ASSOLOMBARDA

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TAX NEWS for Italian companies with branches in the US and implications for ***TRANSFER PRICING*** policies.

Milan, February 24, 2026

The information in this presentation reflects the legal and regulatory landscape as of February 24, 2026

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Macroeconomic Overview

Introduction to the US market

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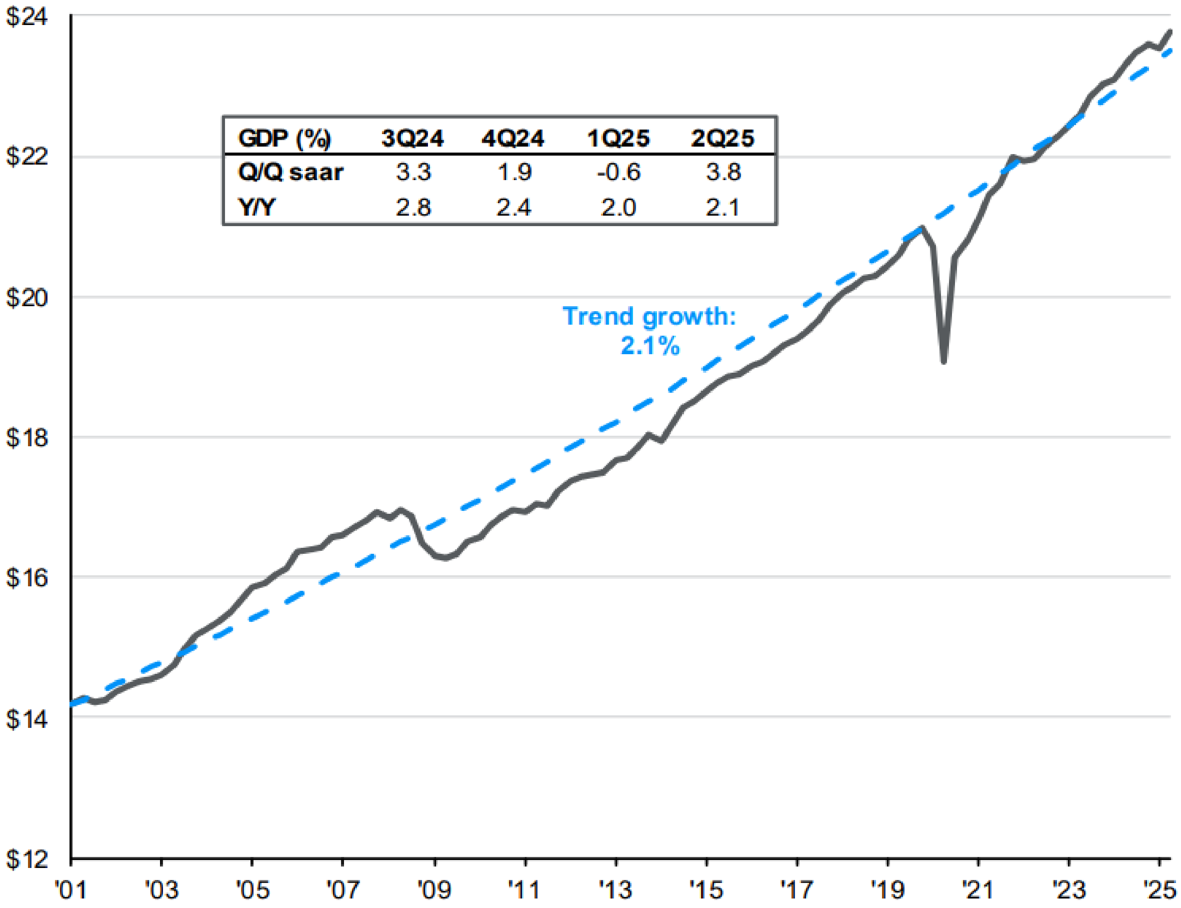
Macroeconomic Overview

Introduction to the US Market

1. Economic Growth and Composition of US GDP

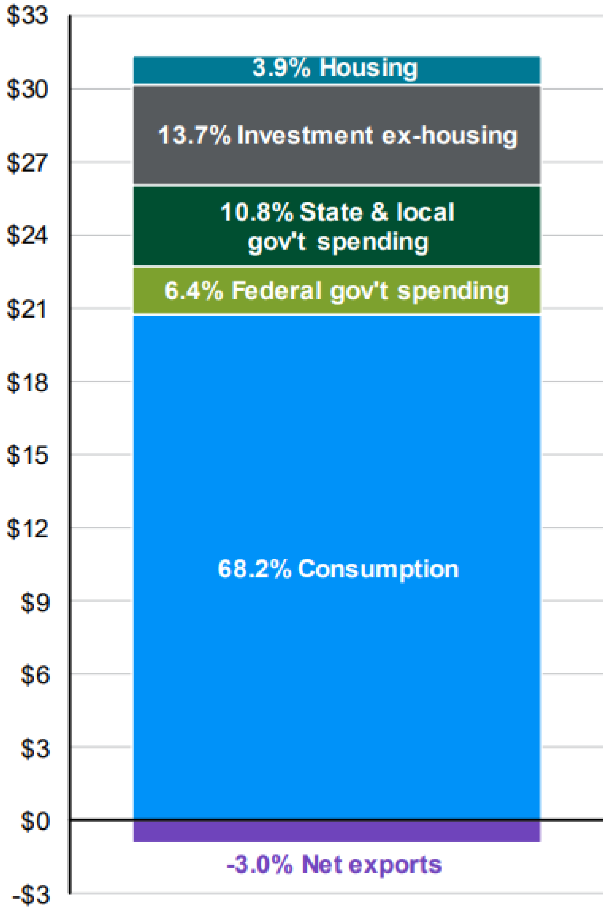
Real GDP

Trillions of chained (2017) dollars, seasonally adjusted at annual rates



Components of GDP

2Q25 nominal GDP, USD trillions



Source: JP Morgan Asset Management, data as of 9/30/2025

Macroeconomic Overview

Introduction to the US market

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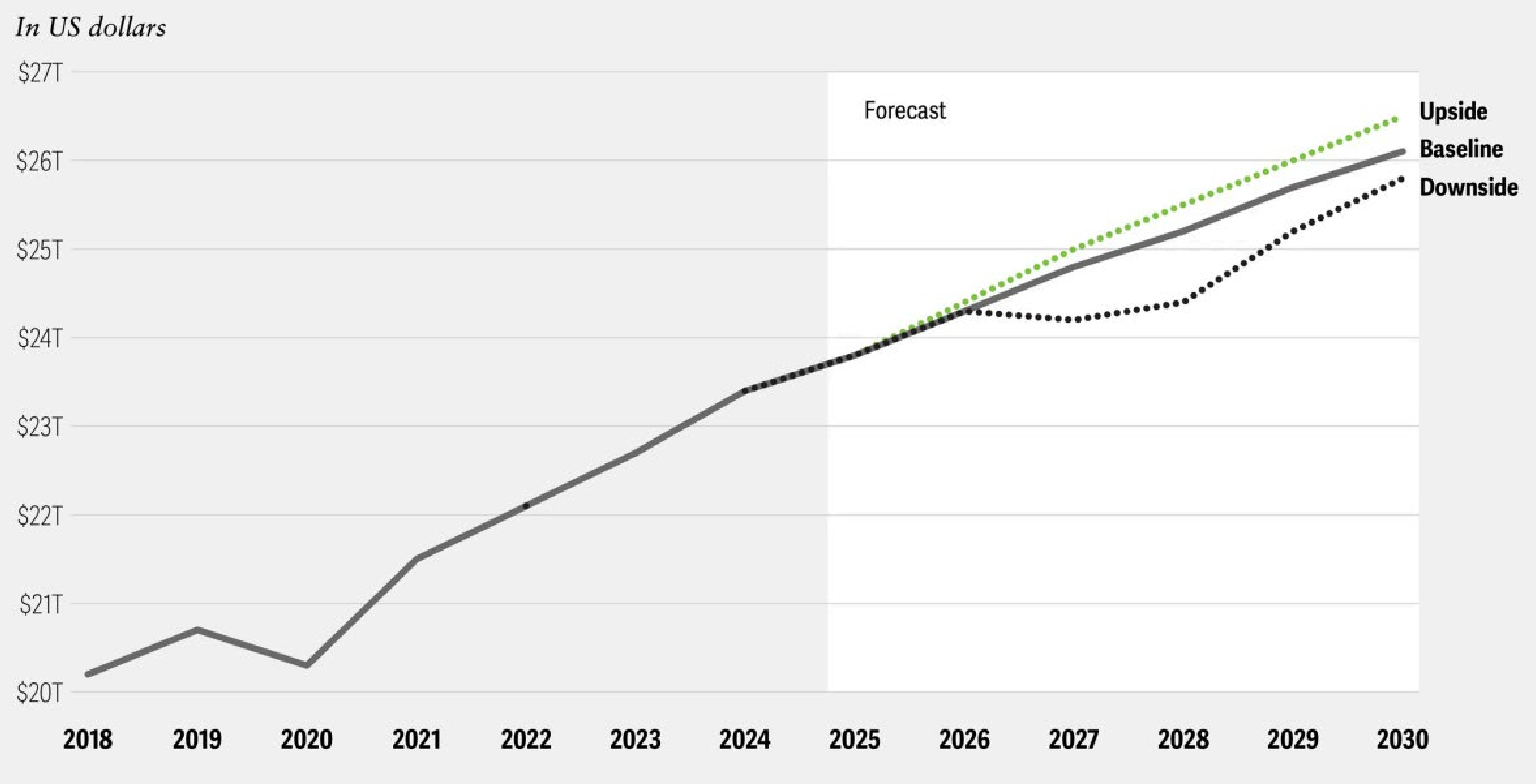
2. Real GDP and Three Different Forecast Scenarios

