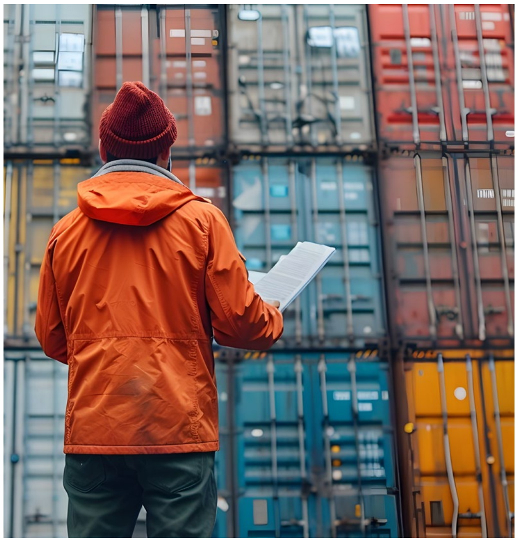
Integrating Tariff Modeling with Economic Indicators for Enhanced Tariff Reduction.

Latest tariff update

On April 2nd, 2025, President Trump announced significant tariff action against U.S. trading partners, reflecting a strategic shift in the U.S. approach to addressing trade imbalances. With the signing of the Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits Executive Order, the administration, effective from April 5th, imposed a 10% tariff on all countries, with further individualized reciprocal tariffs set to take effect on April 9th for specific nations. While existing orders under the International Emergency Economic Powers Act ("IEEPA") remains unchanged for Canada and Mexico, exceptions were made for certain goods, such as steel, aluminum, and auto parts already subject to Section 232 tariffs, as well as copper, pharmaceuticals, semiconductors, lumber, and essential minerals not available domestically. An additional executive order was also signed that puts an end to de minimis thresholds for shipments from China and Hong Kong, effective May 2. These measures underscore a robust stance on recalibrating trade practices to mitigate persistent deficits, while also shaking up complex global supply chains and economic partnerships.

For the President and his administration, tariffs are seen as a primary means to several ends:

- **A negotiating tool to gain concessions from trading partners.**
- **A source of tax revenues to balance new tax cuts.**
- **A way to protect favored industries and increase manufacturing jobs.**
- **A mechanism to narrow or eliminate trade deficits.**



Tariff Landscape

With the addition of the reciprocal tariffs, imports are now potentially subject to a number of different tariffs. These tables below represent all current tariffs on imports and different product scenarios for Canada and Mexico.

Global tariffs, with additional rates on China

Tariff Category	Scope	Countries	Duty Rate	US Content Excluded?	Effective Date
HTS Base Tariff	All Products	All	Various	N	Ongoing
Section 301	Various Products	China	10–25%	N	July 6, 2018 (first round)
Fentanyl/ migration IEEPA Tariffs	All products	China	20% (10%+10%)	N	February 4, 2025, increased additional 10% March 4, 2025.
Section 232 Steel and Aluminum	Steel, Aluminum products and certain derivatives	All	25%	Y (steel must be melted and poured and aluminum smelt and cast in the US)	March 12, 2025
Reciprocal	Most products (does not apply to the 6 category exemptions).	All	10–50%	Y (so long as at least 20% of the value is US content)	April 9, 2025, for country-specific rates.
Section 232 Automobile and auto parts	Passenger and light trucks; and certain parts	All	25%	N	April 3, 2025, for automobiles, May 3, 2025, for auto parts
Venezuela Oil Importer Tariff	All products	TBD	25%	N	TBD

Canada and Mexico USMCA Qualifying Articles[1]

Tariff Category	Scope	Duty Rate	US Content Excluded?	Effective Date
Fentanyl /Migration IEEPA Tariffs	All Products	0%	N/A	March 7, 2025
Section 232 Steel and Aluminum	Steel, Aluminum products and certain derivatives	25%	Y (steel must be melted and poured and aluminum smelt and cast in the US)	March 12, 2025
Section 232 Automobile	Passenger and light trucks	25%	Y	April 3, 2025
Section 232 automobile parts	Certain automobile parts	0% until Commerce can establish a process to exclusively tariff the non-US content, then 25%	Y	Beginning May 3, 2025, TBD for the 25%

