



CROSS20 BORDER25 CONFERENCE

9 EXPERT-LED SESSIONS

OCTOBER 28, 2025
9:00 AM – 2:00 PM PT | 12:00 PM – 5:00 PM ET

Transfer pricing: **Tools to Spur Cross- Border Growth**

SESSION SPEAKER

Alex Martin

Transfer Pricing Practice Leader, KBKG

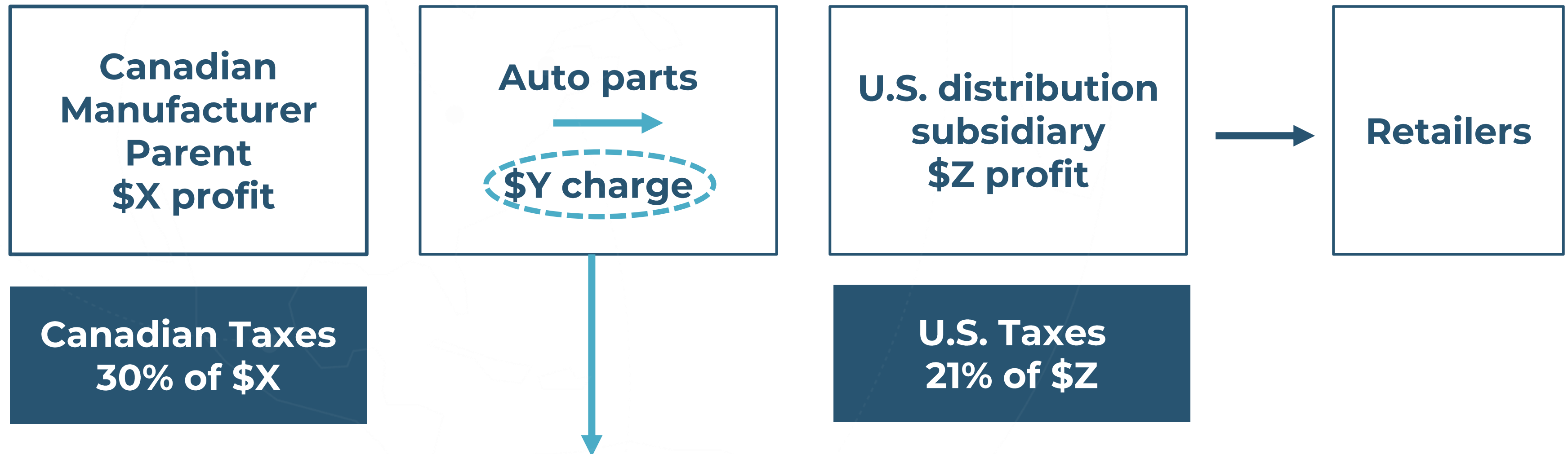


ALEX MARTIN

- Transfer Pricing Practice Leader at KBKG, a U.S. tax specialty firm
- 25+ years of transfer pricing experience, including 4 years overseas
- Former economist at a Big-4 firm (12 years)
- Worked 6 years at a top middle-market CPA firm
- 4 years as an independent consultant prior to KBKG
- Began career in international trade consulting and US Customs
- KBKG's team recognized as a leading global transfer pricing consultancy by International Tax Review for four consecutive years



WHY IS TRANSFER PRICING IMPORTANT?



\$Y transfer price drives taxes payable by country

Intercompany price of goods, royalties, service charges, and loans
all impact taxes paid by country

IS YOUR COMPANY PAYING ITS FAIR SHARE?



Starbucks was accused of overcharging its UK company for royalties, coffee beans, and services

Starbucks-UK paid income tax once out of the previous 11 years.

Tax auditors, including the IRS, expect subsidiaries to generate some level of profits.

WHAT COMPANIES ARE AFFECTED BY TP?

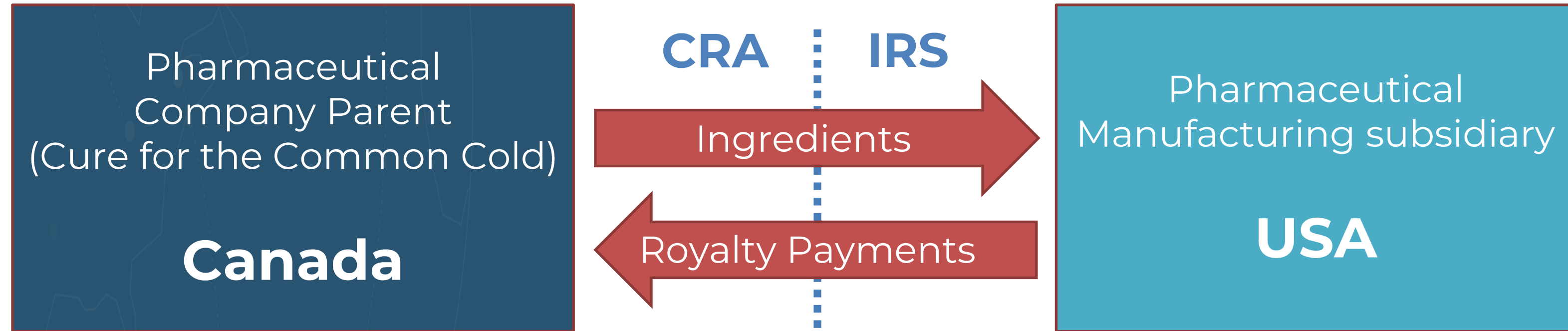
- Every Canadian company with international operations
- Every US company with international operations
- Any multinational company
- Goods, royalties, services, loans – all TP issues
- Results, not policies, are generally the driving factor
- Treas. Reg. §1.482 is the US “Arm’s-Length Standard”
- CRA references the OECD Transfer Pricing Guidelines
- The OECD Guidelines are the global standard



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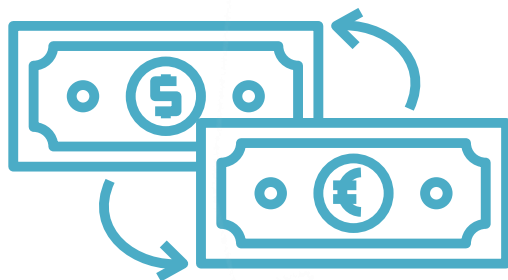
HOW DO SOME COMPANIES APPROACH TRANSFER PRICING?