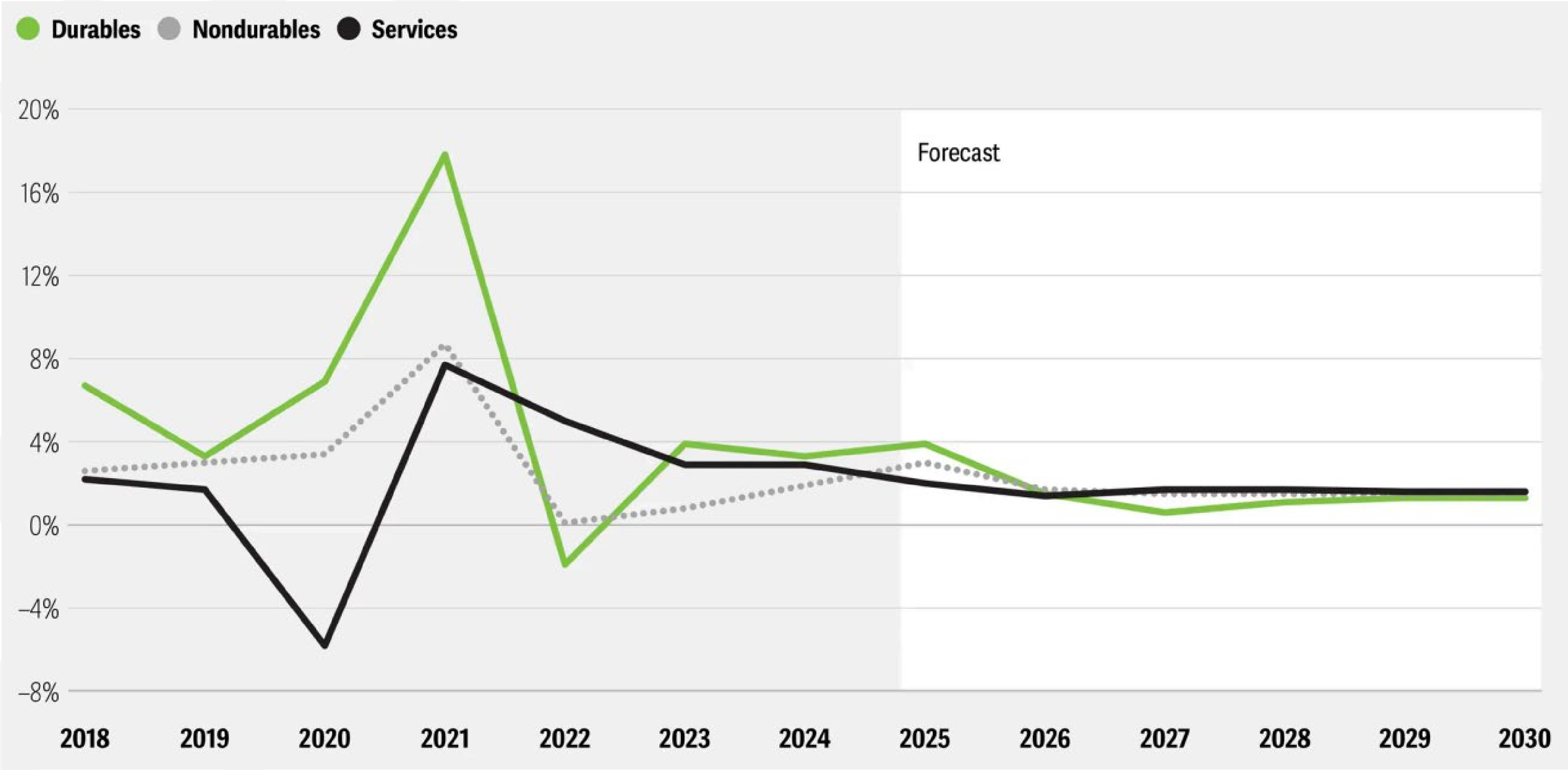


Source: Deloitte Global Economics Research Center, December 19, 2025

Macroeconomic Overview

Introduction to the US market

3. Growth in consumer spending (% change)

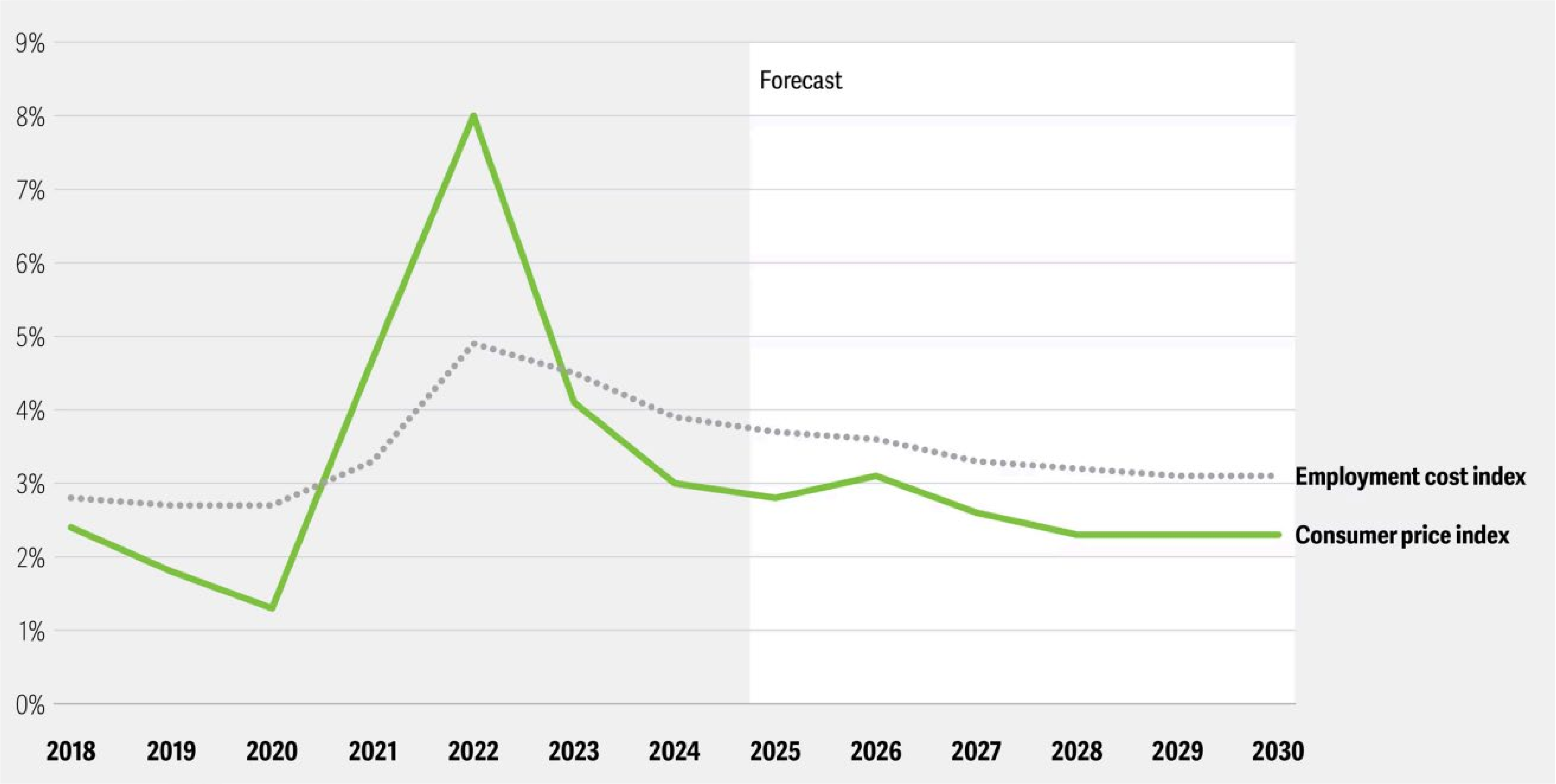


Source: Deloitte Global Economics Research Center, December 19, 2025

Macroeconomic Overview

Introduction to the US market

4. Inflation Rate (% change)



Source: Deloitte Global Economics Research Center, December 19, 2025

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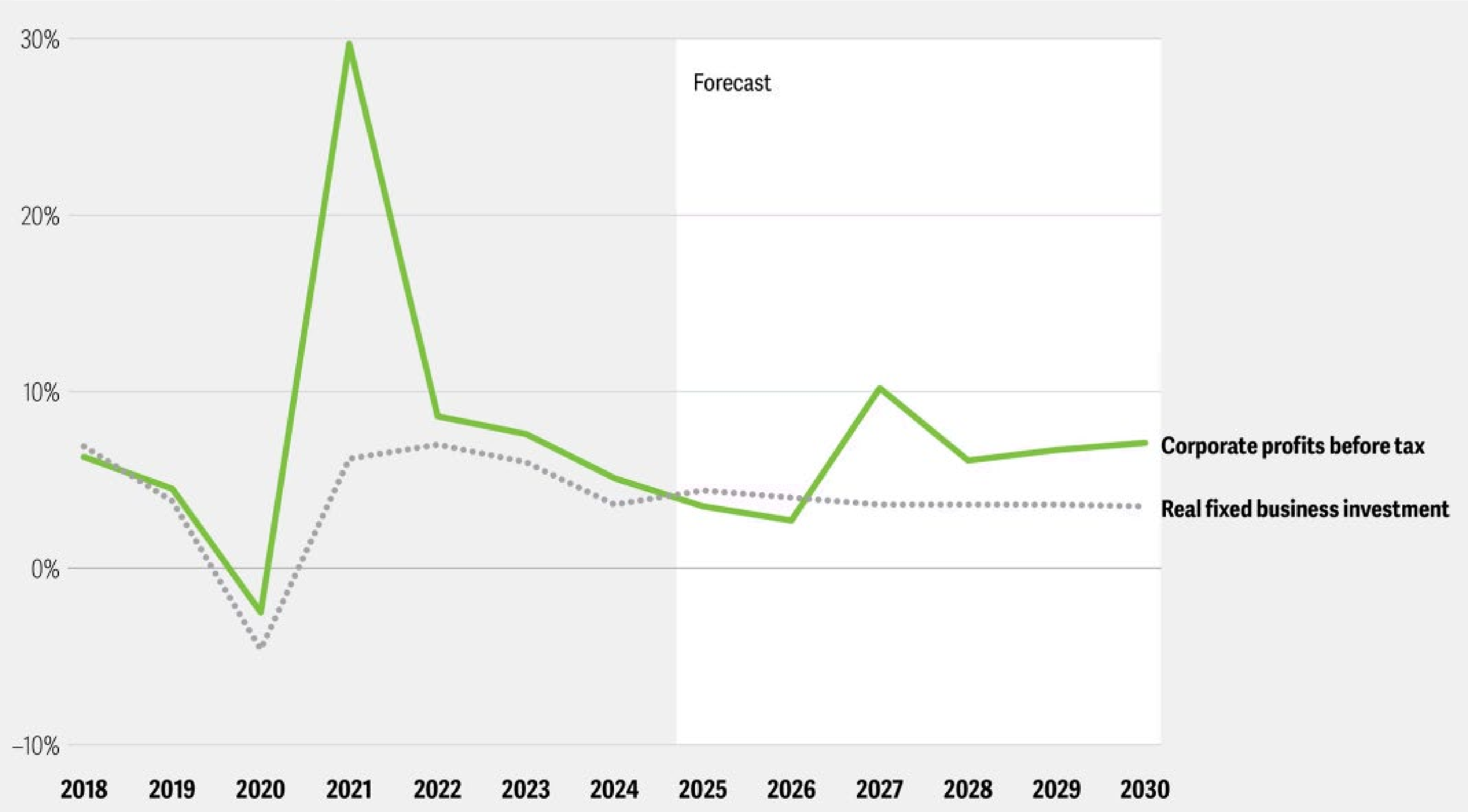
Introduction to the US market

