Strategies and Implications

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1. Introduction —

The interplay between the new U.S. tariffs, federal and state taxes, and tax reform, and strategic planning for potential outcomes, has become a core focus area for any U.S. business that imports tangible property into the U.S. Layered on top of this is the need for these businesses to plan for the outcome of U.S. transfer pricing rules as they impact U.S. tax profitability for related parties.

Numerous increases to tariffs have been imposed, while others are on hold until final trade deals are implemented and other paused tariffs become finalized, potentially after July 9, 2025. Moreover, the U.S. House of Representatives passed the One Big Beautiful Tax Bill, which is presently in the U.S. Senate under review. The administration hopes to sign the bill in early July, which means many revisions could be made before passage.

While these issues are, and have been, prevalent throughout 2025, businesses that import tangible property are now directly impacted by tariffs, and should begin active strategic planning for both their tariffs and U.S. federal and state tax posture to achieve future efficiency. Despite the uncertainty, some increased tariffs are likely to continue, as well as federal and state tax changes, regardless of a new tax bill being enacted. Enough information is available to commence tariff and integrated tax planning, and businesses should implement strategic thinking over the next few months.

This Guide's focus is on identifying strategies for addressing tariffs, and their potential federal and state tax implications. In doing so, businesses can begin to navigate how to best approach an integrated plan for these outcomes. While there is near certainty that changes to both tariffs and tax rules will be made before this Guide is published, its approach will continue to be useful in identifying the issues, and directing businesses to a coordinated tax/tariff approach for the near future.

1.1. Current U.S. Tariff Rates —

Current U.S. tariff rates (in effect and delayed) are contained in Table 1 below. Any tariff rate referred to in this Guide may or may not be the actual final amount charged to U.S. importers since they will be updated over the next few months, but it illustrates the general direction and trend. It should also be noted that numerous semiconductors and pharmaceutical drugs are exempt.

Table 1

U.S. Import Tariff Rates as of June 26, 2025 [1]

China and Hong Kong	30% until around August 12, 2025, could be increased to 145% after July

Most countries under the baseline reciprocal tariff (individual country reciprocal tariffs are delayed until July 9, 2025)	10%
Most automobiles	25%
Most automobile parts	25%
Most steel and aluminum	50%
Certain goods from Canada and Mexico	25%
[1]For the latest information on the response to the new U.S. tariffs, see **Roadmap: International Response to the New United States Tariffs**.	

These tariffs are currently being collected as goods enter the U.S. and have already raised significant revenue over the last few months. Monthly tariff revenue has more than doubled since January 2025. In January, $7.4 billion in tariff revenue came into the U.S.; by April 2025, this had increased to over $16 billion.

2. Tariff Strategies

2.1. Core Areas of Current Tariff Regime Compliance to Be Reviewed —

Under the current and evolving tariff regime, there are several core areas to review and monitor to ensure that the importer is compliant and considering the relevant aspects. In doing so, businesses can establish baseline reporting and compliance to prepare for the changes coming their way.

Ensuring that the good is reported with the actual tariff code is critical. There have been many instances of miscoding that could lead to inappropriate higher tariffs. In particular, exempt goods should be reviewed to ensure proper coding. For example, auto parts have numerous exempt subcategories. Additionally, for Canada and Mexico, some aluminum and steel goods may be exempt under United States-Mexico-Canada Agreement (USMCA) rules. Businesses should obtain a copy of their ACE report from the customs authorities to see what codes and tariff rates have been reported.

Other areas include conducting a detailed review of the tariff rate by country to avoid miscalculating the duty rate, while also reviewing the reporting of the country of origin, U.S. value added, and the current impact on transfer pricing.

2.2. Monitoring Change and Impact on Cost of the New Tariffs —

New tariff announcements and/or Executive Orders occur almost weekly (sometimes daily), causing a significant degree of uncertainty. Given that tariff rates are likely to shift, businesses should plan for increased costs, if applicable, to ascertain impact. Many corporations are already facing negative impacts to their earnings (either through additional costs and/or consumer pullbacks) because of tariffs. It is critical to monitor the countries of supply and changes in tariff rates (i.e., E.U., U.K., Asia, Latin America, and others). As trade deals become finalized and implemented this can be reliably calculated. It is also important to assess the global impact of the tariffs to determine its impact on margin. This is core to proactive planning.

