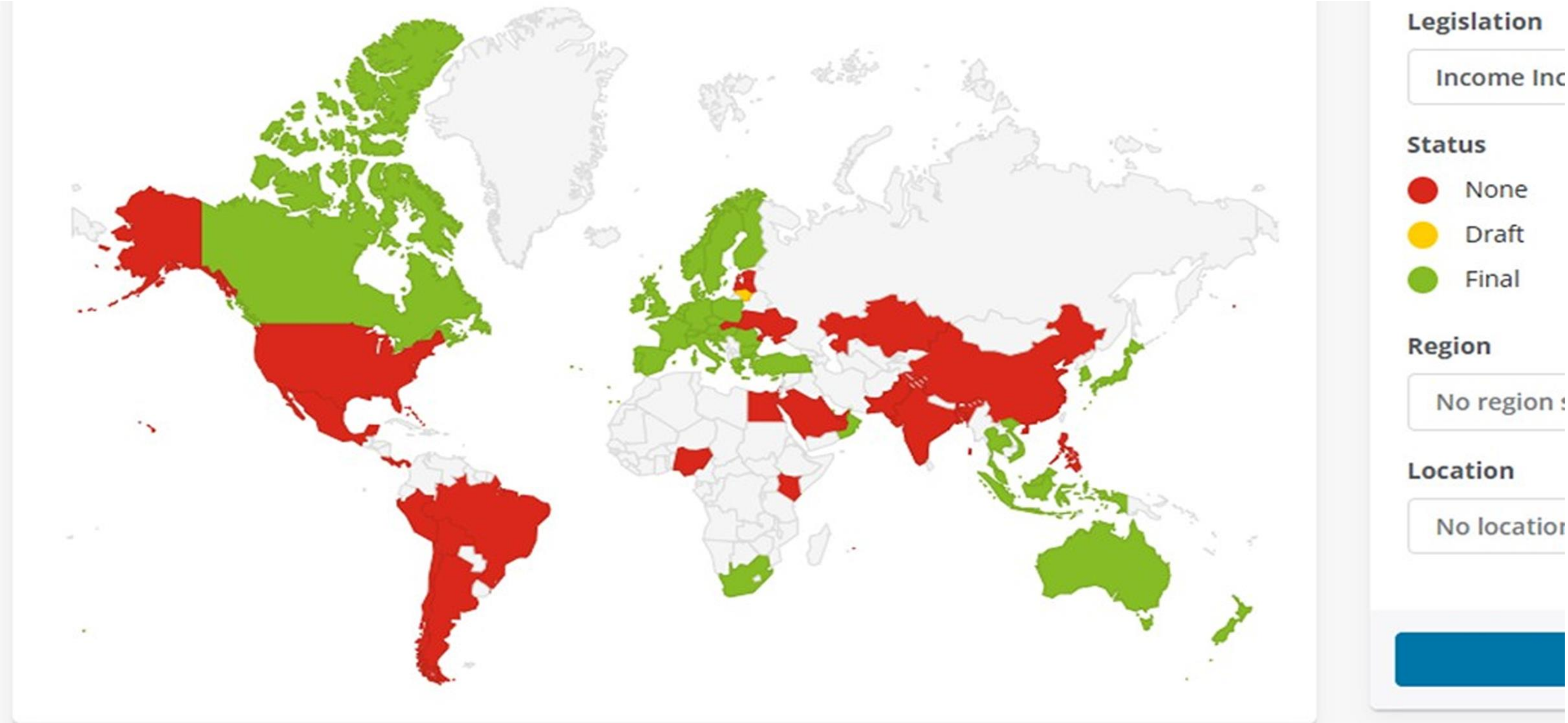


Courtesy Insightsoftware

Pillar 2 impacts on transfer pricing

- **Need for a TP Comprehensive Approach by MNCs:** considering the impact of Pillar 2 on their global tax position.
- **Increased TP Documentation:** will need to be more comprehensive to support the Pillar 2 calculations.
- **TP Adjustments:** will impact the effective tax rate (ETR) calculation for Pillar 2.
- **Potential for Disputes:** the large amount of info required by Pillar 2 could lead to more tax audits and disputes for MNCs.
- **Continued Relevance of TP rules:** tax authorities will apply TP rules to increase profits attributable to their country under Pillar 2.

Pillar 2 – adoption status



Courtesy Deloitte

Pillar 2 – adoption status

Jurisdiction	Status	Start date
Australia	Final law in force	1 January 2024
China	No announcement	
EU	Final law in force	1 January 2024
Singapore	Final law in force	1 January 2025
UK	Final law in force	31 December 2023
Vietnam	Final law in force	1 January 2024
US	No announcement	

Pillar 2 – adoption status

Jurisdiction	Status	Start date
Hong Kong	Draft law	1 January 2025
Indonesia	Final law in force	1 January 2025
Malaysia	Final law in force	1 January 2025
New Zealand	Final law in force	1 January 2025
Taiwan	No announcement	
United Arab Emirates	Final law in force	1 January 2025

Pillar 2 – adoption status

Jurisdiction	Status	Start date
Fiji	Joined BEPS	
India	No announcement	
Japan	Final law in force	1 April 2024
Macau	No announcement	
Papua New Guinea	Considering	
Philippines	Joined BEPS	
Sri Lanka	No announcement	

Pillar 2 – US rejection implications

- A US Executive Order does not prevent Pillar 2 from applying to US companies in foreign jurisdictions that have enacted Pillar 2.
- However, as the OCED operations on a consensus-based model, the US action could delay or stymie OECD guidance process.

Pillar 2 – US rejection implications

- It could lead to a more fragmented tax landscape.
- Potential for the US to collect more tax revenue from its own companies in places where a 15% minimum tax is in effect.
- Other countries impose "top-up" taxes on US subsidiaries, shifting the tax to the US parent.
- This could also create uncertainty and complexity for MNCs, higher compliance costs and potentially strain international relations.

Pillar 2 – US rejection TP implications

- Potential for increased transfer pricing adjustments, leading to higher foreign ETRs for places that adopt Pillar 2.
- Emphasis on TP documentation proving arm's length transactions.
- Greater scrutiny of transfer pricing transactions by tax authorities.

PANEL QUESTION 5

Considering the US rejection of Pillar 2, how best you think companies should position themselves for Pillar 2 tax compliance/risk management?

QUESTIONS?

Feedback Survey

- Please scan the QR Code to take the short feedback survey

- All answers are anonymous and will only be used to improve future events

Feedback Survey
GLOBAL Webinar: Transfer Pricing vs Tariff policy, Pillar 1 & 2

Thank you

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