# Duty Drawback for Reciprocal Tariffs

In response to trade imbalances, the U.S. has implemented reciprocal tariffs on most from all countries, beginning April 5, 2025. In follow up guidance, U.S. Customs and Border Protection clarified that U.S. duty drawback would be permitted for reciprocal tariff duties. As a result, companies that import and subsequently export products may be eligible to reclaim these duties.[1]

## What are Reciprocal Tariffs:

Reciprocal tariffs are trade measures imposed by a country to counterbalance tariffs levied by another nation. These tariffs aim to level the playing field by ensuring that trade terms are fair and equitable. The U.S. government has adopted such measures to address trade imbalances and protect domestic industries from unfair competition. By implementing reciprocal tariffs, the U.S. seeks to encourage other countries to lower their tariffs and engage in fair trade practices.

## Executive Order Details

### Authority & Purpose

- Issued on April 2, 2025, under the President's International Emergency Economic Power Act (IEEPA).
- Part of the "Fair and Reciprocal Plan" to address trade deficits.

### Tariff Rates

- Country-specific tariffs on nations with the largest trade deficits.
- The country-specific tariffs, with the exception of China, are currently paused for 90 days, ending on July 9, 2025. Countries with a country-specific tariff will be subject to a 10% tariff during the pause.
- All other countries (Mexico and Canada excluded) will be subject to a 10% tariff.
- In addition to existing tariffs unless specifically excluded.
- If 20% of the content is U.S. origin, then only the non-U.S. content is subject to the reciprocal tariff.[2]

### Implementation Dates

- Effective April 5, 2025: 10% duty on all non-exempt imports.
- Effective April 10, 2025: Non-exempt imports from China are subject to a specific tariff rate.[3]

### Tariff Landscape

With the addition of the reciprocal tariffs, imports are now potentially subject to a number of different tariffs. Further, many of the tariffs "stack," which may mean significant costs for every import. The announcement that duty drawback is permissible for the reciprocal tariffs offers importers a mechanism to manage costs.

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[1] See Federal Register Notice Vol 90, No. 65 15041 "Executive Order 14257 of April 2, 2025: Regulating Imports With a Reciprocal Tariff to Rectify Trade Practices That Contribute to Large and Persistent Annual United States Goods Trade Deficits." See CSMS # 64649265 – Guidance – Reciprocal Tariffs, April 5, 2025, Effective Date.

[2] US content refers to the value of the article attributable to the components produce entirely or substantially transformed in the United States.

[3] Per Executive Order "Modifying Reciprocal Tariff Rates to Reflect Trading Partner Retaliation and Alignment" (April 9, 2025), country specific tariff rates effective April 9th were suspended for 90 days. Imports from countries subject to a specific rate and not otherwise exempt are subject to the 10% tariff rate.

There are a number of tariff actions currently in place, targeting various products or countries. Each action has specific requirements and duty drawback is only available in certain cases, as indicated in green below.

| Tariff Category | Scope | Countries | Duty Rate | US Content Excluded? | Effective Date |
|---|---|---|---|---|---|
| HTSUS MFN Tariffs | All Products | All | Various | N | Ongoing |
| Section 301 Tariffs | Various Products | China | 7.5-25% | N | July 6, 2018 (first round) |
| Fentanyl/migration IEEPA Tariffs | All Products | China | 20% | N | February 3, 2025 |
| | All Non-USMCA Eligible Products | Canada and Mexico | 25%[4] | N | March 4, 2025 |
| Section 232 Steel and Aluminum Tariffs | Steel, Aluminum Products and Certain Derivatives | All | 25% | Y (only for derivatives. Steel must be melted and poured and aluminum smelt and cast in the US) | March 12, 2025 |
| Reciprocal Tariffs[5] | Most Products, with Certain Exceptions[6] | All | 10-50%<br>CN subject to separate rate | Y (at least 20% of the value must be US content) | April 2, 2025 |
| Section 232 Automobile Tariffs | Automobiles and Certain Auto Parts. | All | 25% | Y (only if the auto/ auto part qualifies for USMCA) | April 3, 2025, for automobiles, May 3, 2025, for auto parts |
| Venezuela Oil Importer Tariff | All Products | TBD | 25% | N | TBD |

**What is Duty Drawback:**

Duty drawback is a cost-saving program that allows companies to recover duties, fees, and certain taxes paid on imported goods that are later exported or destroyed, including normal duties, Section 301 and reciprocal tariffs. In the United States, claimants can recover up to 99% of the duties paid on these goods, provided specific requirements are met. Eligibility for drawback extends for five years after the date of importation. Depending on business operations, companies can utilize various types of drawback programs to maximize their savings. However, there are certain nuances that must be carefully observed to ensure compliance with drawback regulations.

