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Tariff Mitigation Strategies: Transfer Pricing, Logistics, Currency

May 7, 2025



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3-Part Webinar: 20+ Strategies to Mitigate Tariffs

April 30

Controlling what you can control

Agenda

- Supply side and demand side pricing, volume, and terms
- Cash flow, inventory, cost accounting
- Retooling and sourcing
- Incentives (reshore or relocate closer to customer)

Speakers

- Mike Smith
- Paul Stepanek
- Paul Buzzell
- Jen Rohen

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Transfer pricing, currency, and logistics

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- Transfer pricing
- State tax
- Logistics considerations
- Currency

Speakers

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- Paul Stepanek
- Brandon Knight
- Angie Kappel
- Mary Buchzeiger

May 14

Fine-tuning

Agenda

- Country of origin and transformation
- Duty drawbacks
- Break out non-tariffed costs
- HTS code analysis
- Tariff engineering
- Chapter 98
- Bonded warehouse and Free Trade Zones

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Goal: Reducing Exposure, Preserving Margins

1. **What** tariffs apply?
2. **How** to mitigate the impact?



IMMEDIATE

Tariff accounting "hygiene"
(regardless of % tariff)



NEXT 12 MONTHS

Current footprint



12-24+ MONTHS

Evolving footprint



Welcome



Paul Stepanek

President,
Complete Manufacturing
and Distribution



Kyle Dawley

Principal
CLA International
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Angie Kappel

Vice President
Foreign Exchange
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Managing Principal of
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Mary Buchzeiger

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Lucerne International



Tariff Policy Update

- Tariff rate and exemption announcements
 - Update on tariff effective dates
 - New/expanded rates and exemptions
- Trade deal news
 - Status of negotiations with China, Japan, MX/CAD, EU, India, Other
 - Timing of announcements
- Capitol Hill update
 - Legislative proposals
 - Tax policy
 - Litigation



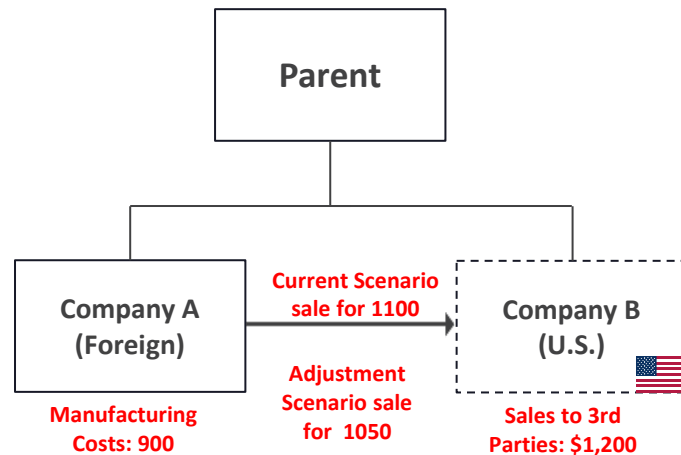
Transfer Pricing ("TP")

- The pricing between related parties
- Must be priced “arm’s length” (as if unrelated)
- Limited ability to modify transfer pricing on amended returns
- Critical for managing cash flow/tax and operational efficiencies
- Documentation required for financial and tax authority audits



TP and Tariffs

Particulars	Pre-transfer pricing adjustment	Post-transfer pricing adjustment
Transaction price	\$1,100	\$1,050
Custom duty (10%)	\$110	\$105
Corporate tax in country A (25%)	$\$200 * 25\% = \50	$\$150 * 25\% = \37.5
Corporate tax in country B (15%)	$\$100 * 15\% = \15	$150 * 15\% = \$22.5$
Total tariff savings	$\$110 - \$105 = \$5$	
Total cash tax savings	$(\$50 + \$15) - (\$37.5 + \$22.5) = \$5$	



Non-Dutiable Costs

- Potential examples
 1. Exclusive distribution fees
 2. Buying agent fees
 3. Freight and insurance
 4. Supply chain origin fees
 5. Storage/warehousing
 6. Inspection/testing
 7. Certain types of packaging
 8. Certain taxes
 9. Post implementation adjustments
 10. Exchange rate premiums
- Legal advice recommended



Sales and Use Tax Considerations

- Tariffs raise the cost of imported goods which may increase the taxable value for sales and use taxes. This varies by state and need to be monitored and accounted. Failure can lead to under payment of sales tax and/or loss of margin in not factoring in customer pricing.
 - For example, California does include tariffs in the taxable value (see CDTFA Publication 34 and CA Revenue and Taxation Code Section 6501) while Florida allows separately stated charges (e.g., tariffs) to be excluded from the taxable amount if properly documented and not included in the price charged to the customer (Florida Administrative Code Rule 12A-1.008).
- Certain states offer exemptions or credits for tariffs paid, reducing the sales/use tax burden.
- Inconsistent or evolving rules creates complexities that need to be monitored regularly and critical for detailed documentation and support.