Canada and Mexico Non-USMCA Qualifying Articles

Tariff Category	Scope	Duty Rate	US Content Excluded?	Effective Date
HTS Base Tariff	All Products	Various	N	Ongoing
Fentanyl /Migration IEEPA Tariffs	All Products	25%	N/A	March 7, 2025
Section 232 Steel and Aluminum	Steel, Aluminum products and certain derivatives	25%	Y (steel must be melted and poured and aluminum smelt and cast in the US)	March 12, 2025
Section 232 Automobile	Passenger and light trucks.	25%	N	April 3, 2025.
Section 232 automobile parts	Certain automobile parts	25%	N	May 3, 2025

[1] If the fentanyl/migration IEEPA tariffs are removed, duty rates from Canada and Mexico may be impacted. In the April 2, 2025 E.O., USMCA compliant goods would continue to receive preferential tariffs, while non-USMCA compliant goods would be subject to the 12% reciprocal tariff.

Country Reciprocal Tariff List

Country	Reciprocal Tariff
Algeria	30%
Angola	32%
Bangladesh	37%
Bosnia and Herzegovina	36%
Botswana	38%
Brunei	24%
Cambodia	49%
Cameroon	12%
Chad	13%
China	34%
Côte d'Ivoire	21%
Democratic Republic of the Congo	11%
Equatorial Guinea	13%
European Union	20%
Falkland Islands	42%
Fiji	32%
Guyana	38%
India	27%
Indonesia	32%

Country	Reciprocal Tariff
Iraq	39%
Israel	17%
Japan	24%
Jordan	20%
Kazakhstan	27%
Laos	48%
Lesotho	50%
Libya	31%
Liechtenstein	37%
Madagascar	47%
Malawi	18%
Malaysia	24%
Mauritius	40%
Moldova	31%
Mozambique	16%
Myanmar (Burma)	45%
Namibia	21%
Nauru	30%
Nicaragua	19%

Country	Reciprocal Tariff
Nigeria	14%
North Macedonia	33%
Norway	16%
Pakistan	30%
Philippines	18%
Serbia	38%
South Africa	31%
South Korea	26%
Sri Lanka	44%
Switzerland	32%
Syria	41%
Taiwan	32%
Thailand	37%
Tunisia	28%
Vanuatu	23%
Venezuela	15%
Vietnam	46%
Zambia	17%
Zimbabwe	18%

Countries not listed, with the exception of Canada and Mexico, will be subject to a 10% reciprocal tariff rate.

Keep in mind the non-reciprocal tariffs are cumulative: They 'stack' on top of each other—as well as on existing tariffs. For example, if a firm imports a manufactured product made with steel or aluminum components from China, with an original duty rate of 2.5%, it may be faced with multiple increases at the border:

The *nominal* cumulative duty rate increases are one thing, but tariff implementations have farther reaching economic implications than simply nominal duty import rate increases. They reshape the general macroeconomic environment and influence corporate behavior. Running an impact analysis with additional duty rates against past import data does not provide a full picture. Companies need to consider and incorporate the distorting effects that tariffs can have on macro fundamentals to arrive at a more *holistic* tariff impact.

Integrating Tariff Modeling with Economic Indicators for Enhanced Tariff Reduction

How tariffs impact the forecast for the US and global economy has a profound impact on how businesses approach their strategies. Firms that are highly exposed to tariffs face a one-two punch of tariff mitigation on the one hand and tariffs impacting their buyer base through consumer purchasing power, inflation, interest rates, the labor market, currency volatility and economic growth on the other hand.

Economic impacts of tariffs

Tariffs are designed to raise the cost of imports, curb demand and reduce competition for protected domestic industries. Economists dislike them because they are a regressive tax that hits those who can afford it the least, while failing to deliver the promised returns.

Many companies stocked up on imports before tariff announcements and implementation. The prices of steel, aluminum and construction materials have already moved up in anticipation of tariffs. That underscores how even the threat of tariffs can be inflationary. Hoarding creates its own self-fulfilling prophecy on inflation, as we saw with the price of toilet paper during the pandemic.