With constant changes in tariff policy being an integral component of President Trump's customs communication, Table 1 should be taken as a guideline and not as an exact set of rates. For example, on June 3, 2025, President Trump, by Executive Order, increased “Section 232 Tariffs on Steel and Aluminum” from 25% to 50%. Further, President Trump ordered two separate 90-day pauses on higher rates applicable to China and other countries to allow for negotiations. The end of the first 90-day tariff pause is quickly approaching (at or around August 12, 2025 for China and July 9, 2025 for the other countries), although both could be extended.

Despite the announcement, many questions on actual parameters and the staying power of the “deal” remain. China tariffs have been as high as 145%, which effectively stopped trade with China before they were paused. Additionally, China and Hong Kong lost de minimis eligibility, which had allowed an exemption from tariffs for certain goods under $800 in value.

2.3. Strategies to Consider for Tariff Planning —

Various areas of strategic thinking should be assessed to arrive at a supply chain process and procurement planning that effectively address increased tariffs. These approaches should be reviewed as a whole since they are not mutually exclusive.

Many of these strategies can be combined and should all be modeled out to ascertain the financial cost and benefit to the specific business. For example, combining components importing and Free Trade Zones strategies could yield a doubling of the benefit. Negotiations as to who is the importer and who bears the economic cost also is an additional strategy.

2.3.1. Identity of the importer —

Businesses should review whether the importer can be changed to the supplier by changing the incoterms and having them pay the duty. They can also consider putting in place a legal or sales/supply contract that makes it clear as to who economically bears the tariff. This is a business negotiation. Similarly, existing legal contracts should be reviewed and updated, and adjustments made as to both the price and the importer.

2.3.2. Price increases for customers —

Discussions with customers are needed to determine whether pricing can be adjusted to pass the burden of increased tariffs on to the customers. This should also entail updating or executing sales contracts to account for such changes.

Businesses should update and/or prepare a sales contract with the customer which identifies the pricing and customs duty and how it is shared. Alternatively, consideration should be given to sending out a letter to customers indicating price increases and the reason.

2.3.3. Tariff code classifications —

Businesses should also update classification of tariff codes to make sure they are correct and subject to the correct tariff rate. This can involve: a review of tariff codes for more accurate compliance, which can lead to customs savings; a review of exempt goods, as well as particular classifications related to Canada and Mexico; for U.S. made products that are sent offshore, accounting for foreign value added in customs declarations; and, a review of classifications under updated customs and tariff guidance and Executive Orders/fact sheets to ensure compliance with exempt goods. For example, classification as auto parts or steel and aluminum may depend on specific facts. Notably, this is a detailed review of product-specific tariffs as opposed to reciprocal tariffs, which are levied on a country basis.

2.3.4. Alternative supplier(s) from different country(ies) of origin —

Businesses should begin negotiations with suppliers to shift the country of origin and manufacturing to a different country to obtain a lower tariff rate. This will be of particular interest for goods manufactured in China. It would be desirable to have the supplier become the importer and let them take the tariff risk. This would affect the pricing of goods purchased. Notably, country of origin is where substantial transformation is performed and not just packaging or light assembly.

2.3.5. Transfer pricing for related parties —

From a transfer pricing point of view, if the U.S. company is importing dutiable goods from a manufacturing subsidiary and it incurs the tariff, this could affect the intercompany transfer price to keep the U.S. at an arms length distribution profit. As such, transfer pricing should be reviewed to possibly adjust for increased customs duty if the U.S. company is the importer for related parties. In this case the price of the imported good might be reduced. Changing the importer should also be considered, as well as purchasing from a U.S. supplier. Proper documentation is critical to sustain these changes in transfer pricing.

