

## Hey! What's New? 2025-64

### Using Transfer Pricing to Blunt the Effects of Tariffs

An article, written in the *Tax Insider* by Steven Wrappe, J.D., LL.M., and Reema Patel, CPA, notes that, in our global economy, even a tariff of less than 10% can have a significant impact on the supply chains that cross national borders. “Blanket tariffs of 10% and ‘reciprocal’ tariffs of well over 25% can significantly impact the financial conditions of corporations and drastically alter global commerce. While the implementation of higher U.S. tariffs on over 60 countries has been delayed, the financial and tax implications have been top-of-mind for executives and are a key source of concern on earnings calls.”

They add that “CPAs are responsible for assisting businesses with the various financial and tax implications of tariffs, and the recent tariffs announced on steel and aluminum products and countries such as Canada, Mexico and China have become a crucial consideration for U.S. businesses.” This is the case with most other countries as well.

Tariffs and transfer pricing are closely interrelated. Rapp and Patel note that, “for tax purposes, the transfer price from a seller to a related buyer determines the allocation of profit between those related entities; the reasonableness of the transfer price is frequently tested by comparing the U.S. distributor’s income against similarly situated distributors. That tax-developed transfer price often becomes the customs importation value to which the tariff percentage is applied. That tariff amount becomes a current expense or cost of goods sold (COGS) that reduces the reported income of the U.S. distributor, possibly requiring a reduced transfer price to satisfy transfer pricing rules. That post-importation adjustment may also require a changed importation value.”

All else being equal, adding a 10% tariff borne by a distributor and not pushed through to its customers can push the distributor from a profit position to a loss, the authors warn.

They go on to say that “post-importation adjustments may require administrative procedures to achieve the duty and tax refunds that follow from the reduced transfer price/import value. If the taxpayer sets its customs importation value under the transaction-value method, a downward transfer price adjustment for tax purposes will also require a downward customs valuation adjustment.”

Under U.S. transfer pricing rules, the authors note, “an upward transfer pricing adjustment to the U.S. related-party income produces a downward adjustment to the income of the other transacting related party. The taxpayer can request the IRS to endeavor under the tax treaty to achieve a downward adjustment to the income of the related party; however, the other tax authority may decline to reduce the double taxation caused by the tariffs imposed by the U.S. government.”

Many multinational corporations are now considering taking actions to reduce or eliminate the impact of the proposed tariffs. The authors suggest the following actions:

- **Price increases to pass the impact to customers:** “An importer can pass the economic impact of a tariff to its customers through a price increase. However, competing products not subject to the same level of tariffs may make it difficult for importers to do so.”

- **Increased inventory:** “Some importers have accelerated purchases of products for delivery before the effective date of any new tariffs; this is only a temporary solution.”
- **Exclusions and reevaluations of product classification:** “Some importers have previously sought tariff exclusions through the U.S. Trade Representative or by reevaluating classifying the imported goods to a classification not impacted by tariffs.”
- **Supply chain changes or discontinuance:** Companies that have more flexibility may attempt to change suppliers or move supply chains to avoid the impact of tariffs. Other companies may stop selling goods made unprofitable by the tariffs.”
- **Allocating tariff risk between related parties:** “Exposure to tariffs can be understood and interpreted, similar to other risk factors such as currency fluctuation. Transfer pricing rules allow related parties to allocate the risk of tariffs between the parties. Allocation of tariff risk does not eliminate the tariff impact, but it may facilitate transfer pricing compliance and reduce the overall tariff amount.”

The authors advise that “as it appears that tariffs are likely to be considered over this year and possibly over the next several years, tax professionals should be aware of the transfer pricing and other tax and financial implications of them.”

Learn considerably more at [Using transfer pricing to blunt the effects of tariffs.](#)