APAC Regional Conference 2025

Collaborate to Create: The Power of Strategic Alliances

Leveraging Transfer Pricing to Drive Regional Growth and Collaboration

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Agenda

01	Global Business Decisions
02	Bigger Picture | Current State of TP, Customs Valuation, and Supply Chain Planning
03	Real World Solutions | LEA Collaboration Case Study
04	Collaboration Expectations | Perspective of a New Member Firm

Global Business Decisions

Collaborative Efforts

Global Supply Chain Planning Not a One-sided Approach

Importance of Transfer Pricing, and Multiple Perspectives

Client Service Expectations

Current State of Global Trade

Update on Transfer Pricing, Customs Valuation, and Supply Chain Issues

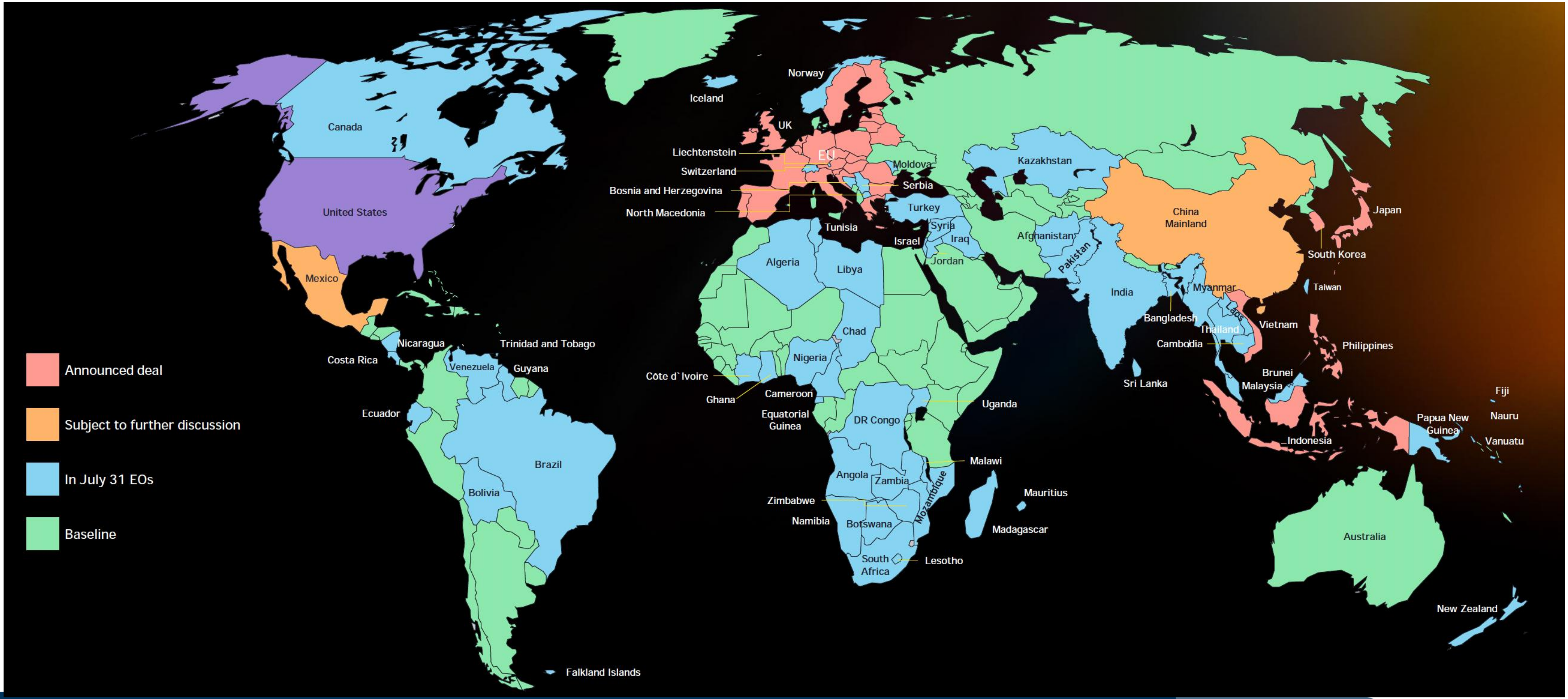
US Tariff Update

America First Trade Policy | US Actively Using Tariffs to Achieve Economic and Political Goals

Ultimate Economic Burden

Reciprocal Actions

Current Status



Executive Order

- August 7 effective date
- Impacts 68 countries and the European Union (Annex 1 countries)
  - Tariff rates between 15% and 41% on partners with whom the US has a bilateral trade deficit in goods, including notably high rate on Switzerland (39%)
  - Enacts rates agreed to by trade deals, including: the EU, Indonesia, Japan, Korea, Philippines and Vietnam
- Countries not included in Annex 1 are subject to a 10% ad valorem rate
- Negotiations are expected to continue with many trading partners
- Goods subject to Section 232 tariffs or investigations are exempt from these tariffs
- Expands enforcement and enacts 40% tariff and other penalties for transshipment of goods

TP and Customs Valuation

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Post-tariffs, it will be imperative for taxpayers to assess in detail how group profits have been impacted and how they should be allocated at arm's length, given the incentives and opportunities available to each party.

