Deloitte.

Tackling shifting tariffs: Timely tips for business leaders

Managing the tariff impact on supply chain dynamics

February 20, 2025

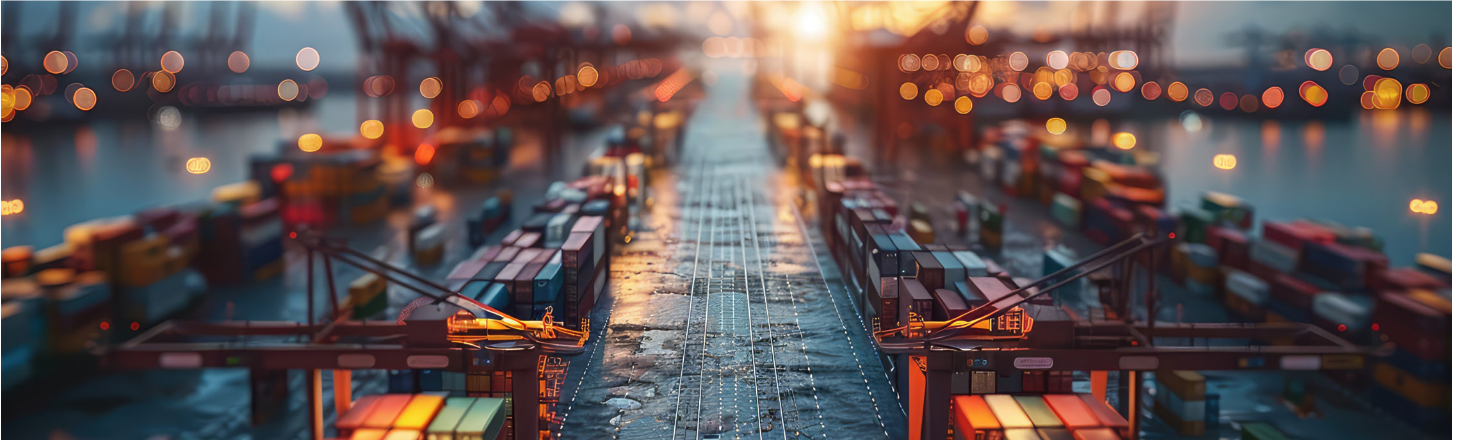
As a business leader, navigating geopolitical shifts, regulatory changes, rapidly changing tariffs, and evolving economic policies demands a proactive approach that supports long-term strategic resilience.

Understanding the impact on strategic planning, industry stability, market confidence, and future risks is crucial. It involves mobilizing operational readiness, evaluating potential opportunities to drive sustainable growth, optimizing cash flow, and managing effective tax rates. This article highlights key considerations for assessing supply chain planning amid regulatory uncertainty, potential tariff changes, and potential retaliatory actions.

Navigating supply chain strategies amid evolving tariff policies

Over the past decade, tariff policy changes and geopolitical tensions have significantly influenced the global supply chain. The Trump administration's imposition of tariffs on Chinese goods in 2018, followed by the Biden administration's enforcement and expansion of these tariffs, highlighted the need for resilient and flexible supply chains through diversification and regionalization. This resulted in reduced bilateral trade with China,[1] increased exports from Mexico and Southeast Asia[2] to the United States, and a growing interest in reshoring and nearshoring.

During the 2024 campaign, Trump proposed imposing across-the-board tariffs of up to 20% and has suggested on several occasions that he may impose tariffs on semiconductor chips, pharmaceuticals, and automobiles, most recently suggesting these tariffs could be 25%. The United States announced tariffs on products of Canada (25% on most products and 10% for energy) and Mexico (25%), and a supplemental tariff on products of China (10%). The tariffs on products of China came into effect on February 4, 2025, while the proposed tariffs on products of Canada and Mexico have been postponed until March 4, 2025. Additionally, there has been a significant expansion of tariffs on all imports of steel and aluminum, set at 25%. The United States also announced its plan to implement "reciprocal tariffs" on imports originating from partners in the coming months pending the outcome of a review. These actions highlight the complexity and unpredictability of the current trade environment. This includes the possibilities for retaliatory tariffs or other actions beyond those already implemented by China. For recent developments, please refer to the latest International Tax Alert.



Potential effects: Manufacturers and consumer prices

Existing tariffs, proposed new tariffs, and retaliatory tariffs may potentially impact both importers and exporters in the following ways:

- Increased input costs, which could have an impact on profit margins depending on currency adjustments and the ability to pass costs on to customers.
- Delayed or reduced capital expenditures on new equipment, technology, and facilities.
- Higher logistics and transition costs for diversifying supply chains.
- Temporary increases in inventory levels and associated carrying costs.
- Changes to pricing strategies, which may affect consumer demand for price-sensitive products.