5. Business investment (% change)



Source: Deloitte Global Economics Research Center, December 19, 2025

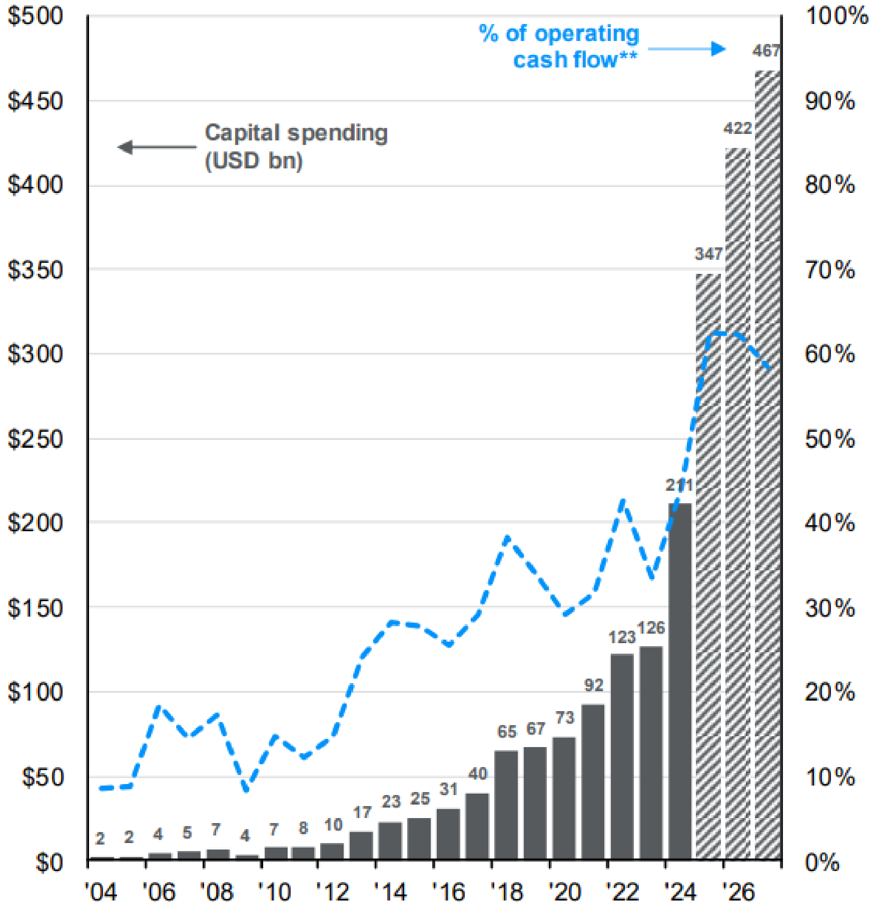
Macroeconomic Overview

Introduction to the US market

6. Productivity and the technology industry

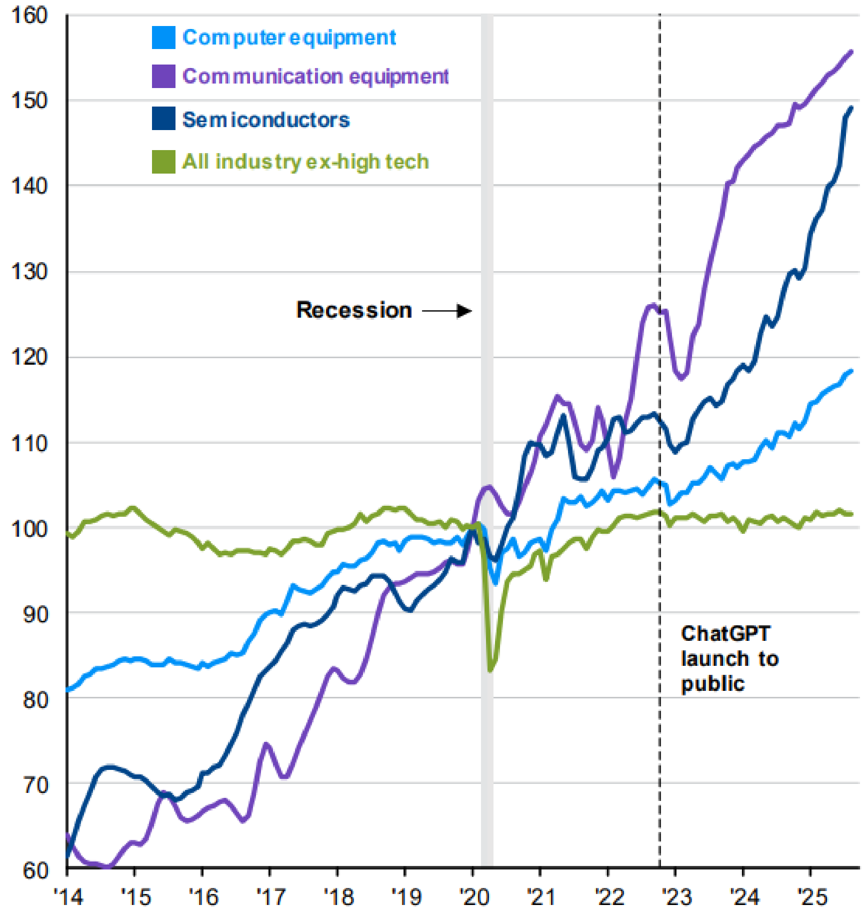
Capex from the major AI hyperscalers*

USD billions; Alphabet, Amazon (AWS), Meta, Microsoft, Oracle



U.S. industrial production of high tech industries

Indexed to 100 in Jan 2020



Source: JP Morgan Asset Management, data as of 9/30/2025

Macroeconomic Overview

Introduction to the US market

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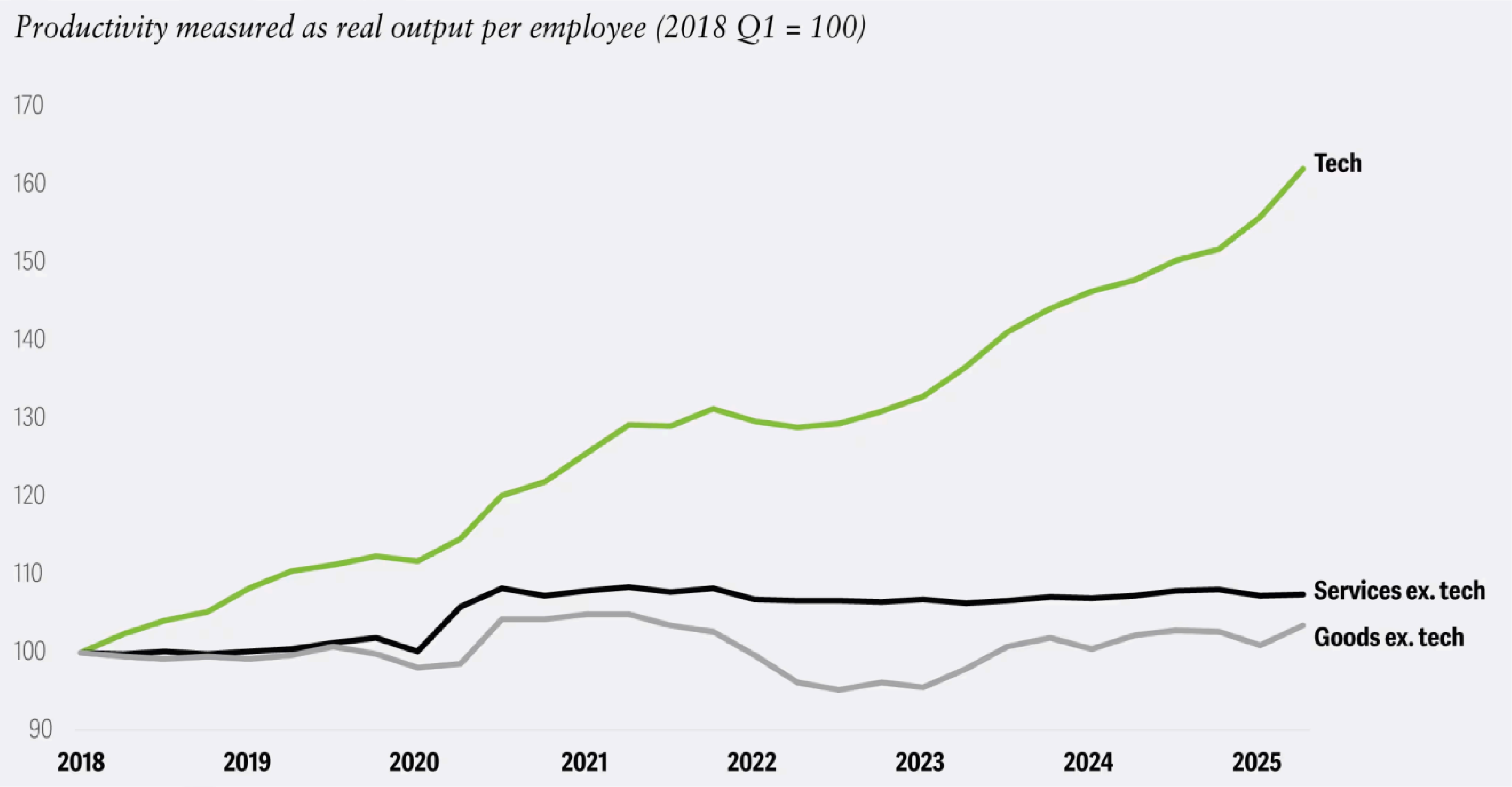
6a. Productivity and the Technology Industry



Source: Deloitte Global Economics Research Center, December 19, 2025

Macroeconomic Overview

Introduction to the US Market

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7. Returns and Valuations by Sector

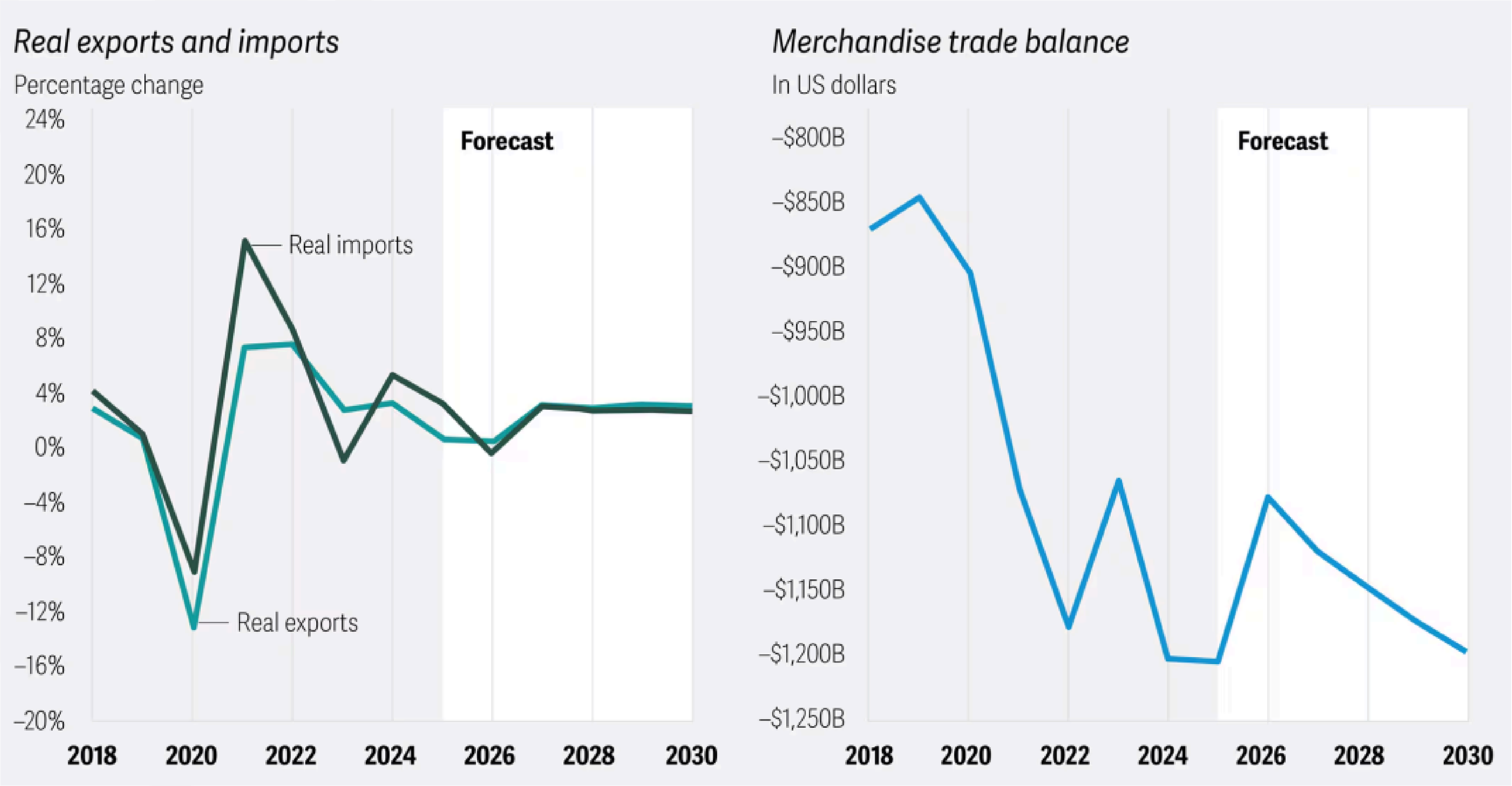
	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index
S&P weight	**2.9%**	**1.8%**	**13.5%**	**8.3%**	**10.5%**	**34.8%**	**10.1%**	**1.9%**	**8.9%**	**4.9%**	**2.3%**	**100.0%**
Russell Growth weight	0.3%	0.3%	6.2%	5.9%	13.2%	52.6%	11.5%	0.4%	6.8%	2.4%	0.3%	100.0%
Russell Value weight	5.9%	4.1%	22.6%	13.1%	7.7%	10.5%	8.1%	4.2%	11.7%	7.6%	4.5%	100.0%
QTD return	6.2	3.1	3.2	5.0	9.5	13.2	12.0	2.1	3.8	-2.4	7.6	8.1
YTD return	7.0	9.3	12.8	18.4	5.3	22.3	24.5	5.3	2.6	3.9	17.7	14.8
Beta to S&P 500	1.2	1.1	1.1	1.1	1.2	1.2	1.1	0.9	0.7	0.6	0.5	1.0
Correl. to Treas. yields	-0.2	-0.6	-0.5	-0.5	-0.2	-0.3	-0.1	-0.8	-0.7	-0.6	-0.4	-0.5
Foreign % of sales	36.7	52.0	28.1	34.2	35.1	55.5	49.1	16.8	32.7	39.7	1.8	41.8
NTM earnings growth	7.8%	13.7%	10.3%	14.6%	10.0%	21.0%	10.5%	4.3%	10.2%	5.2%	8.4%	12.7%
20yr med.	**7.8%**	**11.1%**	**12.0%**	**11.9%**	**14.3%**	**12.0%**	**8.7%**	**6.9%**	**8.3%**	**6.9%**	**4.7%**	**10.4%**
Forward P/E ratio	15.2x	20.1x	16.8x	24.5x	29.3x	30.4x	21.3x	17.3x	16.8x	21.3x	18.7x	22.8x
20yr avg.	**13.6x**	**15.5x**	**12.8x**	**16.7x**	**20.3x**	**18.5x**	**18.8x**	**17.3x**	**15.1x**	**17.8x**	**15.9x**	**16.1x**
Dividend yield	3.5%	1.9%	1.8%	1.5%	1.8%	0.6%	0.9%	3.7%	2.2%	2.7%	2.9%	1.5%
20yr avg.	**2.9%**	**2.3%**	**2.3%**	**2.2%**	**1.7%**	**1.2%**	**2.0%**	**3.7%**	**2.0%**	**2.9%**	**3.8%**	**2.1%**

