



TaxNewsFlash

Canada

Transfer Pricing Challenges — Are You Ready for 2026?

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Multinational enterprises (MNEs) continue to face challenges in their businesses due to rising global pressures and evolving regulatory environments. With these challenges expected to continue into 2026, it's important for MNEs to take a moment now to ensure they can keep pace with new developments, meet compliance requirements and maintain operational competitiveness. To complicate matters, Canadian companies engaged in U.S. trade are navigating an increasingly complex tariff and regulatory environment. Certain MNEs are also preparing to meet upcoming Public Country-by-Country Reporting requirements (commonly known as Public CbC reporting) and contending with broad tax and regulatory changes, including recently enacted U.S. tax rules. Additionally, the CRA is increasing its focus on transfer pricing issues in its audit of MNEs.

For more details on these changes, see a [technical article](#) prepared by KPMG Canada.

Top transfer pricing considerations

This publication outlines several ongoing critical areas that MNEs should consider from a transfer pricing perspective as they wrap up 2025 and move into 2026:

- Trade tariffs
- Public CbC reporting
- U.S. tax developments
- CRA audits.

Your KPMG adviser can help you assess the effect of these developments and develop a strategic approach that addresses the intersection of tax, trade tariffs and transfer pricing considerations. KPMG can also help MNEs assess whether they should initiate any year-end transfer pricing adjustments. Making any requisite changes in a timely manner can help ensure consistency with business operations, objectives and the arm's length principle.

Trade tariffs

Canadian companies engaged in U.S. trade should consider implementing transfer pricing techniques to contend with a complex and constantly evolving tariff environment. While the U.S. courts are considering the legality of certain U.S. tariffs on Canadian imports, trade uncertainty is expected to continue into 2026 as Canada and the United States prepare to renegotiate the Canada-United States-Mexico Agreement (CUSMA).

To mitigate the financial impact of tariffs and preserve competitiveness in cross-border supply chains, MNEs may redesign their transfer pricing structures to lower the applicable tariffs, while ensuring that the U.S. distributor earns an arm's-length profit margin. Generally, a lower transfer price leads to a lower customs value, resulting in a lower tariff. However, before MNEs adjust or redesign their transfer pricing structures, a thorough analysis of supply chain and sales structures is required to ensure compliance with transfer pricing regulations. In addition to the analysis and modelling of potential transfer pricing structures, MNEs should consider whether the proposed changes can serve broader, long-term business needs. Affected MNEs should have robust transfer pricing documentation, including embedding adjustment clauses into intercompany agreements, which can assist when MNEs are faced with audit scrutiny from both tax and customs authorities.

It is also important to note that the strategic role of transfer pricing also extends to broader supply chain planning. In light of the current trade environment, many Canadian MNEs are reevaluating where they manufacture, where they hold intellectual property, and how they distribute their goods to their foreign customers (directly or indirectly). MNEs in this situation should consider modelling to quantify the financial impact of different supply chain scenarios and identify opportunities to unbundle non-dutiable costs (e.g., royalties, services and marketing expenses).

For further details on tariffs, see *TaxNewsFlash-Canada* 2025-37, "[Canada Removes Surtax on Certain U.S. Goods](#)", *TaxNewsFlash-Canada* 2025-34, "[Businesses — Don't Delay in Addressing Tariff Challenges](#)", and *TaxNewsFlash-Canada* 2025-21, "[Tariffs — Canadian Businesses May Qualify for New Relief](#)".

Public CbC reporting

In-scope MNEs should actively prepare to meet their upcoming Public CbC reporting compliance requirements. The public CbC reporting rules, which originated as part of the Organisation for Economic Co-operation and Development (OECD)'s Base Erosion and

Profit Shifting (BEPS) Action Plan, generally require MNEs that exceed certain size thresholds to publish certain tax-related information to the public. Although Canada has not introduced domestic public CbC reporting rules, many jurisdictions around the world have already enacted these requirements, including Australia, which introduced public CbC reporting rules that apply to certain MNEs for reporting periods beginning on or after July 1, 2024 and EU member states, which have enacted rules that will generally require affected MNEs to release a public CbC report by the end of 2026.