Those shifts hit import-sensitive sectors the hardest. Sectors that are most dependent upon imports include: manufacturing (notably vehicle production), construction, energy, agriculture and finance and insurance. The finance and insurance industries rely heavily upon electronics.

Research by economists at the Federal Reserve revealed that the 2018-2019 trade war backfired—by reducing employment. The few jobs gained in the steel sector due to higher steel tariffs were more than offset by the losses incurred by higher manufacturing costs. That reduction in employment was so severe it forced the Fed to do a U-turn and cut rates.

The 2018/19 tariffs also taught us that tariffs have unintended spillovers to sectors not directly exposed. An example is the case of the washing machine tariffs: Washing machines went up in price; dryers (which did not have any tariffs) went up by the same amount.

This time is different.

The lessons of the 2018-2019 trade war reveal that it boosted prices on specific goods and curbed investment. The repercussions this time around are expected to be more consequential; the scope and breadth of tariffs being discussed is much larger while the embers of inflation are still smoldering. Pass-through of tariff costs to consumers can erode consumer strength, leading to decreased demand. That impacts strategy of how much to stock up prior to tariff implementation.

The largest offset to inflation is a strong dollar. Tariffs tend to appreciate the currency of the country—levying them due to the reduced supply of that currency circulating in the global economy. There are some within the administration who believe they can engineer a sharp depreciation in the dollar by revaluing the nation's assets. That could add to market volatility and increase inflation pressures. Companies should consider heightened currency volatility when making strategic decisions.

When are tariffs deflationary?

The Smoot-Hawley Tariff Act of 1930 was enacted to raise tax revenues after the onset of the Great Depression. It tipped off a 25-country trade war, prompted a 67% drop in trade and plunged the global economy deeper into the depths of the Great Depression.

Firms unable to fully pass the costs of tariffs onto buyers will suffer a margin squeeze. That, coupled with weaker sales due to high prices, will curb profits, cash flow and resources for investment.

Fears that the last mile on inflation could be the longest and littered with potholes have prompted the Fed to pause rate cuts. We have now no rate cuts until 2026, barring a prolonged spike in unemployment, leading to higher rates for households and firms.

Heightened uncertainty clouds outlook

Global trade policy uncertainty jumped to a record high post-election, dwarfing even the pandemic. A surge in uncertainty tends to delay major spending decisions by households and firms. Anecdotes of firms scaling back expansion plans due to their dependence on imports peppered the news in the wake of the announcement.

The surge in policy uncertainty acts like a broken stoplight at a busy intersection; it slows the flow of traffic to a crawl as each driver cautiously takes their turn at crossing. Some make U-turns and opt out of moving forward at all.

Firms tend to shelve big investment decisions during periods of heightened uncertainty. Those with the largest and most irreversible investments, such as a manufacturing plant, are among the most paralyzed.

Uncertainty tightens credit conditions.

Research on the 2018-2019 trade war revealed that banks tightened credit standards in response to tariff uncertainty. The more uncertainty, the less banks lent to firms they feared were vulnerable to tariffs.

That tightening of credit conditions would add to the restrictive stance by the Fed. It increases the costs of financing tariffs, which require producers to write a check or provide a bond ensuring tariffs will be paid.