Source: JP Morgan Asset Management, data as of 9/30/2025

Macroeconomic Overview

Introduction to the US Market

8. Foreign Trade



Source: Deloitte Global Economics Research Center, December 19, 2025

Macroeconomic Overview

Introduction to the US market

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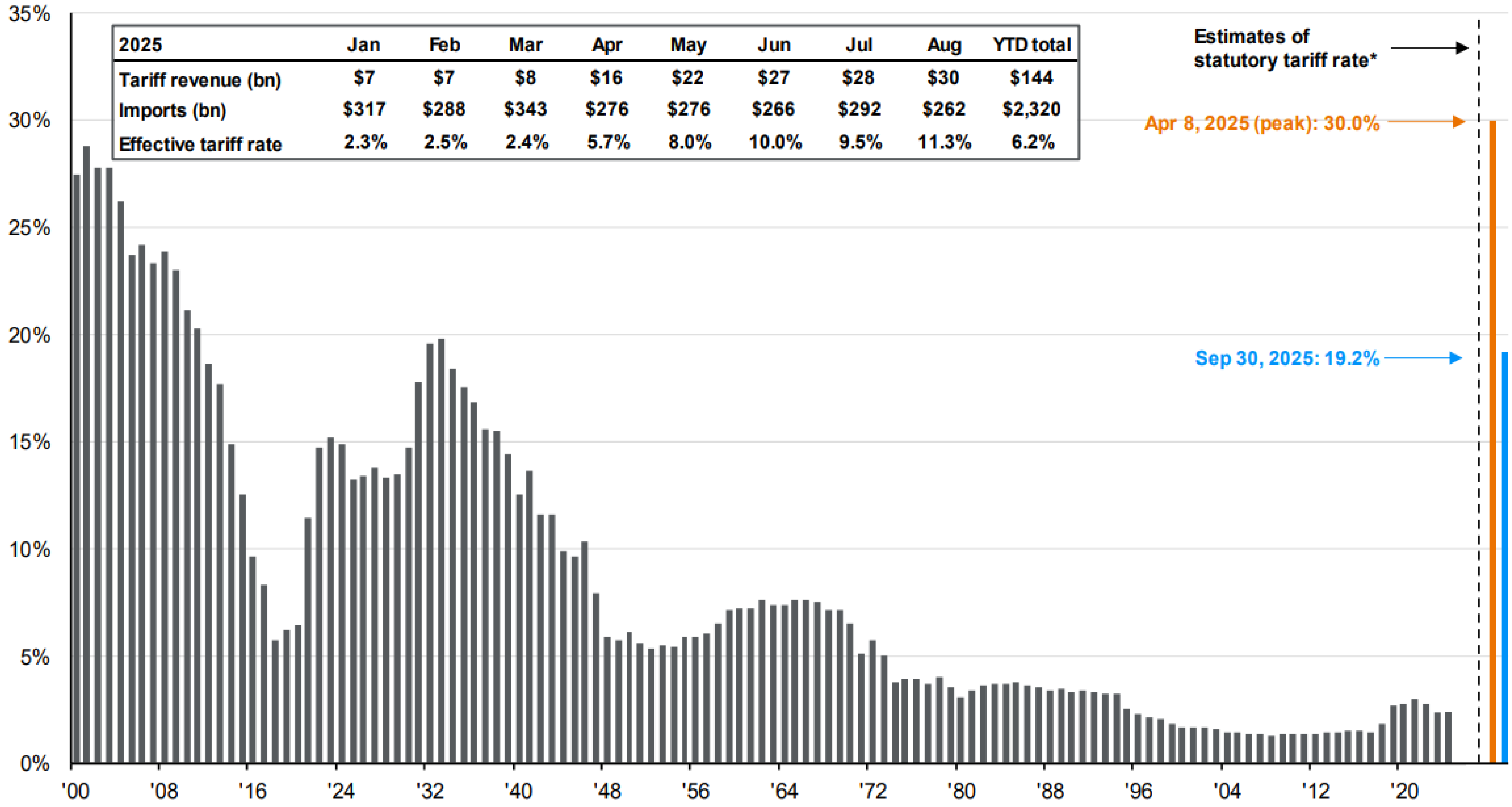
9. Average US tariff rate (ratio of total tariffs collected to total value of imported goods)



2025	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	YTD total
Tariff revenue (bn)	$7	$7	$8	$16	$22	$27	$28	$30	$144
Imports (bn)	$317	$288	$343	$276	$276	$266	$292	$262	$2,320
Effective tariff rate	2.3%	2.5%	2.4%	5.7%	8.0%	10.0%	9.5%	11.3%	6.2%

Source: JP Morgan Asset Management, data as of 9/30/2025

Corporate Forms in the United States

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Corporation (comparable to SpA, SApA, Srl, Ssrl)

Main characteristics:

1) Limited liability for shareholders
2) No limit on the number or type of shareholders
3) Possibility of issuing multiple classes of shares
4) Perpetual existence and a formal management structure
5) Ideal for raising capital and/or listing on the stock exchange

Corporate Forms in the United States

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Partnership (comparable to SS, SNC, SAPA)

Partnership → commercial entity with two or more members

Main characteristics:

1) Joint ownership
2) Profit-making
3) Can be structured as:

A) *General partnership*: all partners have management rights and unlimited liability;

B) Limited partnership: at least one partner with unlimited liability and the other partners with liability limited to their investment;

C) Limited Liability Partnership (LLP): limited liability for all partners. This form is usually used by professional services companies, such as law firms.

Business Structures in the United States

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Sole Proprietorship (sole trader)

The simplest form of business, owned and operated by a single person.

Main characteristics:

1) No legal separation between the legal entity and the individual owner
2) The sole proprietor is personally liable for the obligations of the business
3) No formal legal requirements for setting up a sole proprietorship
4) Depending on the state/location, however, it may be necessary to register the business name or obtain a license to operate.

Corporate Forms in the United States

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Limited Liability Company - LLC (comparable to Srl)

A flexible corporate form, established under state law, which combines the characteristics of all three main types of US companies.

Main characteristics:

1) Legal entity with limited liability for members;
2) No restrictions on the type of management of the members or on the number and type of owners.
3) Management entrusted directly to the members or to appointed directors

Federal and State Taxation

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CORPORATIONS

For tax purposes, they can be divided into two main types:

1) **C – Corporation** (standard company model)
subject to federal taxation at a fixed rate currently equal to 21%, with the possibility of double taxation on profits distributed to shareholders. Tax losses are not transferable.

2) **S-Corporation**
Special tax designation if certain requirements are met:
a) maximum number of shareholders equal to 100
b) all shareholders must be citizens or residents of the United States

Tax transparency → taxation of shareholders – avoiding double taxation of distributed profits

Federal and State Taxation

CORPORATIONS

Currently applicable federal tax rate → 21%

States apply their own income tax in addition to federal tax (average rates from 5% to 10%). Some examples:

New York – 6.50%-7.25%
New Jersey – 6.5%-11.5%
California – 8.84%
Florida – 5.5%
Texas – 0%

Federal and State Taxation

PARTNERSHIPS and LIMITED LIABILITY COMPANIES

In general, income, deductions, capital gains, tax losses, and tax credits are transferred to partners based on their specific share of ownership. Partners report their share of the company's profits on their tax returns, regardless of whether the income is actually distributed.

Shareholders, even if they are individuals or legal entities that are not citizens/residents of the United States, are required to file a tax return in the United States.

These "transparent" types of companies have the option of electing "*corporate status*," i.e., being treated for tax purposes as a C or S corporation.

On the other hand, C Corporations (Corporation-Corp., Incorporated-Inc., Limited-Ltd) are automatically classified as C Corporations and do not have the option of electing a tax treatment other than that reserved for them.

Federal and State Taxation

SOLE PROPRIETORSHIP

For tax purposes, all income and expenses are reported on the individual's personal tax return. Profits from the sole proprietorship are subject to both income tax and self-employment tax.

2026 Tax Brackets and Federal Income Tax Rates | Tax Foundation

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	$0 to $12,400	$0 to $24,800	$0 to $17,700
12%	$12,401 to $50,400	$24,801 to $100,800	$17,701 to $67,450
22%	$50,401 to $105,700	$100,801 to $211,400	$67,451 to $105,700
24%	$105,701 to $201,775	$211,401 to $403,550	$105,701 to $201,775
32%	$201,776 to $256,225	$403,551 to $512,450	$201,776 to $256,200
35%	$256,226 to $640,600	$512,451 to $768,700	$256,201 to $640,600
37%	$640,601 or more	$768,701 or more	$640,601 or more

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State Taxation

Each US state may impose the following taxes:

• ***Income Taxes*** (on income generated by companies or individuals);

• ***Franchise Taxes***: these are taxes due for the privilege of conducting business in a state and may be based on income or other factors (e.g., net worth), taxing only those activities that are attributable to that state (*apportioned amount*).

• ***Withholding Tax***: US states apply similar withholding taxes on payments made to owners of company shares if they are residents of other states. States require the filing of tax returns for individual companies or group returns (combined or consolidated).