Importers and exporters affected by retaliatory actions must navigate these complexities by managing costs, diversifying supply chains, and adapting market strategies to maintain profitability and market position.

Retaliatory tariffs and global implications

Potential tariffs and possible retaliatory tariffs imposed between the United States and its largest trade partners—Mexico, Canada, and China—could affect the future of trade. At the same time, many of those nations have implemented or announced retaliatory measures. To consider the financial, administrative, and operational impacts of tariffs on both inbound and outbound goods:

- **Know your supply chain:** Transparency through import transaction data, including values and duties by product categories, manufacturers, and countries of origin, is essential. This includes knowledge of your supply chain even for raw materials or inputs obtained from third parties.
- **Quantify exposure:** Scenario-planning for potential direct tariffs and additional retaliatory impacts is crucial. This includes understanding the exposure of tariffs to all affected markets.
- **Determine feasibility of and design duty-reduction strategies:** Companies may explore various duty-reduction strategies if they become available, including exemptions, exclusions, supply chain planning, transfer pricing, First Sale for Export, price unbundling, and other levers affecting duties owed.

Transfer pricing and customs values considerations

Transfer pricing and customs values may not always align, but transfer prices are the first to be evaluated for customs values in related-party import transactions. Companies should align their transfer pricing strategies with customs valuation requirements to manage customs implications. This is crucial for businesses importing to the United States, where higher transfer prices can lead to higher customs values and duties, especially with bundled fees. Companies should re-evaluate their transfer pricing policies or identify and separate non-dutiable cost components to reduce customs values and duties owed.

Planning for a new tariff environment

Businesses should proactively plan for new tariffs by evaluating their impact on supply chains and exploring ways to build resilience, mitigate risk, and drive value. Digital transformation and artificial intelligence (AI) can enhance supply chain efficiencies and value creation. Companies should also consider the tax implications of these changes to ensure preparedness.

Monitor and assess challenges

As organizations scenario plan for a new tariff and global trade landscape, companies should analyze their cost structures and consider various duty management strategies as they relate to their existing supply chain operating model, including, but not limited to:

- **Transactional models:** Assessing the impact of higher tariffs on operations such as maquiladoras in Mexico.
- **Value-based remuneration models:** Evaluating commissions, IP-based royalties, and service fees related to production and sales.

Companies should also consider broader supply chain changes in response to macroeconomic trends for both short- and long-term operating models.

Practical steps for US importers

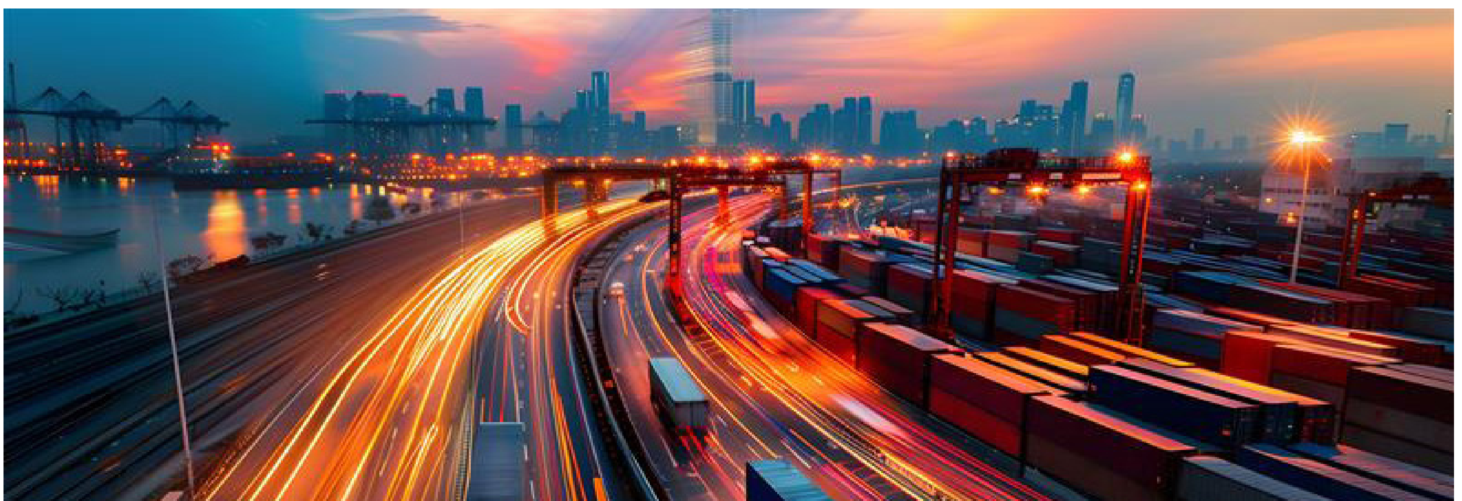
To prepare for the evolving trade landscape, US importers can take several practical steps which should be led or overseen by CFOs for financial prudence and strategic alignment:

