



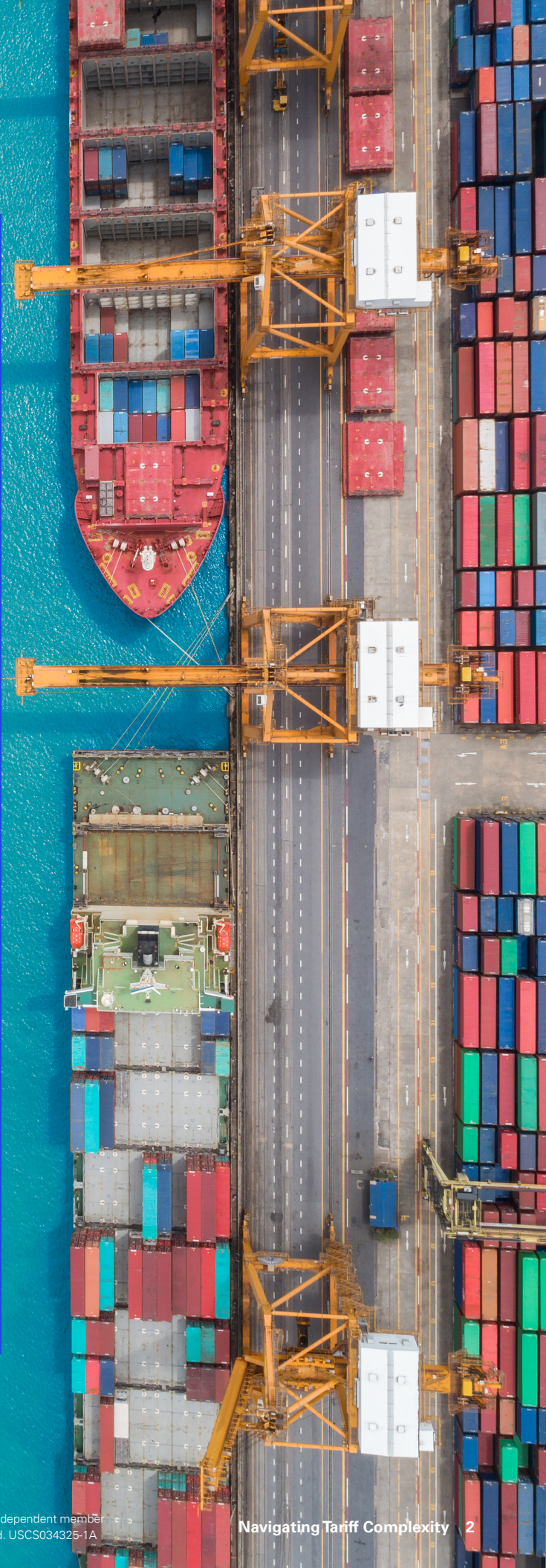
Navigating Tariff Complexity

A Strategic Lens for
Business Resilience





In today's global trade environment, tariffs influence nearly every aspect of business operations. From cash flow and inventory management to tax strategy and supply chain design, tariff impacts are multifaceted and far-reaching. To mitigate risks and unlock opportunities, organizations must move beyond reactive compliance to embrace a proactive, integrated approach. This article provides a concise overview of how tariffs affect key business functions and outlines how leading companies are responding across short-, medium-, and long-term horizons using data modeling, operating model transformation, and targeted mitigation strategies.





Tariff impacts across the organization



Cash flow

Tariffs increase the cost of imported goods, straining liquidity and requiring tighter financial controls. Working capital enhancement strategies help businesses manage accounts payable and receivable more effectively, reduce operational expenditures, and unlock liquidity. Forecasted cash flow modeling enables proactive planning and scenario analysis to navigate tariff volatility.



Manufacturing

Tariffs may prompt companies to reconsider manufacturing locations. Reshoring or nearshoring can reduce exposure to duties and improve agility. Manufacturing Strategy services assess labor markets, infrastructure, and cost structures to support strategic relocation decisions. Product Engineering also helps redesign goods to minimize tariff exposure.



Inventory balances

Tariffs inflate the cost of inventory, impacting valuation and carrying costs. Accurate Inventory Accounting methods—such as first in first out (FIFO), last in first out (LIFO), or weighted average—are essential to reflect true costs and maintain compliance. Leveraging Foreign Trade Zones (FTZs) can reduce ad valorem customs duties and certain tax exposure as well as improve inventory efficiency.