Federal and State Taxation

State Taxation

Public Law 86-272:

This is protection from income tax imposed by a state if the non-resident company has limited connections with that state.

For this to be effective, the taxpayer must sell only tangible personal property in the state, and the tax imposed by the state must be an income tax.

Federal and State Taxation

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Other Taxes

Sales Taxes

These taxes are similar to VAT, but are only applied to the end consumer and on the final price of the goods or services, not to those involved in the various intermediate economic stages (wholesalers, retailers, etc.).

Examples of rates applicable in some cities in the United States:

New York City – 8.875%

Chicago – 10.25%

Los Angeles – 9.50%

Miami – 7.00%

Washington, D.C. – 6.00%

Federal and State Taxation

Other Taxes

Property Taxes

These taxes may apply to real estate property (R/P) and tangible personal property (TPP) located within the state's borders.

Examples of rates applicable in some states:

New York – 1.23%

New Jersey – 1.89%

Florida – 0.97%

Texas – 1.81%

California – 0.74%

Federal and State Taxation

Other Taxes

Payroll Taxes – payroll tax contributions

Employers and employees pay taxes on salaries in the form of *Social Security Tax*, *Medicare* Tax, and Federal Unemployment Tax (the latter payable only by employers).

The tax burden is approximately 15% of gross salary, divided equally between the employer and the employee.

Federal and State Taxation

Other Taxes

Excise Tax

This is a tax on specific goods such as gasoline, alcohol, tobacco, and certain luxury items.

It may be imposed by the federal, state, or local government (or all three).

Estate and Gift Tax

The federal government (and some state governments) levy taxes on the transfer of wealth through inheritance (estates) or gifts. The approximate estate and gift tax rate can range from 18% to 40%.

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US tax reform

The "One Big Beautiful Bill Act" (O.B.B.B.A.)

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

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The 100% bonus depreciation — Background and changes to the rules

The depreciation bonus allows US companies to accelerate the recovery of capital investments by deducting part of the cost in the year in which the assets are put into service. The rules governing the depreciation bonus have changed substantially from 2025 onwards.

Key points:

- Introduced as part of the Tax Cuts and Jobs Act of 2017
- Originally temporary, with an automatic phase-out beginning in 2023
- Previous law: 40% bonus in 2025, 20% in 2026, then expiry
- New law: bonus amortization restored to 100%
- Elimination of gradual reduction and expiry (permanent rule)

US tax reform

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Analysis of key provisions of the reform and implications for companies and businesses operating in the US

The 100% depreciation bonus — Impact and planning for FY 2025-2026

Starting in 2026, full expense deduction will once again be the basic rule for eligible assets. This change significantly improves the cash flow of US subsidiaries, but requires special attention to the timing of acquisitions and contract signing.

Key points:

- 100% depreciation = immediate reduction in US taxable income
- Applies to most machinery, equipment, technology, and certain software
- Contract timing remains critical:
  - Assets acquired after January 19, 2025 → 100% bonus depreciation
  - Assets subject to binding contracts before January 20, 2025 → reduced rates may apply
- Executive objective: align 2026-2027 investment planning with tax timing

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

Deductible expenses under Section 179 of the IRC - Context and change in rules

Section 179 allows companies to choose to immediately depreciate certain assets rather than depreciating them over time. Unlike bonus depreciation, Section 179 is optional and subject to annual limits.

Key points:

- Available for qualified tangible business property
- Historically subject to relatively low investment and monetary limits
- Previous law (2024): effective limit ≈ $1.25 million with phase-out ≈ $3.13 million
- New law: spending limit increased to $2.5 million
- Phase-out threshold increased to $4 million (permanent, adjusted for inflation)

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

Deductible expenses under Section 179 of the IRC - Impact and planning for 2025-2026

Starting in 2026, Section 179 has become a much more powerful planning tool for medium-sized US subsidiaries. Higher limits allow companies to make significant immediate capital investments while maintaining flexibility in terms of timing and amounts.

Key points:

- Immediate deduction for eligible purchases → improved cash flow
- Particularly useful for medium-sized US subsidiaries
- Subject to taxable income limitation (unlike bonus depreciation)
- Optional: companies choose the amount to spend
- Useful in cases where bonus depreciation is not available or not desirable

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

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100% depreciation for qualified US production facilities — Background and regulatory change

Under previous US tax law, non-residential real estate used for production or manufacturing was depreciated slowly over time. A new provision allows for the immediate depreciation of certain US manufacturing facilities, representing a significant change in how investments in manufacturing are taxed.

Key points:

- Non-residential property was normally depreciated over 39 years
- The previous depreciation bonus did not generally apply to buildings
- The new law introduces a 100% depreciation bonus for qualifying production properties
- It applies to certain US manufacturing, processing, or refining facilities
- Subject to specific usage requirements and certain timing

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

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100% depreciation for qualifying US manufacturing facilities — Impact and planning for 2025-2026

Starting in 2026, companies that build or expand manufacturing facilities in the US may be able to immediately deduct the entire cost of qualifying buildings. This creates a powerful incentive for investment in US manufacturing.

Key points:

- Potential immediate deduction of the entire cost of the building
- Applies only to facilities used for qualified production activities
- The property must be constructed after January 19, 2025
- Must be placed in service in the United States within the specified time frame
- Strong incentive for *nearshoring* and expanding production in the United States

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

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Internal research and development costs and software — Context and change in regulations (§174)

US tax rules governing software research and development costs changed significantly after 2021, increasing tax expenditure and generating a significant cash flow impact for innovative companies. Starting in 2025, the treatment of domestic research and development costs changed again.

Key points:

- Before 2022: Domestic research and development was generally immediately deductible
- 2022-2024: Mandatory capitalization and amortization over 5 years
- Software development is considered research and development under §174
- New law: immediate deduction for domestic research and development reinstated
- Overseas research and development remains subject to amortization over 15 years

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

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Internal research and development costs and software — Impact and planning for the period 2025-2026

Starting in 2026, tax legislation will once again favor innovation carried out in the United States. This change will have a significant impact on tax expenditure and related cash flow, personnel decisions, and the location of development activities.

Key points:

- Immediate deduction → reduction in cash taxes in the United States
- Applies to the cost of qualified personnel such as engineers, analysis laboratories, and software development teams
- Software development is explicitly considered research and development
- Overseas R&D continues to be amortized over 15 years
- The location of research and development now has a direct tax impact

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

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Deduction of corporate interest expense — Background and amendment to the rule (§163(j))

US tax law limits the deductibility of corporate interest expense. The way this limitation is calculated changed after 2021 and has now been modified again, significantly affecting the amount of interest that US subsidiaries can deduct.

Key points:

- Business interest is generally deductible, subject to the limitations in §163(j)
- Deduction limited to 30% of adjusted taxable income (ATI)
- 2022-2024 rule: ATI based on EBIT
- New law: ATI returns to being calculated on EBITDA
- The change applies to tax years beginning after 2024

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

Deduction of corporate interest expense — Impact and planning for 2025-2026

Starting in 2026, the return to EBITDA-based interest limitations will allow many US subsidiaries to deduct more interest expenses. This will directly affect financial structures, acquisition planning, and intercompany loans.

Key points:

- Higher ATI → higher deductible interest
- Benefits for capital-intensive and leveraged businesses
- Applies to bank debt and intercompany loans
- Improves the tax efficiency of debt-financed growth
- Requires coordination with transfer pricing rules and BEAT

US tax reform

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Analysis of key provisions of the reform and implications for companies and businesses operating in the US

Foreign tax credit (FTC) — Background and changes to the rules

The foreign tax credit is intended to mitigate double taxation on foreign-source income. Recent changes alter how deductions and certain foreign taxes are taken into account, particularly in relation to GILTI and cross-border income.

Key points:

- The FTC allows US taxpayers to obtain a tax credit on foreign income taxes, subject to limitations
- Credit limited by foreign taxable income (per basket)
- Previous rules attributed many deductions (interest, research and development) to foreign income
- The new law limits deductions attributable to GILTI income
- Credit mechanisms considered paid modified (including increased credit usability)

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

Foreign tax credit (FTC) — Impact and planning for the period 2025-2026

Starting in 2026, the revised FTC framework improves credit utilization for many multinational groups but requires model updates. These changes directly affect the after-tax cost of foreign operations and cross-border income flows.

Key points:

- Higher FTC limitation → greater credit utilization
- Particularly relevant for GILTI and income taxed in the EU
- Proper treatment of taxes related to previously taxed amounts
- Inventory produced in the US and sold abroad may generate foreign-source income (up to 50%)
- Strongly recommended to restructure FTC positions

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

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International framework of deductions — FDII/GILTI changes (Context and change in rules)

US tax law provides special deductions to reduce the effective tax rate on income derived from foreign markets and foreign subsidiaries. These rules have been substantially amended starting in 2026, affecting how international income is taxed.

Key points:

- IRC §250 provides deductions for FDII and GILTI
- The previous framework was based on complex formulas related to "intangible income"
- Deductions were expected to decrease significantly after 2025
- The new law restructures the system and prevents the expected reduction

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

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International deduction framework — Impact and planning for 2025-2026

Starting in 2026, the revised FDII/GILTI deduction framework will directly affect effective tax rates on international income. These changes require a reassessment of intellectual property, profit allocation, and cross-border supply chains.

Key points:

- Permanent deductions replace reductions planned for 2026
- New concepts of FDDEI and tested CFC net income
- Change in effective tax rates on international income
- Change in expense allocation rules (less restrictive interest and R&D)
- 2026 is a year of planning, not a year of waiting

US tax reform

Analysis of the key provisions of the reform and implications for companies and businesses operating in the US

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CFC Look-Through Rule — Context and amendment of the rule

The CFC Look-Through rule governs the tax treatment in the United States of payments between related foreign subsidiaries. This rule has always been temporary, creating uncertainty in the cash flow planning of multinational companies.

Key points:

- The look-through rule applies to dividends, interest, rents, and royalties
- It allows certain intercompany payments between CFCs to avoid income under subsection F
- It was previously temporary and subject to repeated extensions
- Expected to expire after 2025 under previous legislation
- The new law makes the look-through rule permanent

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

CFC tax transparency rule — Impact and planning for the period 2025-2026

With the look-through rule now permanent, multinational groups have greater predictability in structuring intercompany cash flows. This stability reduces unintended tax consequences and supports long-term international planning.

Key points:

- Facilitates the tax-efficient movement of liquidity between CFCs
- Reduces the risk of unintended inclusions in subsection F
- Supports centralized intellectual property and treasury structures
- Adds long-term certainty to foreign subsidiary planning
- Allows focus on business needs rather than maturity risk

US tax reform

Analysis of the key provisions of the reform and implications for companies and businesses operating in the US

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BEAT — Context and overview of the rules (only groups with foreign parent companies)

The Base Erosion and Anti-Abuse Tax (BEAT) is a minimum tax regime aimed at limiting the erosion of the US tax base through deductible payments to foreign related parties. It applies only to large multinational groups.

Key points:

- Applies to large companies with average annual gross revenues exceeding $500 million
- It applies to deductible payments to foreign related parties
- It applies in addition to normal US corporate income tax
- It was introduced to discourage the transfer of profits outside the US through deductions
- Focuses on royalties, interest, and service/management fees

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

BEAT — Impact and planning considerations for 2026

Starting in 2026, BEAT will remain a permanent feature of the US tax system for large multinational groups. Although some post-2025 restrictive measures have been repealed, BEAT continues to have a significant impact on the structure of intercompany payments.

