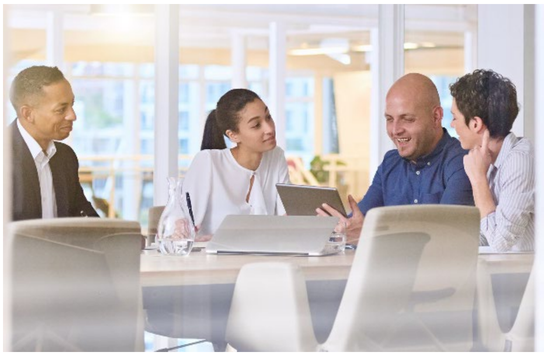
The impact of tariffs on offshoring

Exploring the legality and impact of tariffs on offshore services

Where we are today

Policymakers, industry leaders, and legal experts have held extensive debates over potential tariffs on offshore services, often citing concerns about job protection, unfair competition, and the broader economic implications. Proposals like the Halting International Relocation of Employment Act have catalyzed discussions on Capitol Hill, prompting heavy scrutiny of whether such tariffs can effectively curb outsourcing without harming US competitiveness.



Potential legality

Statutes like the Trade Expansion Act (Section 232) and the Trade Act (Section 301) primarily target goods, leaving a gap for service-related measures.

The General Agreement on Trade in Services (under the WTO) discourages discriminatory taxes on foreign services, raising questions about international law violations if the United States imposes a direct services tariff.

The US Constitution mandates that Congress regulate commerce and taxes, yet Congress has partially delegated tariff powers to the Executive Branch under specific conditions (e.g., national security).

Legal scholars widely debate whether existing legislation could stretch to cover "service tariffs" or if entirely new laws would be needed to withstand court challenges.

Challenges in court and executive authority

- Recent rulings have affirmed broad presidential discretion over goods-based tariffs but leave uncertainty about extending these powers to services.
- If a president unilaterally imposed a service tariff without clear statutory backing, then legal challenges could allege overreach under separation-of-powers and nondelegation doctrines.
- Courts have upheld certain executive actions on physical imports (e.g., steel and aluminum), but a "services tariff" would break new legal ground.
- Any attempt to bypass Congress might trigger immediate lawsuits, placing the policy on hold until resolved through a potentially lengthy judicial process.

Without specific congressional authorization, service tariffs remain legally uncertain, posing significant constitutional and international trade challenges.

Offshoring scenario analysis

Offshoring has become integral to US financial services operations, enabling round-the-clock workflows, cost arbitrage, and global scaling. However, new US tariff proposals introduce political and legal uncertainty, threatening to erode these benefits. This raises the question: How might different outcomes affect global delivery models? Four scenarios emerge: staying the course if tariffs fail, moderate cost hikes altering offshoring economics, or punitive measures forcing reshoring. Each carries distinct implications for offshore pricing, workforce allocation, and strategic planning. Understanding these contingencies is critical for maintaining competitive advantage.

Scenario 1: Tariffs fail

In this scenario, legislative efforts to impose tariffs on offshore services either stall in Congress or fail in court, preserving the current environment. Political divisions and tactical lobbying also neutralize new measures, allowing free trade in services to remain largely intact:

- Wage arbitrage endures, letting firms leverage offshore labor at lower cost.
- Ongoing stability means well-established offshore centers remain undisrupted.
- Industries dependent on offshore staffing see no immediate shift in operational or cost structures.

Overall, offshoring persists as a cornerstone of US financial services operations, with minimal short-term reconfiguration required.

Trust KPMG to help you shape resilient offshore solutions

KPMG LLP (KPMG) can strengthen your existing global delivery model and assist with developing more robust risk and resiliency processes to safeguard against sudden future policy shifts.

Scenario 2: Tariffs upheld

Here, a tariff (likely 20 percent to 25 percent) becomes law and survives legal challenges. Although offshoring remains possible, firms must absorb extra costs or pass them on to clients, prompting careful recalibration of delivery strategies:

- Offshoring savings shrink, encouraging more selective use of offshore labor.
- Companies adjust rates, renegotiate contracts, and explore nearshoring to offset fees.
- Efficiency measures and automation initiatives accelerate to maintain competitive cost margins.