Sourcing and procurement

Procurement strategies must adapt to tariff pressures by renegotiating contracts and identifying cost-effective suppliers. Strategic Sourcing and Supplier Solicitation services support compliance and cost efficiency through supplier evaluation and trade regulation alignment. These efforts enhance supply chain resilience and reduce tariff liabilities.



Financial statements

Tariff-related costs must be transparently reflected in financial statements. This includes adjustments to the cost of goods sold (COGS), inventory valuation, and stakeholder disclosures. Financial Reporting services ensure proper accounting for tariff expenses, while legal entity forecasting supports long-term tax and financial planning.



Forecasting

Tariffs introduce volatility that complicates demand forecasting. Intelligent Forecasting tools using machine learning improve accuracy and responsiveness. Demand Planning services analyze historical data and market trends to align production and distribution with customer needs, reducing stockouts and excess inventory.



Supply chain

Tariffs disrupt supply chains by increasing costs and reducing reliability. Companies must assess supplier risk, diversify sourcing, and improve logistics. Supply Chain Network Management and 3rd Party Risk Management services help evaluate supplier performance, identify alternatives in favorable trade regions, and ensure continuity.



Sales tax and indirect tax

Tariffs affect indirect tax obligations, requiring careful analysis of VAT and sales tax implications. Indirect Tax services help businesses navigate regional tax regulations, identify credits, and minimize liabilities. Platforms like ITAP enable real-time scenario planning and improved compliance efficiency.



Business modeling

Business Modeling services simulate tariff scenarios to evaluate financial and operational impacts. These models help organizations understand cost structures, revenue streams, and supply chain dynamics. They support strategic decision-making and risk management in response to evolving trade environments.



Transfer pricing

Tariffs influence intercompany pricing strategies. Transfer pricing services help structure cross-border transactions to minimize tariff impacts. This includes unbundling non-dutiable costs, modifying pricing policies, and adjusting functional profiles to enhance import values and reduce duties.



Global trade systems

Automation of trade processes is essential for managing tariff compliance. Global Trade Systems enable real-time classification, duty calculation, and reporting. These tools reduce manual errors, enhance responsiveness, and ensure regulatory adherence across global operations.



Value chain management

Value chain management (VCM) helps to ensure that each stage of production and distribution is streamlined for efficiency and compliance. VCM planning aligns sourcing, manufacturing, and logistics strategies with favorable trade agreements, reducing costs and enhancing competitiveness.





Audit and compliance

Audit services evaluate tariff management strategies and ensure compliance with trade regulations. Regulatory Reporting and Compliance services support accurate documentation and timely submissions, helping businesses avoid penalties and maintain smooth cross-border operations.

Business issue	Impact	Potential mitigations
Cash flow	Tariffs increase the cost of imported goods, straining liquidity and requiring tighter financial controls.	Working capital enhancement strategies help businesses manage accounts payable and receivable more effectively. This results in reduced operational expenditures and unlocks liquidity. Forecasted cash flow modeling enables proactive planning and scenario analysis to navigate tariff volatility.
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Financial statements	Tariff-related costs must be transparently reflected in financial statements. This includes adjustments to cost of goods sold (COGS), inventory valuation, and stakeholder disclosures.	Financial reporting services help to ensure proper accounting for tariff expenses, while legal entity forecasting supports long-term tax and financial planning.
Supply chain	Tariffs disrupt supply chains by increasing costs and reducing reliability.	Companies must assess supplier risk, diversify sourcing, and augment logistics. Supply Chain Network Management and 3rd Party Risk Management services help evaluate supplier performance, identify alternatives in favorable trade regions, and ensure continuity.
Manufacturing	Tariffs may prompt companies to reconsider manufacturing locations.	Reshoring or nearshoring can reduce exposure to duties and improve agility. Manufacturing Strategy services assess labor markets, infrastructure, and cost structures to support strategic relocation decisions. Product Engineering also helps redesign goods to minimize tariff exposure.