Key points:

- BEAT rate permanently set at 10.5% (higher for banks/dealers)
- Planned increases after 2025 repealed
- Tax credits remain usable in BEAT calculation
- May significantly reduce the benefit of intercompany deductions
- Requires coordination between tax, transfer pricing, and finance teams

US tax reform

Analysis of key provisions of the reform and implications for companies and businesses operating in the US

Key aspects of tax planning: capital investment and innovation

Recent tax changes in the United States strongly favor companies that invest in tangible assets and engage in innovation activities in the United States. For many US subsidiaries, these rules bring immediate tax benefits in terms of liquidity and long-term strategic advantages.

Key points:

- 100% deduction rewards capital investments in the US
- Immediate deduction of research and development expenses encourages US-based innovation
- Timing and location decisions directly impact cash flow tax expenditures
- These benefits are the result of planning, not automatic
- Timely coordination creates maximum value

Transfer pricing
Overview of the US regulatory framework

Transfer pricing
Overview of the US regulatory framework

Regulatory basis:

Section 482 of the Internal Revenue Code of 1986: determines transfer pricing regulations
Treasury Department Regulations (sections 1.482-1-9): specific regulations for each type of transaction

- Purpose: clear representation of income – reallocation of income/deductions/credits
- Scope: related parties (direct/indirect control)
- Application based on economic substance

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Regulatory basis:

The US Treasury Department and the IRS consider transfer pricing rules and OECD guidelines to be essentially the same.

Where there is a discrepancy:

1) US regulations should be followed for the purpose of applying or reviewing transfer pricing adjustments within the United States; and

2) The OECD guidelines should be followed in the presence of "*mutual* agreements" or when APA (*Advanced Pricing Agreement*) cases arise due to bilateral international treaties entered into by the United States (Tax Treaties).

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Arm's Length Principle (ALP)

The arm's length principle, as defined in the OECD Guidelines and US Treasury regulations, is the internationally accepted standard for verifying the appropriateness of intra-group transactions. OECD members, as well as many non-member countries, apply the arm's length principle governed by Article 9 of the OECD Convention on Income and Capital Taxes. This principle forms the basis of the extensive network of bilateral tax treaties between OECD member countries.

A controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been achieved if uncontrolled taxpayers had carried out comparable transactions in comparable circumstances. The concepts of results, comparability, reliability, and range are fundamental to the application of the principle.

- Ranges based on comparable (local) data
- Adjustments if the price is outside the range

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Control

- Legal and de facto control
  - Ownership, management, coordinated action
  - No requirement for intent in transfer pricing
  - Relevance of actual conduct

Transfer pricing

Overview of the US regulatory framework

Transactions relevant to transfer pricing and applicable pricing methods

- TANGIBLE ASSETS → CUP, RPM, Cost Plus, CPM
- INTANGIBLE ASSETS (licenses, royalties) → CUT, CPM, PSM
- INTRA-GROUP SERVICES → CUSP, RPM, Cost Plus, CPM
- *COST SHARING AGREEMENTS* → CUT, CPM, PSM
- INTRA-GROUP FINANCING AND GUARANTEES

Transfer pricing
Overview of the US regulatory framework

Transfer pricing methodologies

Comparable uncontrolled price (CUP) method

Under the CUP method, the arm's length price for the transfer of tangible goods between related parties is determined by the price paid for the same or a similar good in a transaction between unrelated parties. The comparability standard under the CUP method is very high.

<u>According to the IRS, CUP produces the most appropriate result if there is a comparable actual uncontrolled price.</u>

1. Direct comparison with uncontrolled transactions
2. Maximum reliability if actual comparables exist
3. Adjustments necessary for minor differences
4. Limitations: rarity of perfect comparables

Resale price method ("RPM")

This is based on a comparison between the gross margin that a buyer in a controlled transaction achieves on the subsequent resale in an uncontrolled transaction and the gross margin achieved in comparable uncontrolled transactions.

1. Suitable for distributors
2. Focus on gross margin
3. High importance of functions and risks
4. Requires accounting reclassifications

Transfer pricing
Overview of the US regulatory framework

Transfer pricing methodologies

Cost plus method ("CP")

This method is based on comparing the gross margin realized on costs directly and indirectly incurred in a controlled transaction with the gross margin realized in comparable non-controlled transactions.

1. Suitable for manufacturers/service providers
2. Focus on mark-ups on costs
3. Central functional comparability
4. Relevance of cost structure

Profit split method ("PSM")

The PSM assesses whether the allocation of the combined profit or loss attributable to one or more controlled transactions complies with the arm's length principle by referring to the relative value of each controlled contributor's contribution to that combined profit or loss.

1. Appropriate for single contributions from multiple parties
2. Combined profit allocation
3. Used for significant intangibles
4. High complexity of application

Transfer pricing
Overview of the US regulatory framework

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Transfer pricing methodologies

Comparable Profits Method (CPM)

The comparable profits method (CPM) assesses whether the amount charged in a controlled transaction is at arm's length based on profitability measures derived from uncontrolled taxpayers engaged in similar business activities under similar circumstances (comparable operating profit).

1. Operating profitability analysis
2. Requires selection of tested party
3. Use of Profit Level Indicators (ROS, Berry Ratio, ROA)
4. Less comparability required on products

Comparable Transactions Method ("CUT")

The arm's length consideration for a controlled transfer of intangible assets is equal to the consideration charged or incurred in a comparable uncontrolled transaction. The CUT method, when it can be reasonably applied based on available information, typically provides the most accurate measure of market consideration for the transfer of intangible assets.

Transfer pricing
Overview of the US regulatory framework

Transfer pricing methodologies

Service cost method

There are six specific transfer pricing methods for controlled service transactions, including the service cost method (SCM). The SCM allows the arm's length price for a controlled service transaction to be determined by reference to the total cost of the services, without any markup. When applied correctly, the SCM is considered the best method. The SCM applies only at the taxpayer's option.

Non-specified methods

If none of the above methods can reasonably be applied, another method may be used to determine the market price for the controlled transaction.

Transfer pricing
Overview of the US regulatory framework

Comparability analysis

Unlike other jurisdictions that follow a strict hierarchy of methods, the United States applies the ***Best Method Rule*** **=**

The taxpayer must select the method that provides the most reliable measure of market outcome, based on data quality and transaction comparability.

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Comparability analysis

In determining whether the results of uncontrolled taxpayers are achieved in transactions and circumstances **comparable** to those of a controlled taxpayer, the following factors are taken into account:

- functions performed and resources used by each taxpayer
- risks incurred in each transaction
- significant contractual terms
- economic factors that could affect prices or profits
- goods or services transferred in the transactions

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Overview of the US regulatory framework

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Contemporary documentation and reporting

- Not required by law or regulations (no indication in tax returns)
- Must still be prepared by the filing date and submitted upon request within 30 days
- Objective: penalty protection under IRC §6662(e) and (h)
- Burden of proof lies with the taxpayer in the event of an audit
- Demonstrate that the prices of related transactions were adjusted according to normal market conditions
- The documentation must include (requirements):
    - an overview of the taxpayer's business,
    - a description of the taxpayer's organizational structure covering all related parties involved in controlled transactions,
    - a description of the transfer pricing method selected and an explanation of why it was selected,
    - a description of other transfer pricing methods considered and an explanation of why they were not selected,
    - a description of the controlled transactions,
    - a description of the comparables used and an explanation of how comparability was assessed,
    - an explanation of the economic analysis and projections on which the transfer pricing analysis was based,
    - a description of all relevant data obtained between the end of the year and the filing of the tax return,
    - an index of the main and reference documents.

Transfer pricing
Overview of the US regulatory framework

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Contemporary documentation and reporting

- The IRS focuses on actual behavior – economic substance
- Inconsistent contracts may be disregarded
- Consistency between risk allocation and financial capacity
- Periodic benchmark updates
- Alignment between pricing and development, enhancement, maintenance, protection, and exploitation of intangibles (DEMPE)

Transfer pricing
Overview of the US regulatory framework

Role of the IRS and transfer pricing audits:

- Ex post verification of results
- Possible retroactive adjustments
- Focus on intangibles and distribution margins
- Use of multi-year data
- Penalties ranging from 20% to 40% of the value of the valuation error
- Tax risks:
  - ✓ Double taxation
  - ✓ Litigation
  - ✓ Impact on cash flow
  - ✓ Reputational risk

Penalties are avoided if the taxpayer had reasonable grounds to believe, at the time of filing the tax return, that the transfer pricing positions adopted and reflected in the return would produce results equal to normal market conditions. The IRC's penalty provisions apply when taxpayers do not reasonably comply with the documentation requirements.

Transfer pricing
Overview of the US regulatory framework

Advanced Pricing Agreements:

Advance transfer pricing agreements - Regulatory and procedural framework (IRS – Rev. Proc. 2015-41)

Definition

- Binding agreement between taxpayer and IRS
- Determines arm's length prices (transfer pricing)
- Valid for current and future intercompany transactions

Objective

- Prevent tax disputes
- Reduce costs and risks of assessment

Transfer pricing
Overview of the US regulatory framework

Advanced Pricing Agreements:

The APA is a binding contract for the taxpayer and for the tax years covered, as well as for the specific transactions regulated.
It cannot be canceled by the IRS without valid reasons.

Types of APAs:

1) Unilateral = agreement with the IRS only. Does not eliminate double taxation.
2) Bilateral = agreement with the IRS and the foreign tax authority. Eliminates the risk of double taxation. This is done through MAP procedures.
3) Multilateral = involves multiple jurisdictions. Useful for groups with integrated activities that follow a coordinated approach to profit allocation.

Transfer pricing
Overview of the US regulatory framework

Advanced Pricing Agreements:

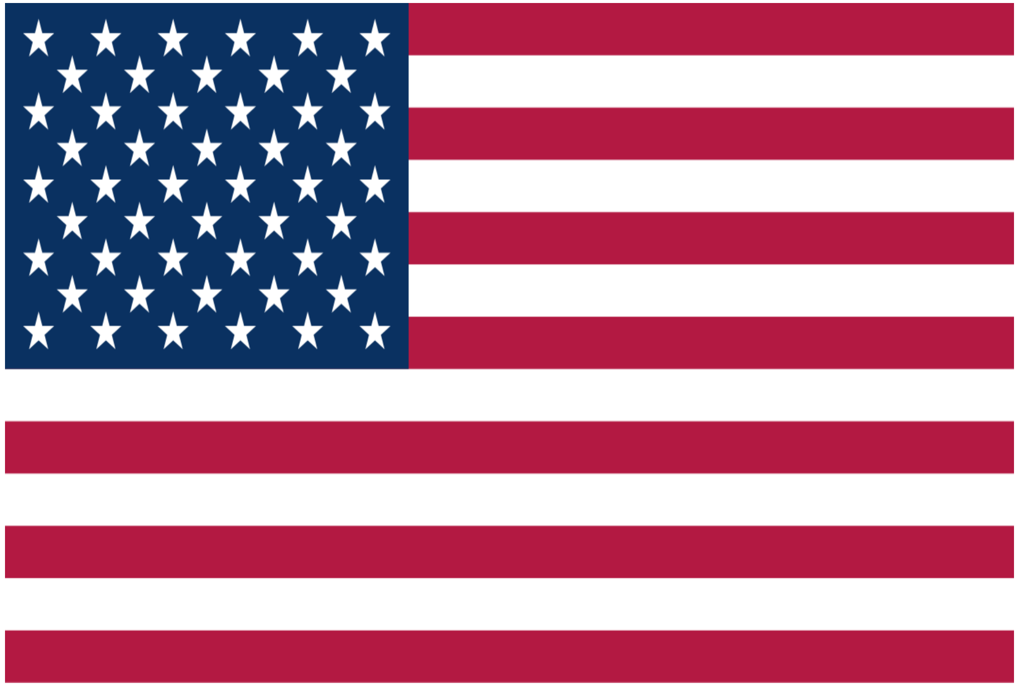
APA rates (from February 1, 2025):
- ✓ $121,600 – new APA application
- ✓ $65,900 – APA renewal
- ✓ $57,500 – APA of modest scope
- ✓ $24,600 – Minor amendments