- **Measure potential impact:** Conduct data analytics, consider quota limits, review the sufficiency of customs bonds, and undertake scenario planning.
- **Seek exemptions and exclusions:** If available, participate in public comment and hearing processes, and pursue available exemptions and exclusions.
- **Explore methods to reduce customs values:** Unbundle fees from product prices to remove non-dutiable elements, assess/implement First Sale for Export structures, and join reconciliation programs for customs value declarations and duty/tariff payment management.
- **Consider alternate sources of supply and production changes:** Assess potential opportunities to change the source country of origin and consider full or partial shifts in production operations.
- **Apply duty deferral, reduction, and duty recovery strategies as available:** Explore the use of foreign trade zones, bonded warehouses and other bonded regimes, Chapter 98 provisions in the United States, and drawback opportunities as available.

Onshoring and supply chain resilience

The relevancy of onshoring or bringing manufacturing back to or relocating near domestic locations is a trend that is gaining momentum. This shift can be influenced and driven by the need to mitigate risks associated with geopolitical tensions, tariffs, and supply chain disruptions, as well as companies evaluating opportunities to expand domestically. However, the feasibility of onshoring varies by industry, and less-regulated sectors may find it easier to adapt compared to more regulated ones.

- **Onshoring and nearshoring:** Both offer distinct profiles in response to regulatory changes and trade barriers. The choice between the two depends on various factors, including cost considerations, market proximity, supply chain dynamics, and strategic goals.
- **Diversification:** By addressing limited source dependencies, enhancing operational adaptability and efficiency (e.g., negotiated prices) to changes in supply conditions, and evaluating their corresponding tax operational profile to support such an initiative, companies can better navigate uncertainties and support stable operations and financial performance.
- **Integrated planning:** An integrated approach to supply chain planning, incorporating tax, customs, and transfer pricing considerations, is imperative and should be viewed holistically considering business driver impacts.



Strategic supply chain adjustments

As the supply chain continues to adapt to business transformations, evolving macroeconomic trends, and regulatory responses, businesses should engage a strategic approach to supply chain management and tax planning:

- **Evaluate production locations:** Consider location factors such as the various cost structures involved (e.g., labor, real estate/facility, logistics and transportation), workforce availability, proximity to key markets, and regulatory environment (e.g., labor laws, environmental regulations, and tax incentives).
- **Bolster supply chains:** Leverage value-add initiatives like enhanced automated processes, digital tools, and AI to enhance efficiency and reduce costs.
- **Tax and customs planning:** Align transfer pricing and customs planning, also considering international taxes and indirect taxes, to better position tax profiles and support compliance.
- **Risk management:** Develop contingency plans to address potential retaliatory tariffs and other trade disruptions.

Future considerations

As global trade and tariffs evolve, it's imperative to remain agile and responsive. Future supply chain planning should include workshops, multi-tiered plans, technology, innovation, and collaboration. Business leaders should lead these initiatives to explore sourcing options, evaluate new production locations, adapt market strategies, and optimize value chains.

Conclusion

The dynamic tariff landscape presents challenges and opportunities. By staying informed and adopting proactive strategies, companies can build resilient, efficient, and compliant supply chains. Key actions include understanding tariff policies, leveraging new technologies, and aligning tax and customs strategies with business objectives.

By focusing on these areas and utilizing services from advisers like Deloitte, your organization can be well-positioned to navigate global trade complexities and achieve sustainable growth.

[1] U.S. Census Bureau. (2023). Trade in Goods with China. Retrieved from https://www.census.gov/foreign-trade/balance/c5700.html

[2] United Nations Conference on Trade and Development (UNCTAD). (2022). Global Trade Update. Retrieved from https://unctad.org/webflyer/global-trade-update

Contacts

Kristine Dozier
Principal, Deloitte Tax LLP
+1 469 417 2884
kdozier@deloitte.com

Jivan Datta
Principal, Deloitte Tax LLP
+1 704 887 1695
jivandatta@deloitte.com

Firas Zebian
Principal, Deloitte Tax LLP
+1 713 982 4633
fzebian@deloitte.com

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte
As used in this document, “Deloitte” means Deloitte Tax LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2025 Deloitte Development LLC. All rights reserved.