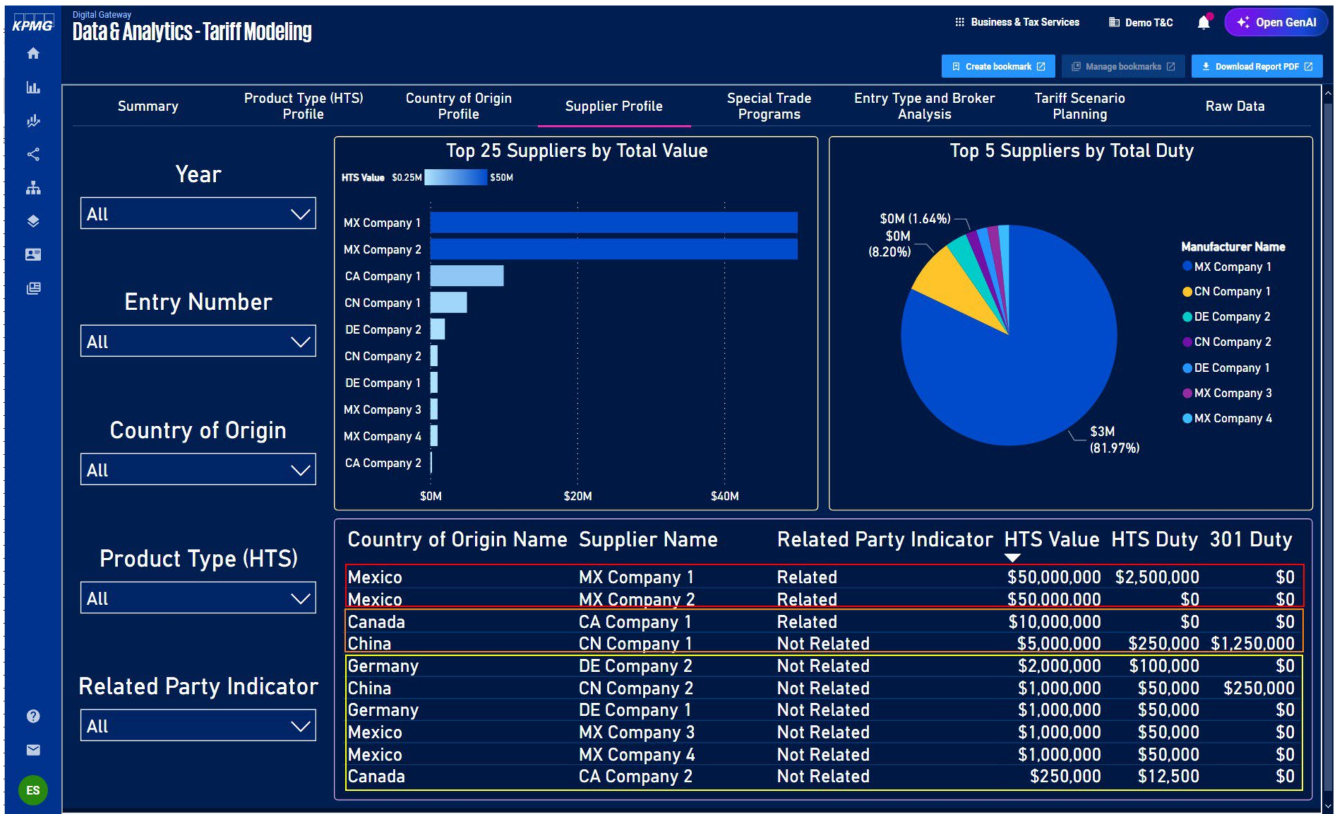
Blending macro and micro:

Economic indicators should be monitored alongside specific analyses to drive results. Firms should watch for growth slowdown, the Federal Reserve adopting a wait-and-see approach and increased currency volatility for their international trade strategy.

II.Trade and Customs Mitigation Strategies

Tariff uncertainty is here to stay. Rather than reacting to each new tariff threat by scrambling for post-implementation analysis, companies should expect trade disruption as a reality of doing business in the US and utilize tools to help proactively assess upcoming impact. The first step in taking a more proactive approach to tariffs is to own and utilize a firm's available data. This means establishing clear reporting channels that feed in external Customs reports, internal sales and inventory data for central analysis.

Assessing Tariff Impact to Identify Savings



Our technology solution enables us to quantify the client's duty spend and tariff liability.