2.3.6. Cost of indirect tariff price increases —

Businesses should obtain and evaluate evidence of cost increases of U.S. suppliers who have indicated that they are passing on price increases due to tariffs to verify the increase in price and then negotiate the difference. This would entail communication and review of a vendor's costs to gain confidence that the tariffs have actually increased prices. It would then require pricing business decisions.

2.3.7. Alternative pricing for both related and unrelated parties —

Businesses should consider changing the price of goods to include license and service fees to evaluate the impact on tariffs. This is a very technical area and involves deeper understanding and examination of tariff rules on alternative pricing structures. This could also have a transfer pricing impact for related parties. It may be possible to structure the import of the goods on a cost plus a manufacturing markup and have other costs charged as service fees (it is important to document that the services are actually performed). Inclusion of license fees needs to be evaluated under tariff rules that could include some license fees as part of the cost of a product (trademark versus technology).

2.3.8. Changing the supply chain —

Businesses can consider changing the supply chain so that the U.S. company is purchasing components and subcomponents instead of finished goods, and assembling or manufacturing domestically. The impact would be a decrease in the price of the goods since parts and components are being imported as opposed to a finished good. This could lead to lower pricing of the components, and lower tariffs if the pricing is adjusted. Notably, there may be state income tax incentives for moving this type of activity into the U.S. This strategy affects also transfer pricing for related parties, and core business decisions and supply chain arrangements.

2.3.9. Free Trade Zones —

Although Free Trade Zones are becoming more restrictive and may not apply to reciprocal tariffs, importing a good through a Free Trade Zone delays the imposition of a tariff until the good has left the Free Trade Zone. This would entail approaching the customs authorities or others to possibly obtain rulings and clearances for use of the Free Trade Zone or establishing one. Routing goods through a Free Trade Zone could lead to a reduction of cash flow outlay since tariffs would not apply until the goods leave the Free Trade Zone.

2.3.10. First Sale Rule —

Under the First Sale Rule, if a good is purchased and, without further processing, is resold then it may be possible to reduce the tariff value to the price of the good for the seller to the U.S. An example would be if the U.S. importer imports a finished good that the supplier is simply reselling. Under the First Sale rule, the duty value is the cost to the supplier and not the sales price. This is a detailed process and businesses would need to obtain approval, but it could yield significant benefits.

2.3.11. Duty Drawback Rule —

In certain situations, goods brought into the U.S. that are then exported may be allowed a refund or duty drawback since they are exported and therefore not for ultimate use in the U.S. These rules may be becoming more restrictive but could yield zero duty on export goods.

2.3.12. Nearshoring of goods —

If Free Trade Zones or the Duty Drawback are not beneficial, businesses should consider locating their warehouses to nearby countries, and then importing to the U.S. as needed. This would delay the tariff until the good is imported. This has numerous business considerations, which would have to be investigated to determine how beneficial this approach would be to a given business.

3. U.S. Federal and State Tax Implications

3.1. U.S. Federal Tax Legislation Business Tax Changes —

Major tax legislation that affects tariffs is likely in 2025, since most provisions of the TCJA expire, with the notable exception of the 21% corporate tax rate. The U.S. House of Representatives passed the "One Big Beautiful Bill Act" on May 22, 2025, and on June 16, 2025, the Senate Finance Committee presented the Senate version of the House bill. It will almost certainly change in the U.S. Senate as the Senate votes on its own version of the bill.

The Senate Finance Committee and House bills are substantially similar and contain three core business changes:

1) domestic research and development would be fully deductible;[2]

2) 100% first-year depreciation would be allowed for plant, property, and equipment placed in service;[3] and,

3) interest expense would be increased by increasing the limit to 30% of EBITDA.[4]

[2] For further information, see **T.M. 556, Research and Development Expenditures**.

[3] For further information, see **T.M. 532, First-Year Expensing and Additional Depreciation**.

[4] For further information, see **T.M. 536, Interest Expense Deductions**.

Notably, Senate Republicans are advocating for business provisions to be permanent, as opposed to the House, which made them mostly temporary. Without legislation, pass-through deductions would be eliminated and individual tax rates would substantially increase on pass through income. Additionally, most of the energy credits currently available would be repealed.[5]

[5] For further information, see **T.M. 512, Tax Incentives for Production and Conservation of Energy and Natural Resources**.