Recommended duration: greater than or equal to 5 years (years following the agreement and preceding years)

Annual monitoring

Transfer pricing

Contrasting approaches between Italy and the United States



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Comparative analysis of methodologies

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Legal basis and role of the OECD:

Italy: Art. 110(7) TUIR – explicit alignment with OECD Guidelines

USA: IRC §482 – autonomous and prescriptive legislation

OECD: binding in Italy, persuasive in the USA → greater formalism and IRS discretion

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Hierarchy of transfer pricing methods:

Italy: principle of the "most appropriate method" (OECD).
Preference for traditional methods if reliable (e.g., CUP)

USA: Best Method Rule – selection of the most reliable method on a case-by-case basis
Practical convergence, but different regulatory approach

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Comparative analysis of methodologies

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Selection of comparables – geographical approach:

USA: strong preference for domestic comparables (US market)

Italy/OECD: acceptance of pan-European comparables in the absence of local ones

High audit risk in the USA with non-domestic comparables
Impact on the robustness of benchmark analyses

Transfer pricing
Comparative analysis of methodologies

TNMM (Italy/OECD) vs CPM (USA):

Both based on profit indicators (PLI)

USA: less emphasis on product similarity, focus on functions/risks

Italy: greater attention to product consistency

Operational differences in the selection of comparables

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Comparative analysis of methodologies

Profit indicators and multi-year data:

USA:
greater flexibility on ROCE for capital-intensive companies
Systematic use of three-year moving averages

Italy:
preference for markups on costs or operating margins
greater focus on year-on-year analysis in audits

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Determination of the interquartile range:

Both use the interquartile range.

USA:
each point in the range is theoretically arm's length

Italy:
historical tendency towards the median value

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Comparative analysis of methodologies

Documentation:

Topic	Italy	United States
Legal basis	National regulations implementing OECD/EU standards; Italian regulations on TP documentation pursuant to Article 76 of the Consolidated Law on Direct Taxes and the 2010 legislation/guidelines.	IRC § 482 and penalty provisions of IRC § 6662(e), (h) and related regulations.
Type of documentation	Mandatory OECD-style master file and local file, with defined content.	"Main" and "background" documents demonstrating the choice of method, comparables, analyses, etc.; no master/local file structure.
Scope of application/Thresholds	Generally applies to Italian entities belonging to multinational groups; with simplifications for SMEs and certain materiality standards.	Applies to all taxpayers with controlled transactions; documentation primarily affects the application of IRC § 6662(e) penalties when adjustments exceed statutory thresholds.
Timing ("contemporaneous")	The master file and local file must exist at the time of filing the annual tax return; taxpayers must indicate in the return that the documentation is in their possession.	The documentation must exist at the time the return for the year is filed; it cannot be created only after an IRS audit has begun.
Filing deadline - if requested	The documentation must generally be provided to the Italian Revenue Agency within 10 days of the request.	It must be provided to the IRS within 30 days of the request to obtain protection from penalties.

Transfer pricing
Comparative analysis of methodologies

Documentation:

Topic	Italy	United States
Submission vs. Retention	Not submitted with the return; the taxpayer must check the appropriate box on the tax return confirming possession and retain the files for inspection.	Not submitted with the return; retained and provided to the IRS only upon request.
Language	Documentation must be in Italian; the group master file may be provided in English, but the local file must be in Italian.	No explicit foreign language requirements in the regulations; in practice, documentation for the IRS must be in English and in US dollars. (Checkpoint comment)
Required content - Structure	Master file: group structure, value chain, intangible assets and financing, TP policies, APA/ruling, etc. Local file: detailed description of the Italian entity, functions/risks/activities, transaction categories, comparability, selected methods, benchmarking.	The main documents should include: overview of the business, organizational structure, description of controlled transactions, selected method and rationale, discarded methods, comparables and comparability analysis, economic analysis/projections, significant transactions with third parties, and other supporting information; reference documents include contracts, financial data, source data, etc.
Sanction protection mechanisms	A proper and timely master file/local file provides protection from administrative penalties related to TP; the Revenue Agency assesses whether the documentation is "adequate," but minor omissions that do not compromise the analysis should not result in the loss of protection.	Adequate contemporaneous documentation may qualify the taxpayer for "reasonable documentation exclusion," protecting them from the 20%/40% penalty related to accuracy on TP adjustments under IRC § 6662(e)/(h) if a specified method is reasonably applied and documentation is provided within 30 days.

Transfer pricing
Comparative analysis of methodologies

Penalty framework:

USA:
penalties of 20% or 40% of the underpayment
Italy:
penalties of 90%–180% of the assessed tax

In both cases, documentation serves as protection against penalties

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Comparative analysis of methodologies

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APA and MAP - Risk Management Tools:

Italy and the United States have essentially similar APA concepts (unilateral/bilateral/multilateral, expected duration of 5 years, potential reductions), but the programs differ in terms of formality, costs, and administration.

Topic	Italy - APA	United States APA (IRS/APMA, Rev. Proc. 2015 41)
Types	Unilateral, bilateral, multilateral, in line with OECD guidelines and MAP.	Unilateral, bilateral, multilateral; bilateral is the standard in the presence of a treaty.
Legal/procedural basis	National TP rules and administrative practice, in line with OECD TP Guidelines and use of MAP.	Formal program in Rev. Proc. 2015-41, administered by the APMA within LB&I. The US program is highly formalized under Rev. Proc. 2015-41 with pre-set templates, detailed procedural rules, and significant costs of use (in the six-figure range), which may be a determining factor for smaller cases.
Who can apply	Taxpayers involved in cross-border transactions with related parties; voluntary, focused on actual/planned transactions.	Any taxpayer with cross-border transactions with related parties under IRC § 482; includes the APA option for "minor cases."
Pre-filing	Informal pre-filing meeting to verify eligibility/scope.	Structured pre-filing conference; a pre-filing memorandum is often required for complex or unilateral APA requests.

Transfer pricing
Comparative analysis of methodologies

APA and MAP - Risk Management Tools:

Topic	Italy - APA	United States APA (IRS/APMA, Rev. Proc. 2015 41)
Formal request	Detailed description of covered transactions, proposed method, analysis; initiates review and negotiation (for bilateral/multilateral, via MAP).	Mandatory IRS form; must include taxpayer information, detailed functional/TP analysis, comparables, and critical assumptions.
Usage fees	Italian guidelines generally do not impose the very high fixed usage fees found in the United States (the cost is higher in preparation/interaction).	Significant fixed fees: for example, approximately $121,600 for the original, $65,900 for renewal, $57,500 for minor cases (starting in 2025).
Duration	Generally at least 5 years prospective; may include rollback by agreement.	Typically 5 years prospective; duration determined on a case-by-case basis.
Rollback	Possible, especially in bilateral/multilateral APAs, to resolve open prior years where the facts are similar.	Explicit rollback feature; APA method can be applied to open prior years, often with statutory extensions.
Critical assumptions	Understood as part of the agreed methodology; failure to comply may require revision/termination (OECD approach).	Formal section dedicated to "critical assumptions"; failure to comply may result in revision, cancellation, or revocation.

Transfer pricing
Comparative analysis of methodologies

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APA and MAP - Risk Management Tools:

Topic	Italy - APA	United States APA (IRS/APMA, Rev. Proc. 2015 41)
MAP (Mutual Agreement Procedure) Interaction	Bilateral/multilateral APAs are effectively implemented through MAPs under treaties; the goal is symmetrical acceptance and exemption from double taxation.	The APMA conducts MAP negotiations for bilateral/multilateral APAs under the MAP article of the treaty; failure to reach an agreement may leave only a unilateral APA option.
Compliance and audits	APAs generally eliminate transfer pricing disputes for the years covered if the taxpayer complies; authorities focus on monitoring adherence and critical assumptions, with strong protection from penalties.	The IRS limits its audit of covered transactions to compliance with the APA and disclosures; the taxpayer must submit an annual report. Non-compliance or misrepresentation may result in cancellation/revocation of the APA.
Penalty/double taxation protection	Strong penalty protection and significant assurance that the arm's length standard is met for the covered years; bilateral/multilateral APAs also mitigate double taxation.	For covered transactions, the APA largely eliminates § 482 disputes and exposure to TP § 6662 penalties; bilateral/multilateral APAs coordinate double taxation relief.
Use cases and strategies	For medium-sized or Italy-based groups, a unilateral Italian APA may be more practical in cases where the treaty partner is less cooperative or where cost/fee constraints make a bilateral APA with the US less attractive.	For large groups based in the United States, the bilateral US APA (US-Italy or US-other countries) is often the benchmark agreement; Italy can then pursue a mirror bilateral APA to ensure symmetry and protection from double taxation.

Transfer pricing
Comparative analysis of methodologies

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Compliance and audits	APAs generally eliminate transfer pricing disputes for the years covered if the taxpayer complies; authorities focus on monitoring adherence and critical assumptions, with strong protection from penalties.	The IRS limits its audit of covered transactions to compliance with the APA and disclosures; the taxpayer must submit an annual report. Non-compliance or misrepresentation may result in cancellation/revocation of the APA.
Protection from penalties/double taxation	Strong protection from penalties and significant assurance that the arm's length standard is met for the covered years; bilateral/multilateral APAs also mitigate double taxation.	For covered transactions, the APA largely eliminates § 482 disputes and exposure to TP § 6662 penalties; bilateral/multilateral APAs coordinate double taxation relief.
Use cases and strategies	For medium-sized or Italy-based groups, a unilateral Italian APA may be more practical in cases where the treaty partner is less cooperative or where cost/fee constraints make a bilateral APA with the US less attractive.	For large groups based in the United States, the bilateral US APA (US-Italy or US-other countries) is often the benchmark agreement; Italy can then pursue a mirror bilateral APA to ensure symmetry and protection from double taxation.

Transfer pricing
Implications for cross-border transactions

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Customs valuation strategies and price adjustments:

The price used for tax purposes is the same price declared to US customs.
The primary basis for customs value under the "Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994" (source: WTO) is the "transaction value" defined as "the price actually paid or payable for the goods sold for export to the United States" (19 U.S.C. section 1401a(b)(1), as amended).

In general, Customs will consider a sale between unrelated parties to be made "at arm's length." If the parties to the requested transaction are not unrelated as defined in 19 U.S.C. 1401a(g), a declaration to that effect must be submitted. However, if the parties involved in the requested transaction are related, information must be provided to Customs demonstrating that the transaction value can be based on the sale between related parties, as provided in 19 U.S.C. 1401a(b)(2)(B). (i.e., that the circumstances of the sale indicate that the relationship did not affect the price or that the transaction value closely approximates certain test values).

Transfer pricing
Implications for cross-border transactions

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Customs valuation strategies and price adjustments:

Increased customs tariffs would reduce profitability in the United States. This could result in a decrease in the effective tax rate in the United States and require adjustments to TP and financial methods.

Tariff mitigation strategies
- ✓ first sale for export
- ✓ Transaction value – elimination of non-dutiable charges

Post-import price adjustments
- ❑ Require additional customs declarations
- ❑ Triggering of additional or reduced duties
- ❑ Risky if not properly documented and reconciled

Transfer pricing
Implications for cross-border transactions

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<u>*The impact of increased customs duties on TP policies*</u>

Benchmarks and comparability

Alteration of the cost structure:
the increase in duties reduces the importer's profitability. Without adjustments, margins fall outside the range of free competition.