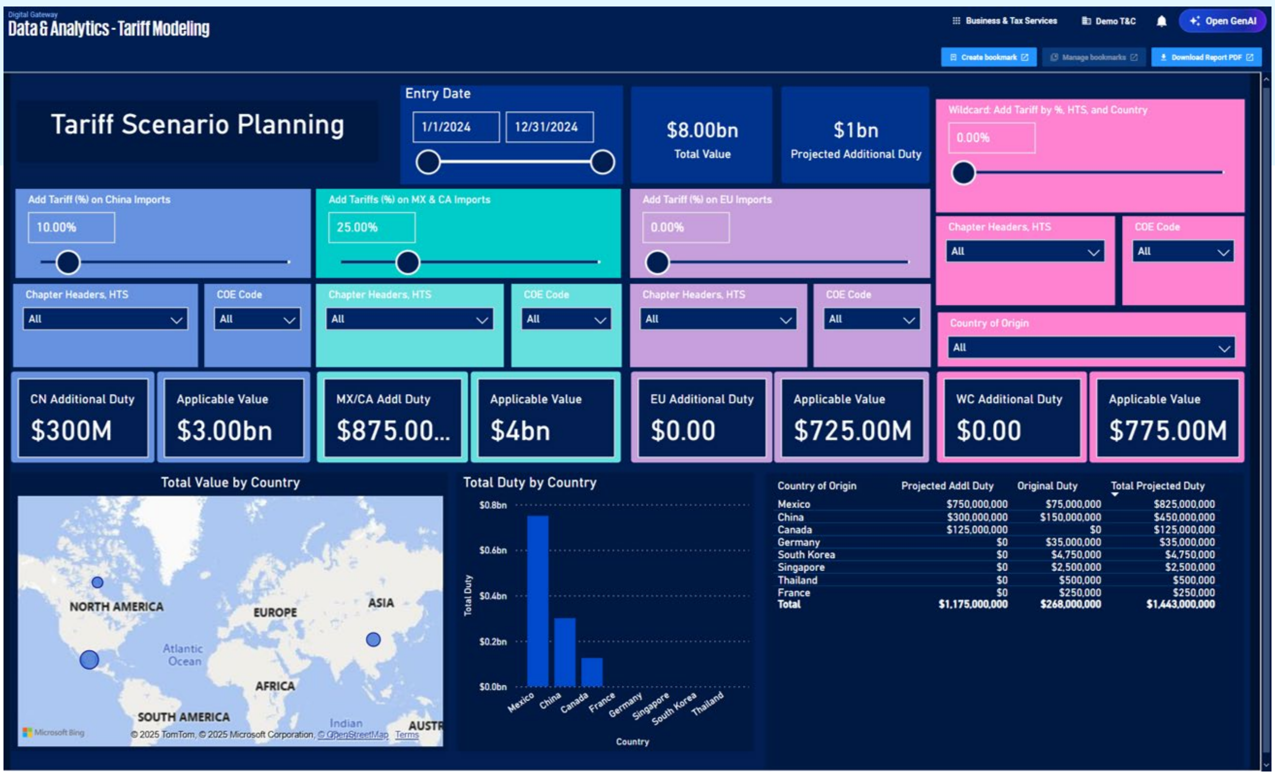
Our solution helps identifies savings opportunities and potential compliance risks.

Tariff Modeler Tool

KPMG's approach to tariff modeling leverages the latest technology, including GenAI, while considering the data needed to navigate today's global trade disruption. Digital transformation for our clients aligns your global trade data and technology with your organizational objectives.

KPMG's Tariff Modeler considers the challenges businesses face to monitor the impact of tariffs for 'today' and build for 'tomorrow'