Business issue	Impact	Potential mitigations
Sourcing and procurement	Procurement strategies must adapt to tariff pressures by renegotiating contracts and identifying cost-effective suppliers.	Strategic Sourcing and Supplier Solicitation services support compliance and cost efficiency through supplier evaluation and trade regulation alignment. These efforts enhance supply chain resilience and reduce tariff liabilities.
Forecasting	Tariffs introduce volatility that complicates demand forecasting.	Intelligent Forecasting tools using machine learning improve accuracy and responsiveness. Demand Planning services analyze historical data and market trends to align production and distribution with customer needs, reducing stockouts and excess inventory.
Sales tax and indirect tax	Tariffs affect indirect tax obligations, requiring careful analysis of VAT and sales tax implications.	Indirect Tax services help businesses navigate regional tax regulations, identify credits, and minimize liabilities. Platforms like ITAP enable real-time scenario planning and compliance improvement.
Business modeling	Business modeling services simulate tariff scenarios to evaluate financial and operational impacts.	These models help organizations understand cost structures, revenue streams, and supply chain dynamics. They support strategic decision-making and risk management in response to evolving trade environments.
Global trade systems	Automation of trade processes is essential for managing tariff compliance.	Global trade systems enable real-time classification, duty calculation, and reporting. These tools reduce manual errors, enhance responsiveness, and ensure regulatory adherence across global operations.
Transfer pricing	Tariffs influence intercompany pricing strategies.	Transfer pricing services help structure cross-border transactions to minimize tariff impacts. This includes unbundling non-dutiable costs, modifying pricing policies, and adjusting functional profiles to enhance import values and reduce duties.
Value chain management	Value chain management (VCM) helps to ensure that each stage of production and distribution is enhanced for efficiency and compliance.	VCM planning aligns sourcing, manufacturing, and logistics strategies with favorable trade agreements, reducing costs and enhancing competitiveness.
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Business issue	Impact	Potential mitigations
Commercial pricing	Tariffs impact your supply chain, material costs, and finished products differently than they impact your competitors' products.	It is important to understand how these changes create price potential for you and your competitors. And, where tariffs create cost disadvantages, you must reconsider how much cost you can pass through in end-customer prices while protecting your market position and overall margin. Where tariffs create advantage, you must consider how much additional price you can take today while maintaining customer relationships over the longer term.
Product costing	Tariffs are impacting individual components and sub-assemblies at different rates and intensities	INCO term changes are shifting landed costs for components and finished goods. Sticking to older allocation models and standard cost models can lead to unexplained swings in contribution margin and overall profitability. Getting today's product costs right will be important for ensuring your new supply management and commercial strategies are informed with today's real costs.
Material management	Every line item in your Bills of Material may be impacted differently by tariffs based on content and source location.	Building a sourcing strategy for the immediate term can minimize today's costs. Seeking alternative sources for today's components may be the right answer while reconsidering product designs for the longer term to favor tariff-advantages materials may be required to maintain your competitive and product performance positions.





What leading companies are doing



React: Rapid response and risk containment

- Use tools like the KPMG Tariff Modeler and ITRA/KBAT to simulate tariff scenarios and assess exposure across products, suppliers, and regions.
- Implement tariff recovery and mitigation strategies such as duty drawback, First Sale for Export (FSFE), and Foreign Trade Zones (FTZs).
- Enhance indirect tax using platforms like ITAP and conduct reverse audits to reclaim VAT.
- Evaluate supplier risk and develop contingency plans for high-risk regions.
- Ensure accurate financial reporting and alignment of tariff costs in COGS and inventory.



Reposition: Operational enhancement and strategic realignment

- Renegotiate contracts and identify suppliers in favorable trade zones.
- Use Supplier Solicitation services to ensure compliance and cost efficiency
- Assess the ability to unbundle certain R&D expenses for services that were undertaken in the United States.
- Unbundle non-dutiable costs and modify transfer pricing policies to reduce import values.
- Analyze accounts payable/receivable and inventory accounting to unlock liquidity and reduce carrying costs.
- Adjust pricing models to reflect new cost structures and maintain margins.
- Automate global trade systems for real-time compliance and duty calculation.
- Evaluate impacts on FDII, GILTI, and foreign tax credits through scenario modeling.



Restructure: Strategic transformation and competitive advantage

- Reshore or relocate manufacturing to reduce tariff exposure and improve logistics.
- Improve sourcing, manufacturing, and logistics through value chain management.
- Redesign products to reduce tariff sensitivity and qualify for R&D tax credits.
- Restructure operations and implement technology solutions to enhance agility and compliance.
- Ensure traceability and regulatory reporting across the supply chain.
- Use HS6-level modeling to forecast changes in production, imports, exports, and consumption.

From risk to resilience

Tariffs are no longer a temporary disruption—they are a strategic variable that companies must continuously manage. By leveraging the insights from the KPMG Tariff Modeler and aligning them with targeted service offerings, businesses can move from reactive cost containment to proactive transformation.

In the short term, companies must act quickly to assess exposure and recover value. In the medium term, they must enhance operations and realign strategies. And in the long term, they must transform their business models to build resilience and gain a competitive edge.

KPMG stands ready to support clients at every stage of this journey—with the tools, experience, and strategic guidance needed to turn tariff challenges into opportunities for growth and innovation.



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