OECD Guidelines and US practice Comparability "adjustment" if duties affect margins and are not reflected in the set of comparables

Corrective actions:
1) Recalculation of PLIs (e.g., operating margin, BERY index)
2) Selection of new comparable samples operating in similar tariff contexts

Transfer pricing
Implications for cross-border transactions

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The impact of increased customs duties on TP policies

Allocation of customs risk

Defining which entity should contractually bear the burden.

• Risk identification: in an arm's length analysis, who would bear the tariff risk? (Local distributor vs. manufacturer).

• Impact on the "Tested Party":

- If the distributor is limited risk (LRD): it should not suffer from tariff fluctuations. The intercompany price should be lowered to ensure its target return.
- If the distributor controls the commercial risk: the margin variation could remain with them.

Key note: Contractual consistency is essential to justify price adjustments to the authorities.

Transfer pricing
Implications for cross-border transactions

The impact of increased customs duties on TP policies

Year-end adjustments and customs valuation

- Increase adjustments: a price increase at the end of the year (to reduce excessive profits) signals to Customs an underestimated import value → Risk of penalties and back duties.
- Downward adjustments: Difficulty in recovering duties already paid.

Divergence of interests:

- Customs: Favors high import values (higher revenue).
- Tax authorities: Favors low import prices (higher local profits).

EU vs. US focus: In the US, the *Reconciliation* program offers flexibility; in the EU, the Hamamatsu ruling complicates the link between TP and customs value.

Transfer pricing
Implications for cross-border transactions

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The impact of increased customs duties on TP policies

Mitigation strategies and compliance

- *Avoid aggressive price shifting:* reducing transfer prices solely to lower the customs tax base exposes you to double taxation disputes (IRS/AdE).

- *Robust documentation:* quantify the specific economic impact of tariffs in TP documentation. Document the reasons for tariff risk allocation.

- *Dynamic monitoring:* benchmarks must be updated promptly in response to geopolitical tensions.

- *Certainty Tools:* evaluate APAs (Advanced Pricing Agreements). Request advance customs rulings for high exposures.

A new scenario for international trade

Initial analysis of the ruling issued by the Supreme Court of the US (SCOTUS) and strategic impacts on customs tariffs

Initial analysis of the SCOTUS ruling and strategic impacts on customs tariffs

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On Friday, February 20, 2026, the US Supreme Court issued **a historic** 6-3 **ruling** declaring President Trump's tariffs imposed under the International Emergency Economic Powers Act (IEEPA) **unlawful**.

Chief Justice John Roberts ruled that the IEEPA does not give the President the power to impose customs duties, as Congress has never explicitly delegated such authority.

This category includes the so-called "Liberation Day" tariffs—reciprocal tariffs applied to almost all of the United States' trading partners—as well as tariffs imposed on Canada, Mexico, and China on grounds related to fentanyl trafficking.
Tariffs imposed under other regulations — such as Section 232 and Section 301 (tariffs on steel and aluminum, for example) — remain in effect.

Initial analysis of the SCOTUS ruling and strategic impacts on customs tariffs** **(source: Oxford Economics)

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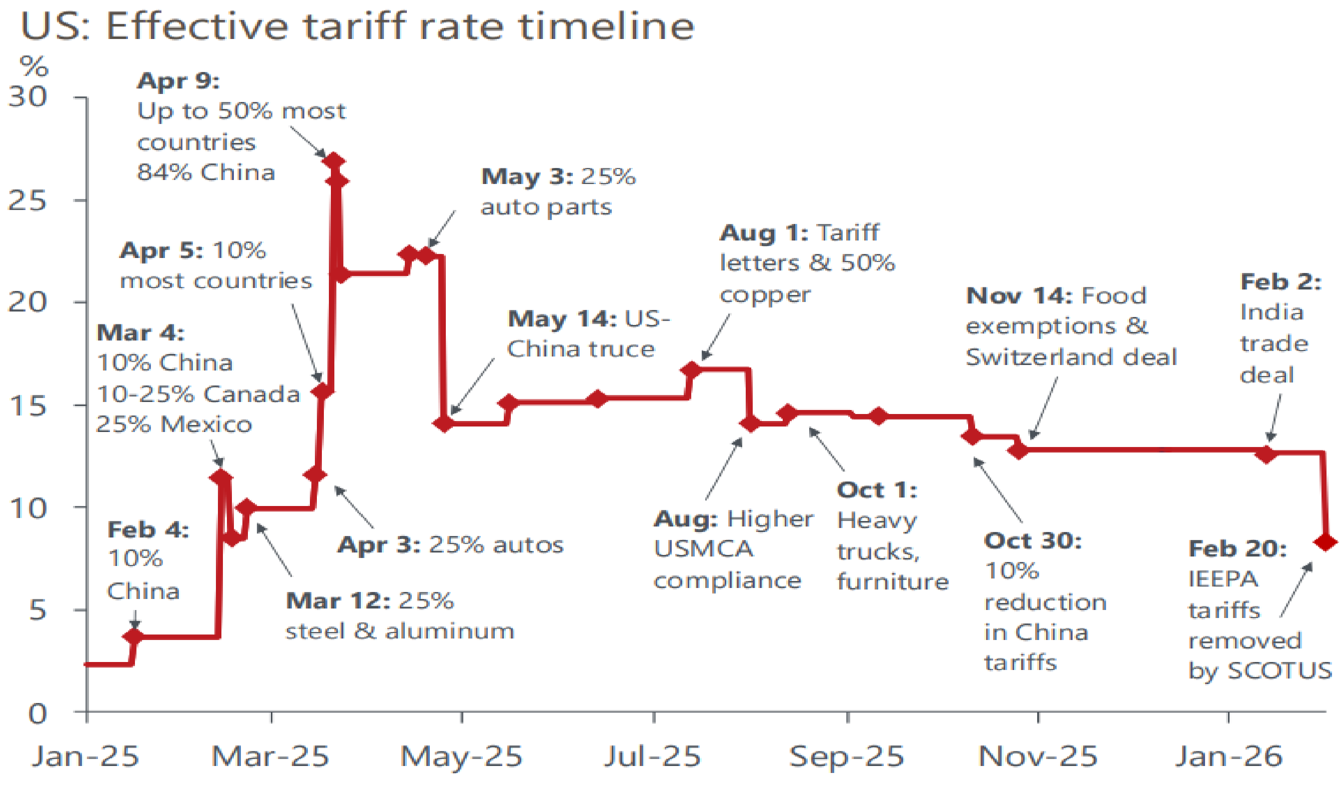
The Supreme Court ruling on the White House's tariff policy drastically reduces the effective tariff rate to 8.3%, down from the previous 12.7%.

The Supreme Court did not rule on whether the administration must refund the more than $130 billion in duties already paid under these declarations, which is likely to result in a lengthy legal battle.

Possible scenario: the US administration invokes Section 122 of the Trade Act of 1974 (never invoked before) to immediately apply tariffs of up to 15% on all US imports for a maximum of 150 days before seeking congressional approval for an extension.

Initial analysis of the SCOTUS ruling and strategic impacts on customs tariffs (source: Oxford Economics)

Economic implications of the Supreme Court's decision



Sources: Oxford Economics, Census Bureau

Initial analysis of the SCOTUS ruling and strategic impacts on customs tariffs *(source: Oxford Economics)*

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Economic implications of the Supreme Court's decision

1. Immediate reduction in the overall statutory tariff rate

2. Overall macroeconomic implications are marginal: if the administration takes no action in response, the partial respite from high tariffs would increase annual GDP growth in 2026 by 0.1 percentage points, with a limited effect on inflation (however, this analysis does not take into account the more than $134 billion in IEEPA duties - equal to 0.4% of GDP - that the Treasury may have to refund to importers

↓

<u>Decision postponed by the Supreme Court</u>

Initial analysis of the SCOTUS ruling and strategic impacts on customs tariffs (source: Oxford Economics)

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Economic implications of the Supreme Court's decision

3. According to studies by Oxford Economics, the US macroeconomy is no longer as sensitive to tariff shocks as previously thought. Furthermore, the Supreme Court ruling is something that the White House can circumvent, as it has other legal means at its disposal to recreate a tariff rate of around 12.7%.

<u>The key motivation for applying other legal means is **fiscal** in **nature**</u>

Although business investment (among the components of GDP) is most vulnerable to periods of political uncertainty, the latter will not impact AI-driven investment, while the corporate tax cuts provided for in the One Big Beautiful Bill Act will lead to an increase in federal spending.

With the abolition of IEEPA tariffs, the federal government will collect $2.3 trillion in tariff revenue in the period 2026-2035, compared to $3.6 trillion before the ruling.

Initial analysis of the SCOTUS ruling and strategic impacts on customs tariffs

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Economic implications of the Supreme Court's decision

Deficits Under an Alternative Scenario

Assumptions in Alternative Scenario	2026-2036 Cost (Nominal)	2036 Cost (Nominal)	2026-2036 Cost (% of GDP)	2036 Cost (% of GDP)
Current Law Deficits	**$26.3 trillion**	**$3.1 trillion**	**6.1%**	**6.7%**
Temporary OBBBA Provisions Made Permanent	$1.9 trillion	$0.3 trillion	0.4%	0.6%
Permanent Revival of ACA Health Subsidies	$0.4 trillion	<$0.1 trillion	0.1%	0.1%
IEEPA Tariffs Ruled Illegal	$1.9 trillion	$0.2 trillion	0.5%	0.4%
Interest	$0.8 trillion	$0.2 trillion	0.2%	0.4%
Increase in Deficits Under Alternative Scenario	**$5.0 trillion**	**$0.7 trillion**	**1.2%**	**1.5%**
Deficits Under Alternative Scenario	**$31.3 trillion**	**$3.8 trillion**	**7.3%**	**8.1%**

Sources: Congressional Budget Office and CRFB estimates. Note: Numbers may not sum due to rounding.

Initial analysis of the SCOTUS ruling and strategic impacts on customs tariffs (source: Oxford Economics)

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Economic implications of the Supreme Court decision

4. Significant upside risk potential for the future trajectory of federal debt and deficits.
   Treasury budget deficits: +0.4 percentage points over the next decade
   Debt-to-GDP ratio: +3.1 percentage points.

5. Risk of long-term interest rate increases

6. However, bond markets took the news in stride, as they expect the administration to use other legal tools at its disposal to return tariffs to pre-ruling levels.

Initial analysis of the SCOTUS ruling and strategic impacts on customs tariffs (source: Oxford Economics)

Economic implications of the Supreme Court decision

Conclusion: The administration can and will seek to replicate the current level of tariffs, and the direct effect of tariffs on growth, inflation, federal revenues, and financial markets will be similar to that currently projected in the pre-ruling baseline forecasts.
However, this results in another wave of trade policy uncertainty for businesses, investors, and households. This uncertainty represents a key risk to the economic outlook stemming from the Supreme Court ruling, but in the worst-case scenario, it will slow U.S. economic growth this year without derailing it.

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Further reading – legal aspects

The US Supreme Court ruling sent another message: companies now have stronger legal grounds to challenge unfavorable customs classifications or punitive duties, but they face greater regulatory uncertainty.

- ❑ An increase in appeals against anti-dumping and countervailing duties is likely
- ❑ The broad powers delegated to the President to impose tariffs (e.g., tariffs on China) will come under scrutiny.
- ❑ Government agencies will have to provide much stronger legal justifications for imposing new charges

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Strategic Recommendations

- ❑ Immediately review active tariff positions and evaluate potential appeals:
  Check import records for the last year to identify amounts paid in IEEPA duties, as these could form the basis for a future refund claim.

- ❑ Maintain flexibility in the supply chain while the US legal landscape readjusts:
  Avoid making significant decisions regarding supply chain or pricing policies based solely on today's ruling.

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