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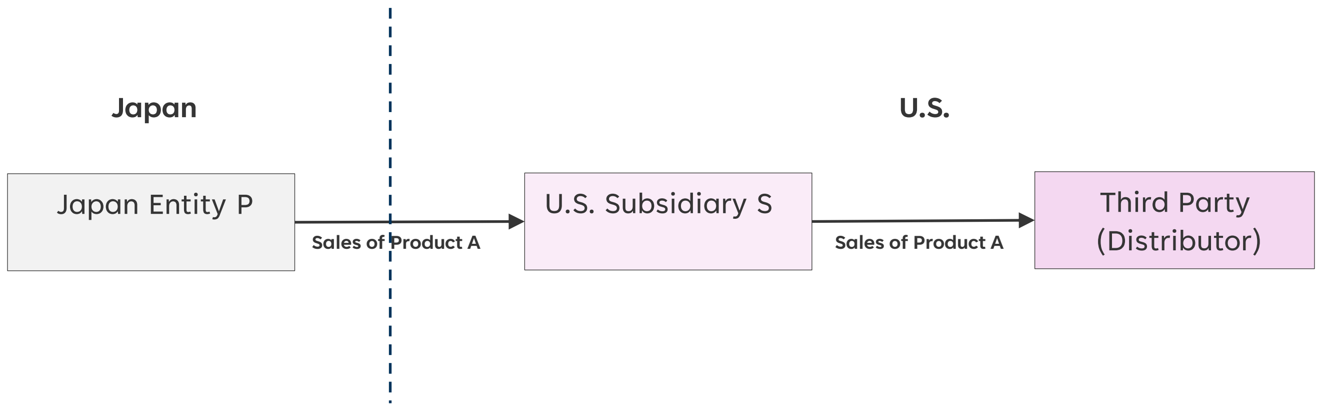
It may not be arm's length for the manufacturer to bear the full burden of the tariff and reduce the transfer price to keep the related distributor's margin at the historic 5%. Doing so is also likely to raise questions by taxing authorities as to why the manufacturer alone is bearing all the tariff cost.

Illustration of Tariff Impact | Japan



Assumptions:
TNMM is used as TP method.
Interquartile range: 2% to 5%

Let us consider a simple case in which Japanese company P sells product A manufactured in Japan to its US subsidiary S, which then resells the product to a third party in the US. Based on this example, let us consider how reciprocal tariffs imposed at a rate of 10% (it is now 15%, but let us use 10% for simplicity) on imports of Product A will affect transfer pricing taxation in both Japan and the United States.

Before Implementation of Tariff

Before the imposition of additional tariffs, the operating profit margin of 4% for Company S's Product A transactions falls within the arm's length range. It therefore does not give rise to transfer pricing taxation issues in either Japan or the United States.

Figure 1: Profit and loss calculation data for Company P and Company S regarding sales transactions of Product A before the imposition of additional tariffs

Company P Profit and Loss Statement (before additional tariffs)	
Sales	80
Cost of Goods Sold	68
Gross Profit	12
Selling, General and Administrative Expenses (SG&A)	6
Operating Profit	6
Operating Profit Margin	7.5%

Company S Profit and Loss Statement (before additional tariffs)	
Sales	100
Cost of Goods Sold	80
Gross Profit	20
SG&A	16
Operating Profit	4
Operating Profit Margin	4%

Post Implementation of Tariff

Where an additional 10% tariff is imposed on imports of Product A, Company S will bear the tariff, so Company P's profit and loss calculation will not be affected. On the other hand, if we assume that Company S cannot pass on the tariff burden to its customers at all, as shown in Figure 2, Company S's operating profit will go down to -4. Thus, the actual operating profit margin for transactions involving Product A of Company S falls below the lower limit of the appropriate range, giving rise to the risk of transfer pricing taxation in the U.S.

Figure 2: Profit and loss calculation data for Company P and Company S regarding sales transactions of Product A after the imposition of a 10% additional tariff

Company P Profit and Loss Statement (after 10% tariff)	
Sales	80
Cost of Goods Sold	68
Gross Profit	12
SG&A Expenses	6
Operating Profit	6
Operating Profit Margin	7.5%

Company S Profit and Loss Statement after 10% tariff)	
Sales	100
Cost of Goods Sold	80
Tariff	8
Gross Profit	12
SG&A Expenses	16
Operating Profit	▲4
Operating Profit Margin	-4%

Case Study

Collaboration with LEA Member Firms

Case Study
Company Expansion to Various Markets

Hong Kong

CLIENT A
(Hong Kong Registered Co.)

- IT & Sales Staff
- Operational Office
- Data Centre

Sell Software (Subscription/ License Fee Income)

B2B & B2C

AUSTRALIA

INDIA

NEW ZEALAND

PHILIPPINES

SINGAPORE

UAE

- **Direct Sales Model/ Reseller Model**
- **VAT/ GST**
- **Withholding Tax on Royalties, technical service fees**
- **PE Risk**
- **Double Tax Treaty**
- **Invoicing Compliance**
- **Bank/Payment Issues**

Case Sharing – Engagement Team

Case Sharing – LEA Firms' Collaboration

Dezan Shira & Associates

- Identifying consulting firms across multiple regions
- Overseeing project scope, timelines, fees, and deliverables
- Managing client relationships

LEA Member Firms

- Initial assessment and team delegation
- Preparing advisory memo
- Coordinating the delivery schedule

Collaboration Expectations

Collaboration with LEA Member Firms

Opportunities, Challenges & Mitigation Strategies

Opportunities	Challenges	Mitigation Strategies
Global Expertise for Clients – Combine specialized knowledge from multiple jurisdictions.	**Cultural & Communication Barriers** – Misunderstandings due to language or culture.	Provide **cross-cultural training**, encourage **clear written communication**, and use **visual aids**.
Stronger Client Relationships – Deliver seamless cross-border service.	**Client Expectation Management** – Risk of inconsistent quality or approach.	Define **quality standards** and review **checkpoints**, assign a **single engagement leader** for accountability.
Cross-Selling & Upselling – Broader exposure to services and geographies.	**Coordination Across Time Zones** – Delays in decision-making and meetings.	Use **asynchronous communication tools** (e.g., recorded updates, shared dashboards), and rotate meeting times.

Questions