4. Certain Canadian energy products and potash are subject to a lower 10% duty rate.

5. Canada and Mexico are not subject to reciprocal tariffs so long as the existing fentanyl/migration IEEPA orders remain in effect. In the event the existing IEEPA orders are terminated, USMCA compliant goods would continue to receive preferential treatment, while non-USMCA compliant goods would be subject to a 12% reciprocal tariff.

6. Exemptions are available on the following goods: donations and information materials; Section 232 covered steel and aluminum and covered derivatives; Section 232 covered automobiles and automobile parts; enumerated products including copper, pharmaceuticals, semiconductors, lumber, critical minerals, and energy products; articles from a country that do not have a normal trade relation with the United States subject to rates in Column 2 of the Harmonized Tariff Schedule of the United States; and imports properly entered under certain Chapter 98 provisions.

| Provision Type | Direct Identification | Substitution |
|---|---|---|
| Manufacturing Drawback | Applies when imported merchandise is further manufactured in the U.S. and is subsequently exported or destroyed. | Applies when either imported merchandise, or domestic product substitutable at the same 8-digit HTSUS, are used to manufacture articles that are then exported or destroyed. |
| Unused Merchandise Drawback | Applies to imported merchandise that is not used and not undergoing further processing within the U.S. that is subsequently exported or destroyed. | Applies when imported merchandise or domestic products substitutable at the same 8-digit or 10-digit HTSUS are exported or destroyed without additional processing within the U.S. |
| Rejected Merchandise Drawback | Applies to merchandise exported or destroyed which does not conform to sample or specifications, had been shipped without the consent of the consignee, or has been determined to be defective at the time of importation or sold at retail. | |

### Why Now:

In the face of these increased tariffs, companies must prioritize effective mitigation and duty savings strategies. The financial impact of the reciprocal tariffs, compounded by existing duties, can significantly strain operational budgets and profit margins.

Without proactive measures, businesses may face increased costs and disruptions in supply chains. But by adopting comprehensive mitigation strategies, businesses can not only alleviate the immediate financial burden but also position themselves for long-term resilience and competitiveness in the global market.

Duty drawback is the cornerstone of a tariff mitigation strategy with a five year look back that provides year-over-year savings that scale as a business evolves.

### How we can Help

KPMG has a dedicated team of duty drawback experts who combine regulatory knowledge with sophisticated data analytics and proprietary software tools that support both new and mature duty drawback programs to maximize opportunity.

We have developed solutions to the most common and complex problems so that each company has a repeatable and sustainable process that can withstand regulatory scrutiny.

Through our process, we will:

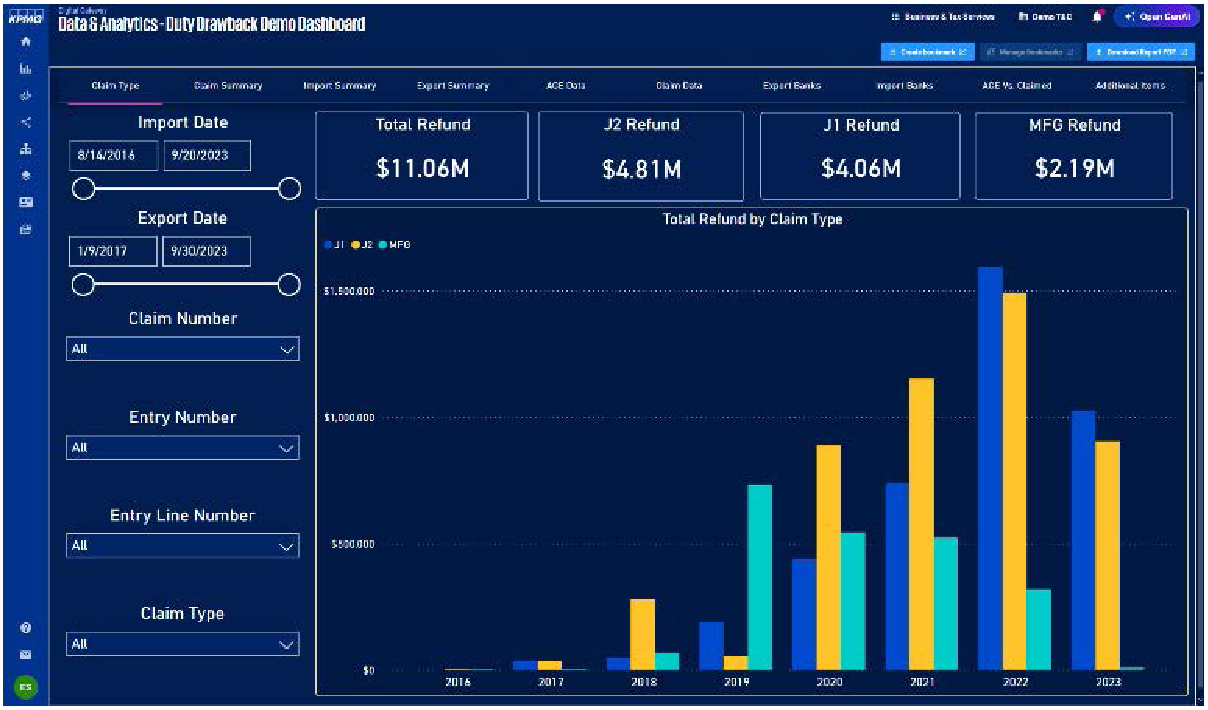
- Baseline the current status through information gathering sessions with stakeholders, customs brokers and freight forwarders where data flows are mapped;
- Conduct a drawback feasibility study to confirm readiness and close any data gaps;
- Establish automated feeds with key third parties like customs brokers and freight forwarders;
- Develop and embed unique logic to normalize data;
- Remediate data inconsistencies; and
- Perform mock audits to verify consistency among the supporting documentation and identify potential anomalies.