Surprisingly, to some, the House bill made no mention of a 15% domestic corporate rate that President Trump has advocated for, and the qualified business income deduction was increased from 20% to 23%.[6]

[6] For further information, see **T.M. 537, Qualified Business Deduction: Section 199A**.

These increased deductions under the proposed legislation blend well with tariff planning, and the results need to be modeled out. A complete model should be prepared that includes both the increased or decreased tariff, and income tax aspects (including the increased expenses). This then allows management to understand the financial impact of these changes and plan accordingly.

3.2. U.S. State Taxes and Tariffs —

Tariffs imposed at the federal level also can have significant state and local tax (SALT) impacts[7] . Businesses should include SALT considerations in their tariff analysis and proactively identify alternatives to minimize these impacts.

[7] For further information on the state-tax related issues referenced below see the State Tax Navigator links at the end of this Guide.

These issues primarily relate to:

1) the impact of tariffs on sales/use taxes and ad valorem taxes, and;

2) SALT considerations for businesses onshoring their manufacturing operations to the U.S.

As tariffs increase the price of imported goods, they may also increase the sales tax liability, making imported goods even more expensive for U.S. businesses and consumers. Whether, and to what extent, tariffs will impact the sales tax liability generally will depend on how the transaction is structured, who pays the tariff to whom, and how the tariffs are invoiced. Tariffs paid directly by the purchaser, as the importer of record, generally will not be subject to sales tax because the payment is made directly to the U.S. Customs and Border Protection (CBP) solely for the tariff and not to the seller for the purchase of the product. However, if the seller increases the price of its products to cover the tariff costs, that price increase will increase the sales tax due on the subsequent sale transaction, since sales tax is imposed on the sales price of the product.

Tariffs paid by the seller, as the importer of record, and passed on its customers as an invoice line-item (also called "tariff fees") likely will be subject to sales tax as part of the sales price of taxable items. States generally define the "sales price" for sales tax purposes as the total amount of consideration for which tangible personal property or taxable services are sold, without deduction for fees or other costs or charges incidental to the sale.

The treatment, ultimately, will depend on each specific state's law. Some states may choose to exclude tariffs from the tax base if they are shown as a separate invoice line-item. To-date, the few states that have issued guidance on this have held that tariffs invoiced by a seller to a purchaser are included in the taxable sales price of the items being sold, regardless of whether the tariff is shown as a separate line-item on the invoice. California, New Jersey, and Washington have issued guidance confirming this. If the invoice includes both tariff and non-tariff items or both taxable and nontaxable items, businesses need to ensure that they allocate the correct amount of tariff to each item with different tariff rates. Businesses will need to proactively review and adapt their sales tax systems and processes to correctly apply sales tax to tariff fees charged on customer invoices.

Use tax on purchases from foreign suppliers also should be considered. Businesses are required to accrue and remit use tax on taxable purchases for which sales tax was not charged. Purchases from foreign suppliers often fall into this category. For accounting purposes, tariffs may be capitalized as part of the cost of the asset. Businesses will need to carefully examine these purchases to determine whether the tariff should or should not be included in the tax base for use tax purposes. Failure to do so may result in significant overpayment of use tax on these types of purchases.

Business personal property taxes generally are imposed on the value of a business' fixed assets located in the taxing jurisdiction. Some states also tax the value of inventory.

Most states use some type of cost-based valuation process to determine the taxable value of fixed assets, and one or more financial accounting valuation methods for inventory. Therefore, an increased cost for these assets may result in an increased valuation, and hence a higher property tax burden. Businesses should examine their states' valuation procedures to determine whether tariff costs can be excluded from the property tax values of these assets. Also, potential Freeport exemptions should be considered if inventory will be stored only temporarily in the state.

Finally, ad valorem (property taxes) are another area where tariffs can impact tax liability.