Plan to Optimize



Demand forecasting



Inventory management and automation



Consider 80/20 and obsolescence

Considering Options



Freight consolidation



Consideration of modes



Review Regularly and Adjust

Bonded Warehouses vs. FTZ*

	Bonded Warehouse	Free Trade Zone	Foreign Trade Zone
Location	Within US customs territory	Outside of US customs territory in other countries	Outside of US customs territory in the USA
Customs Entry	Filed when goods enter.	Filed when goods are removed.	
Storage Time	Up to 5 years	Indefinite	
Activities	Sort, clean, repackage under customs supervision.	Sort, inspect, repair, test, clean, etc.	
Manufacturing	Not permitted	May be permitted (depending on classification).	
Duties & Taxes	Paid when withdrawn.	Paid when withdrawn. May reduce or eliminate some duties and provide certain tax exemptions. No duty on re-export.	
Duty Calculation	Duty calculated based on rate at time of exit.	Duty Locked upon entry to warehouse.	
Flexibility	Less flexibility: Shipments in their entirety.	More flexibility: withdraw goods as needed.	

*Legal advice recommended.



Foreign Exchange and Currency Risk Management

PRESENTED BY:
ANGIE KAPPEL, VP, FOREIGN EXCHANGE
MAY 7, 2025



What Are Companies Asking About Foreign Exchange?

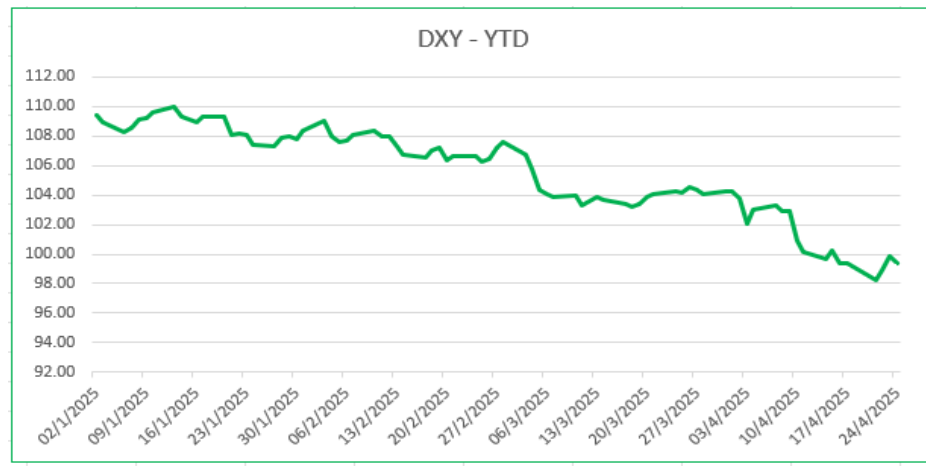


- What have been the most significant developments in the FX market this year?
- What do currency fluctuations mean for importers and exporters?
- At what point should I hedge my exposures?
- Why should I hedge?
- Why should I have a currency risk management plan?

FX Market Themes 2025



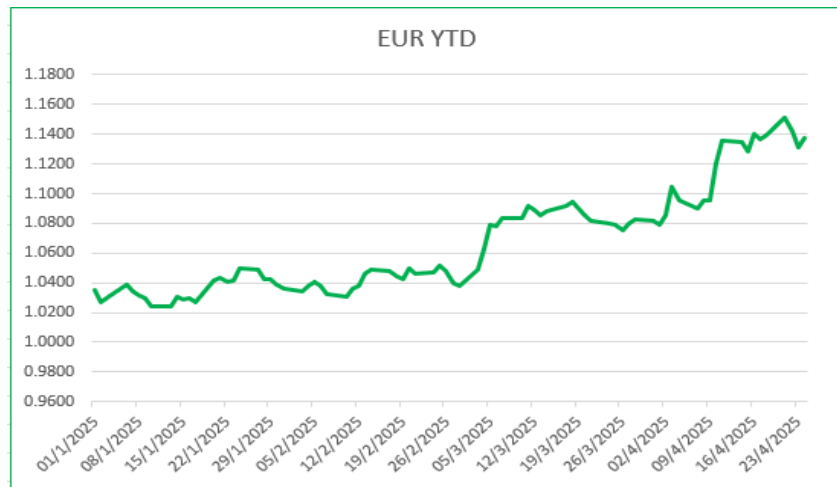
- **Market Volatility:** Elevated FX uncertainty
- **USD Weakness:** U.S. Dollar Index posted a 9% decline this year
- **Theory-Market Mismatch:** Economic theory does not match market reality
- **Shaken Confidence in USA:** Confidence in U.S. dollar, U.S. bonds and stocks is shattered
- **Rush to Safe Havens:** Investors fleeing into Japanese yen, Swiss franc and Gold and assets in other countries
- **No Crystal Ball:** Analyst forecasts for the U.S. Dollar Index vary by nearly 10% over the next year