- Company has one cost plus policy – (Cost + 10%)
- Company operates as one “borderless” business
- Canadian plant manager increases transfer prices → higher Canadian profits → bigger personal bonus

Insight: transfer pricing exposures may have nothing to do with aggressive tax strategies

WHAT IF THE IRS DISAGREES WITH TRANSFER PRICING?



Assume a total transfer pricing tax adjustment of \$10m

Additional income tax owed: \$10m x 21%*	=	\$2.1m
Plus non-deductible penalties of 20%		<u>\$420,000</u>

\$2.52 million payment + interest + US state taxes + likely double tax



20% penalties start at \$5m, penalties increase to 40% at \$20m
NO automatic refund of double tax on the Canadian side

The CRA can issue similar tax adjustments and can apply similar penalties for underpaying tax in Canada through transfer pricing.

** Estimated 21% federal tax rate*

TP DOCUMENTATION FIRST LINE OF DEFENSE

Transfer Pricing Documentation includes the following:

- Analysis of how the business operates in Canada, the US and elsewhere
- Industry analysis
- Financial analysis of client and transactions
- Economic analysis demonstrates why TP is arm's-length
- Often utilize 'comparable' databases

Best practices:

- One report complies with both sides of the border
- Most countries have similar documentation standards

Goal:

- Tax auditor understands company and transfer pricing, and no tax adjustment is necessary



BENCHMARKING STUDY – AN ALTERNATIVE TO DOCUMENTATION?

TP Economic Analysis – Limited scope

- Benchmark profit margin target for subsidiary
- Focus on companies with similar activities
- Often used for transfer pricing in lower risk situations/fewer resources required
- Smaller scope deliverable

Example:

Company adjusts transfer prices to reach EBIT margin* between 5.0% to 8.2% for subsidiary

- Effectively the CPM/TNMM approach

**Earnings before interest and tax (EBIT) as a percentage of revenue*

Benchmark Company	EBIT/Sales (not actual results)
Anixter International Inc.	16.3%
Arrow Electronics, Inc.	12.8%
Avnet, Inc.	8.2%
Graybar Electric Co Inc	6.3%
Houston Wire & Cable	5.5%
ScanSource, Inc.	5.0%
SYNNEX Corporation	0.3%
Tech Data Corp	(3.2%)



TRANSFER PRICING CASH AND TAX SAVINGS

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IS THERE MORE TO TP THAN COMPLIANCE?

Transfer pricing impacts where profits and losses accrue within an organization - by country

- Transfer pricing to help utilize tax Net Operating Losses (NOLs) = big tax savings

TP also affects where cash is generated within an organization

- Companies can reduce borrowing costs by optimizing pricing
- Reduce need for capital injections with subsidiaries

Insights:

Correcting transfer pricing can lead to substantial savings



REALIZING SAVINGS – UTILIZE TAX LOSSES



Canadian parent with USCo subsidiary reseller

- Averaged ~\$70m US revenue
- Facing market downturn – revenues down to \$65m
- Assume ParentCo income is **\$6m @ 30% rate = \$1.8m tax**

USCo Subsidiary P&L	2025
US Revenue	\$65.0m
EBIT*	(\$2.5m)
EBIT Margin	(3.8%)

*EBIT – Earnings Before Interest and Tax



UTILIZE TAX LOSSES + REDUCE AUDIT RISKS



From an audit risk perspective:

- Would an independent distributor continue to purchase products and incur losses?

USCo Subsidiary P&L	2025
Sales	\$65.0m
EBIT*	\$0
EBIT Margin	0%

Utilize 2025 Losses: Reduce transfer prices to US by \$2.5m

- Canadian parent taxable income \$6m - > \$3.5m
- Savings $\$2.5m \times 30\% = \underline{\$750k}$ in cash savings

Plus: Possible customs duty savings from lowering prices





HOW ABOUT CASHFLOW?

If a subsidiary is incurring losses, a multinational company may be overpaying income taxes on the parent side

- The subsidiary company may need additional capital injections or loans to fund operations
- Lower transfer prices = additional cashflow for the subsidiary
- Subsidiary better placed to make investments in manufacturing, sales, marketing, and other needs
- Capacity to service debt

Insights:

Correcting transfer pricing can lead to substantial savings



Transfer Pricing is a contentious tax issue for both the CRA and IRS

- Both tax authorities audit multinationals for paying their 'fair share' of taxes
 - Transfer pricing disputes are expensive and time consuming
 - Transfer pricing documentation or benchmarking can address tax authority concerns as a first line of defense.

Transfer pricing can also optimize cashflow for multinationals

- Corrections to transfer pricing can help companies utilize tax NOLs
- Transfer pricing affects where cash is generated by country.



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THANK YOU!

Alex Martin

Principal – Transfer Pricing

<https://www.kbkg.com/>

Alex.Martin@kbkg.com

[linkedin.com/in/alexmartin/](https://www.linkedin.com/in/alexmartin/)

+1 (313) 636-2821



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