Affected Canadian-headquartered MNEs must be prepared to comply with the rules in every country where they have subsidiaries or branches. These MNEs must establish proper systems, procedures and processes to ensure accurate and timely filings. MNEs should also maintain comprehensive documentation to support and validate their transfer pricing arrangements. Further, affected organizations should ensure that their current profit allocation aligns with the value created in each jurisdiction and that their various filings are consistent across the board (e.g., public CbC reports, tax returns, financial statements).

U.S. tax developments

MNEs should also undertake a review of their cross-border structures, transfer pricing policies and existing intercompany agreements in light of recently enacted U.S. tax rules, many of which take effect on January 1, 2026. The U.S. budget reconciliation bill (commonly known as the “One Big Beautiful Bill Act”) includes several international tax changes that will impact U.S. MNEs with cross-border operations, as well as Canadian MNEs with operations or investments in the United States. In particular, the new U.S. bill affects the following tax rules:

- The Global Intangible Low-Taxed Income (GILTI) regime (renamed to Net Controlled Foreign Corporation (CFC) Tested Income rules)
- The Foreign-Derived Intangible Income (FDII) regime (renamed to Foreign-Derived Deduction Eligible Income (FDDEI) rules)
- The Base Erosion and Anti-Abuse Tax (BEAT)
- The business interest deduction (and limitation) rules.

In certain cases, these revised rules provide MNEs with incentives to restructure their operations and intra-group arrangements. Conducting a timely and thorough evaluation of the impact of these changes will enable MNEs to effectively capitalize on any potential tax planning opportunities while still remaining compliant with the relevant tax rules.

For further details of these changes, see *TaxNewsFlash-Canada* 2025-30, “[U.S. Passes “One Big Beautiful Bill” Tax Changes](#)”.

CRA activity

The CRA has substantially increased its scrutiny of transfer pricing in recent years, in line with global initiatives to increase corporate tax transparency. However, the CRA’s recent

audit activity extends beyond reviews of transfer pricing documentation. In many cases, the CRA is using its enhanced audit powers to request information related to the parent company or foreign affiliates (including through the courts), which may not be readily available from the Canadian taxpayer, often leading to additional time and resources from headquarters. In recent years, the CRA has focused on certain areas, including the following:

- Government subsidies — Whether MNEs have appropriately treated government subsidies in industries that are used to attract or retain foreign investments (e.g., video game and software industries)
- Intangible assets — Whether MNEs have accurately attributed the value of intangible assets (e.g., technology, patents, and trademarks) to the jurisdictions where the value was created and managed.

The CRA has also audited MNEs that have made pandemic-related shifts or have closed plants. In particular, the CRA has considered whether an MNE's pandemic related changes in respect of the reallocation of risks, resources, and income are consistent with transfer pricing principles. In one case, where an MNE closed its plant operations in Canada, the CRA audited the MNE's treatment of the transfer of existing sales contracts, inventory, equipment, and personnel, as well as closure costs (e.g., severance).

To navigate these and other CRA audit challenges, MNEs should:

- Prepare robust transfer pricing documents that are aligned with local standards, and the OECD's documentation standards
- Consider Advance Pricing Arrangements (APAs) with tax authorities on transfer pricing treatments for specific transactions in advance
- Undertake comprehensive internal risk assessments to identify potential areas of transfer pricing risk and to implement corrective measures.

We can help

Your KPMG adviser can help you assess the effect of these new and ongoing developments. MNEs must remain vigilant, continually adapting their compliance frameworks and maintaining open communication with advisors to effectively mitigate tax risks. For more details, contact your KPMG adviser.

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