Personal Tax Planning

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An Individual’s Exposure to Transfer Pricing

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As the effects of the global economic slowdown continue, Canada and other developed countries are increasingly focusing on the protection of national tax revenues. With this aim, tax authorities are closely examining and evaluating the pricing of cross-border transactions, with the assistance of legislated transfer-pricing rules. Most tax professionals consider transfer pricing to be exclusively a corporate tax issue for large multinational enterprises. However, transfer-pricing rules may also apply to personal taxpayers, including entrepreneurs and high net worth individuals, many of whom are taking advantage of the benefits of global commerce.

Transfer pricing applies to transactions between related persons or non-arm’s-length parties. The broad definition of related persons and non-arm’s-length parties in Canada’s Income Tax Act means that Canadian individual taxpayers may be exposed to legislated transfer-pricing rules in situations not previously contemplated. For example, entrepreneurs or high net worth individuals are frequently involved in day-to-day transactions with non-resident related parties, but in most cases they are unlikely to have considered the transfer-pricing consequences that may arise from these activities. With increased awareness and vigilance in relation to cross-border transactions, individual taxpayers should be able to continue to enjoy the benefits of global commerce without running afoul of the transfer-pricing rules in Canada and abroad.

**KEYWORDS:** Transfer Pricing ■ Individual ■ Cross-Border ■ Related ■ Entrepreneurs ■ Arm’s Length

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