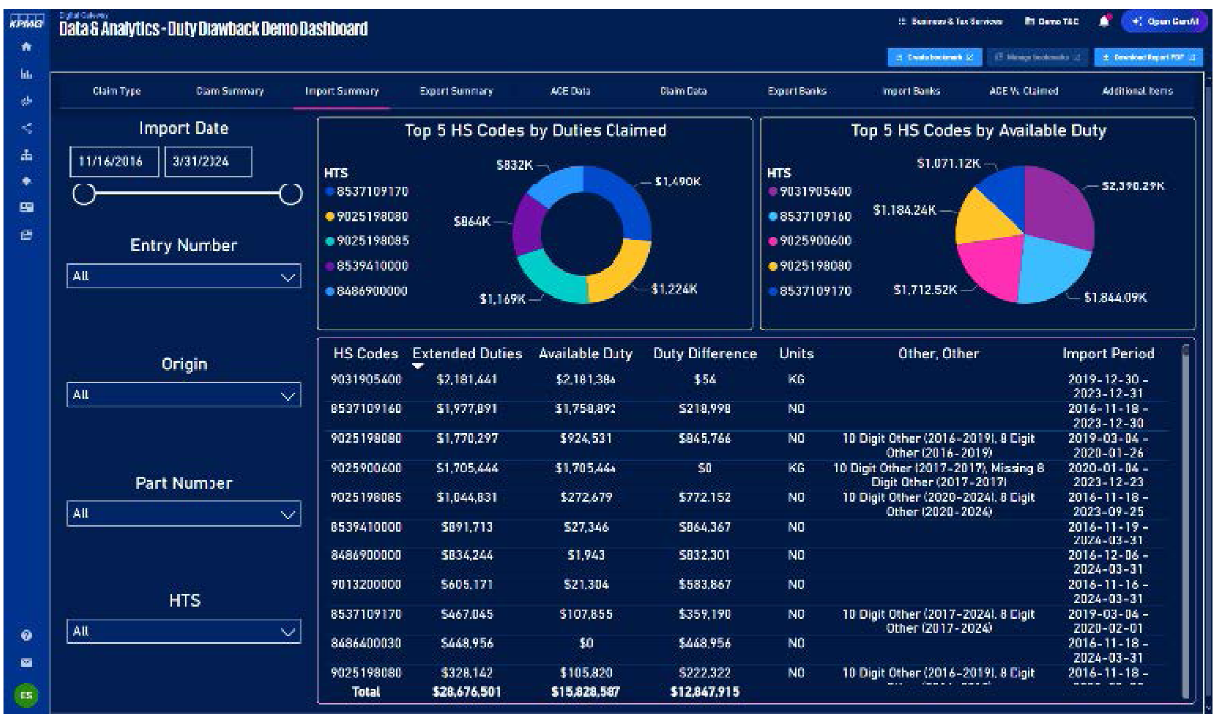
**Common Challenges**

- Lack of clean import and export data;
- Complex and obsolete systems;
- Weak record keeping processes;
- Little to no dedicated resources; and
- Reliance on third parties for information to successfully support drawback claims.

Our advanced technical expertise and sophisticated technology not only contribute to a more robust program but also enhance the effectiveness of multiple savings initiatives. KPMG uses claim modeling to optimize drawback recovery, utilizing proprietary technology to accelerate and improve both recovery processes and compliance standards.

KPMG's Drawback Dashboard, examples below, offers an in-depth analysis of essential drawback data elements. Furthermore, it exemplifies how we utilize our automated tools to expedite outcomes.




Looking ahead, we expect the dynamic trade environment to continue. Duty drawback can provide relief in a high-tariff environment with consistent, ongoing savings. The key is preparation and data modeling and monitoring to help ensure compliance and savings maximization. While every drawback program has unique complexities, KPMG is leading the way in developing innovative solutions that make duty drawback one of the top savings programs in our client's arsenal.

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