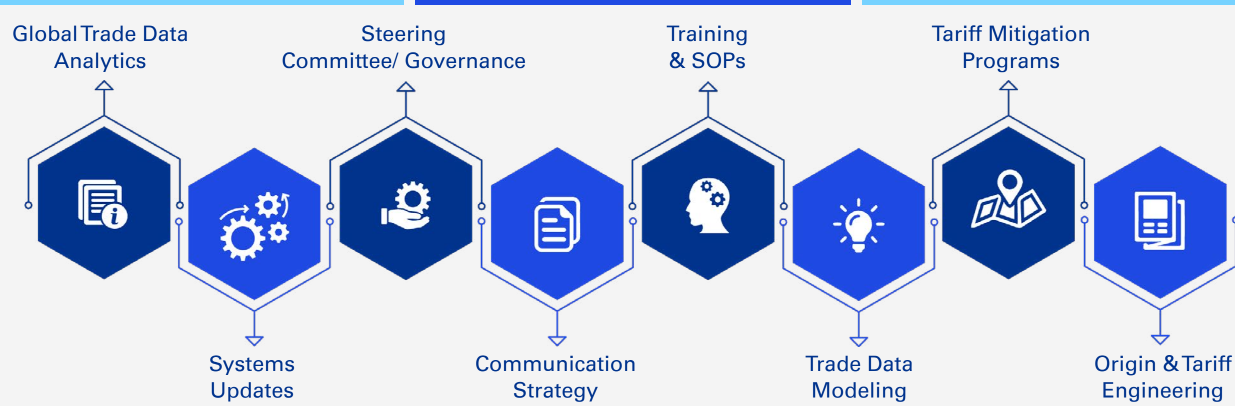
- **Tariff Impact Analysis**
- **Supply Chain Transparency and Insight**
- **Client Accessible Portal via Digital Gateway**
- **Driving and accelerating value**
- **Supports Tariff Strategy Implementation**
- **Regulatory Tracking**



Country of Origin	Projected Addl Duty	Original Duty	Total Projected Duty
Mexico	$750,000,000	$75,000,000	$825,000,000
China	$300,000,000	$150,000,000	$450,000,000
Canada	$125,000,000	$0	$125,000,000
Germany	$0	$35,000,000	$35,000,000
South Korea	$0	$4,750,000	$4,750,000
Singapore	$0	$2,500,000	$2,500,000
Thailand	$0	$500,000	$500,000
France	$0	$250,000	$250,000
Total	**$1,175,000,000**	**$268,000,000**	**$1,443,000,000**

KPMG's Data and Technology Services

Trade Assessments	Data & Analytics	Supply Chain Traceability
Trade Management Systems Implementation	GenAI	Master Data Management



Modeling this holistic data environment will help visualize the impact of tariffs and allow mitigation strategies best suited to provide relief to emerge. Indeed, companies that have not historically concerned themselves with duty mitigation in an era of free trade are now exploring tried and true customs strategies for potential benefit. Tariff solutions exist, but companies need to know where to commit their resources and efforts in order to realize potentially significant mitigation.

01 First Sale for Export

- Importers paying a tariff on a multi-tiered transaction may be eligible for measure duty reductions for long-term savings
- Key remediation factor mitigating current additional tariffs from China
- KPMG offers resources for importers to evaluate suppliers, reviews importer transaction flow for first sale qualification, and conducts ROI analyses to model estimated potential duty savings

02 Transfer Pricing Planning

- Importers can obtain duty refunds from retroactive downward transfer price adjustments which results in a reduced customs value
- KPMG evaluates valuation methodologies and unbundling to ensure that intercompany pricing strategies align with arm's length principles to avoid double taxation, while also managing the increased costs associated with cross-border transactions

03 Traceability

- Certain new tariffs and mitigation strategies require deep understanding of **sourcing origin** and inputs used in production.
- By leveraging our managed services resources KPMG can help traceability requirements around Chap.98, Section 232 (aluminum and steel), Free Trade Agreement and others.
- Detailed bills of material analysis
- High volume supplier solicitation outreach

04 Consulting Questions

- Tariff Modeling
- Impact Assessments
- Structural questions
- Industry disruptions
- Backfilling Resources
- Tariff Classification
- Country of Origin
- Assessing the right dutiable value
- KPMG can help importers analyze and implement alternative method of valuation for lower duty obligations

This comprehensive, forward-looking approach to trade data analysis enables businesses to make informed decisions and implement effective strategies to potentially reduce the exposure of increased tariffs on their operations.

Contact us:

George Zaharatos
Principal, Tax—Trade & Customs
gzaharatos@kpmg.com

Meagan Schoenberger
Senior Economist
meaganmartin1@kpmg.com

Michael Quigley
Manager, Tax—Trade & Customs
michaelquigley@kpmg.com

Elizabeth Shingler
Senior Manager, Tax – Trade & Customs
eshingler@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us: | **kpmg.com**