Overall, a new equilibrium emerges in which offshore labor still offers benefits, but narrower margins push firms toward blended onshore/offshore models and tighter cost control.

Trust KPMG to help you shape resilient nearshoring solutions

KPMG can enhance cost structures, develop nearshoring strategies, and incorporate advanced automation to maintain competitive pricing under increased tariffs.

Scenario 3: Prohibitive tariffs

This scenario envisions extreme tariffs or partial bans that effectively negate offshore cost advantages. Political climates focused on economic protectionism or national security facilitate sweeping restrictions, forcing major operational shifts:

- Offshoring's core advantage collapses, removing low-cost labor incentives.
- Rapid reshoring and industry restructuring occur, with heavy domestic hiring or nearshoring attempts.
- Large outsourcing deals may be canceled or scaled back, creating widespread disruptions.

Overall, the global services landscape contracts, pushing firms to pivot domestically or automate aggressively. Long-term costs climb, challenging profitability and driving fundamental operational changes.

Trust KPMG to help you shape resilient reshoring solutions

KPMG can guide rapid reshoring, realign talent strategies, and drive large-scale transformation programs to sustain operations under drastically higher domestic labor costs.

Scenario 4: Offshoring tax

Congress intervenes and enacts a tax on offshoring of services. Senator Bernie Moreno (R-OH) has proposed such legislation in his HIRE Act. The proposal would impose a 25% excise tax on outsourcing payments and make those payments non-deductible.

As of November 2025, it is not known whether the bill or similar legislation has Congressional support to be enacted, but it would in effect operate like a tariff. We would expect an impact on clients similar to those described in scenario 2. This podcast discusses the HIRE Act in greater detail.

What you can do to prepare

Proactive planning can reduce the organizational impact of potential offshore service tariffs

Review contracts

- Thoroughly check for any "change in law," force majeure, or tariff-specific clauses that could reallocate financial burdens or trigger renegotiations.
- Assess liability risks if fees suddenly spike for long-term engagements and clarify whether early termination or suspension options exist.
- Document key contractual terms alongside internal guidelines so all stakeholders understand potential renegotiation paths should tariffs take effect.

Model financial impact

- Perform scenario analyses using assumed tariff rates and timelines, identifying project-level exposures and quantifying total cost impacts.
- Compare the effect of partial nearshoring or onshoring against automation or repurposing existing domestic teams.
- Align forecasts with broader strategic planning to guide budget allocations and resource deployment if tariffs become a reality.

Plan interim transition

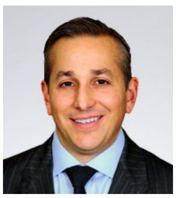
- Develop an actionable roadmap for partial reshoring or nearshoring, detailing precise timelines, staff training needs, and updated operational procedures.
- Identify mission-critical processes likely to face immediate cost surges, prioritizing them in transition planning to avoid major disruptions.
- Form cross-functional working groups (legal, human resources, operations) to coordinate each aspect of the shift, mitigating risk and smoothing any organizational adjustments.

Evaluate delivery capabilities

- Examine current workflows to pinpoint repetitive or rules-based tasks amenable to robotic process automation or artificial intelligence solutions.
- Explore nearshore hubs (e.g., Canada, Mexico) and domestic satellite centers, balancing cost savings with reduced trade risk.
- Maintain a flexible network of vendors or deployment sites to rapidly reconfigure delivery should tariff policies shift.

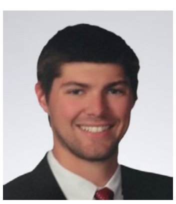
Contact us:

David Anderson
Partner, FS Risk, Regulatory and Compliance Services
KPMG LLP
E: djanderson@kpmg.com



John Gimigliano
Principal-in-charge, Federal Tax Legislative and Regulatory Services
KPMG LLP
E: jgimigliano@kpmg.com

Andrew Siciliano
Partner, and Global Trade and Customs Leader
KPMG LLP
E: asiciliano@kpmg.com



Thomas Malley
Director, FS Risk, Regulatory and Compliance Services
KPMG LLP
E: tmalley@kpmg.com

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