3.3. State Impacts of on-shoring Manufacturing Operations to the U.S. —

State tax can be a cost or a benefit when making tariff strategic decisions, and needs to be modeled out and monitored. Businesses deciding whether to relocate manufacturing operations to the U.S. should consider the many SALT issues that could significantly impact their bottom line. Core considerations include:

3.3.1. Most beneficial entity and structure —

When forming a U.S. business entity to conduct operations in the U.S., it is important to consider state tax treatment of each type of entity. Most states will deem an investment in a passthrough entity (partnership or S-corporation) to create "flow-through nexus" for its owners. Since a C-corporation does not create nexus for its owners, this entity type often is preferable to a passthrough entity.

State of incorporation may also have a significant impact on overall tax liability. For example, Delaware is a popular state for incorporation because of its business-friendly legal environment. However, Delaware's franchise tax liability (which is imposed only on entities formed or incorporated in the state) can become quite significant if careful attention is not paid to how the entity is capitalized.

3.3.2. Location of the manufacturing operation —

State and local taxes are a significant aspect of location selection and should not be overlooked when determining where the new U.S. manufacturing operation should be located. Businesses should consider the overall state tax climate, including tax rates, types of taxes imposed, and taxing levels (state, local and sub-local).

Property taxes can be a significant cost for capital-intensive businesses like manufacturers. Businesses should assess the property tax rates and valuation procedures at the state level.

Further, as states continue to aggressively compete for capital investment and manufacturing jobs, state and local tax incentives and credits have become a key element of the location selection process. Businesses should consider both statutory and negotiated incentives. Statutory incentives often include tax credits for investment and hiring, industry-specific credits, targeted credits (e.g., port usage, historic property rehabilitation), research and development (R&D) credits, special zones (e.g., enterprise zones), sales tax manufacturing exemptions, and property tax Fee-in-Lieu-of-Tax (FILOT) agreements. Negotiated incentives also should be considered and pursued *before* finalizing a location decision because the state and/or local economic development board generally is required to demonstrate that the incentives being proposed would impact the business' decision to choose that location.

3.3.3. State where tax returns are filed —

Nexus (a.k.a. filing requirement) is one of the most fundamental (and most highly litigated) concepts in state taxation. Foreign businesses often find the U.S. state tax nexus rules, and the multiple levels at which U.S. taxes can be imposed, complex and confusing. State tax nexus can be triggered by either physical activities or economic activities. Even if the new U.S. entity confines its physical facilities to only one state, the level of its sales to customers in other states can trigger nexus, as can the manner in which it markets its products, engages with customers, and ships its products. Once nexus is triggered, the business may be subject to a patchwork of income, franchise, sales/use, gross receipts, and other types of taxes at both the state and local level. It is advisable to conduct an initial nexus analysis ahead of beginning U.S. business operations, and a nexus review annually thereafter to avoid being surprised by costly state tax filing obligations and tax liabilities.

3.3.4. Products subject to sales/use taxes —

Rules regarding taxability and exemptions vary by state. It is important to determine the taxability of each product or service in each state where the entity has nexus. It also is important to understand how the product will be sold and distributed to determine who is responsible for paying the sales tax and what exemption certificates must be obtained or provided to claim applicable exemptions.

3.4. State Tax Navigator Links —

Sales & Use Tax Navigator Charts

- Sales Tax Base
- Use Tax Base
- Local Sales and Use Tax Base
- Tax Base: Federal Excise Taxes and Fees
- Nexus, State and Local Interpretation: Standard for Substantial Nexus

Property Tax Navigator Charts

- Valuation, Assessment and Equalization: Tax Rates
- Business, Commercial, and Industrial Property
- Payments in Lieu of Property Taxes (PILOT)

Corporate Income Tax Navigator Charts

- Jurisdiction to Tax and Limitations on State Taxation, Nexus
- Entities Subject to Corporate Income Tax/Definitions

Passthrough Entities Navigator Charts

- Overview: Nexus
- Mandatory Taxes Imposed on Pass-Through Entities

Credits & Incentives Navigator Charts

- Economic Development and Investment Credits
- Historic Rehabilitation

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