Euro – YTD



- **EUR Strength:** Euro gained 14% from this year's weakest level in January
- **USD weakness, not EUR strength:** Benefiting from U.S. dollar weakness
- **EUR Interest rate Cuts:** European Central Bank cut interest rates by 0.25% on April 17th
- **EUR Reserve Currency Share UP:** Starting to become “offset” currency to U.S. dollar, Central Banks increasing euro currency reserves



What Do Currency Fluctuations Mean For Importers?



- **Higher Costs:** price of imported goods or services increased between 7-14%
- **Decreased Profitability:** profit margin might decline
- **Inflation:** increase prices to customers
- **Competitiveness:** potentially harder to compete with products produced in country

What Do Currency Fluctuations Mean For Exporters?



- **Lower Prices:** products or services 7-10% cheaper to international buyers
- **Better Profits:** if prices kept stable
- **Higher Demand:** more demand for U.S. products
- **Competitiveness:** increases international competitiveness
- **New Markets:** enter new markets



What Goes Into An FX Risk Management Policy?



- **Purpose and Scope:** define why the policy exists; entities, currencies and transactions covered
- **Risk Identification:** types of FX exposures
- **Risk Measurement:** outline how exposures are quantified
- **Risk Appetite and Objectives:** limits on acceptable levels of FX exposure
- **Hedging Strategy:** types of instruments allowed (forwards vs. options)
- **Hedging Execution:** who can execute trades, counterparties, approval and confirmation process
- **Accounting and Reporting**
- **Internal Controls and Compliance**
- **Policy Review and Update**



Three Buckets of FX Hedging



FORWARD CONTRACTS

essentially immunize you from any FX movements, good or bad, for the length of the contract.



VANILLA OPTIONS

provide all the protection of a Forward Contract, but leave you free to reap all the rewards of favorable moves.



STRUCTURED OPTIONS

offer you full protection while limiting your ability to capitalize on favorable moves.

Pros

Protects you fully against unfavorable changes in FX rates

Protects you fully from unfavorable rate changes while allowing you to reap all the rewards of favorable changes

Offers you full protection while reducing or eliminating the premium entirely

Cons

You don't benefit from favorable changes

You must pay a high premium for the privilege

Your potential gain is limited

20+ Tariff Reduction Strategies

Simple

Complex



Reduce price of goods

- Supplier discount
- Supplier terms
- Volume buy
- VAT reclaim
- SALT
- Transfer pricing
- Non-dutiable costs
- HTS codes
- Duty drawback
- First sale
- Chapter 98
- Relief process

Cash flow

- Inventory
- Cost accounting
- Currency
- Bonded warehouses
- Free Trade Zones
- Foreign Trade Zones

Customer

- Price change
- Terms change
- Volume buy

Logistics

- Freight consolidation
- Volume planning
- Diversify transportation modes

Product and process

- Country of origin, transformation
- Tariff engineering
- Resource
- Reshoring credits and incentives



Tariff Roadmap Assessment

Reactive >> Proactive

Step 1



Impact

- Current state
- Supply side
- Demand side



Roadmap

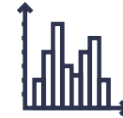
1. **Short term:**
“tariff hygiene”
2. **Medium:**
current footprint
3. **Long-Term**
reimagined footprint

Step 2



Implement

- People
- Process
- Systems



Measure and Adjust

- KPIs
- Weekly huddle

Dynamic environment – agility is mission critical



Polling *Question*

I would like help with our tariff roadmap:

- Yes
- Not at this time



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Contact us to discuss how we can *serve* you and *help* you *achieve* your goals.

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