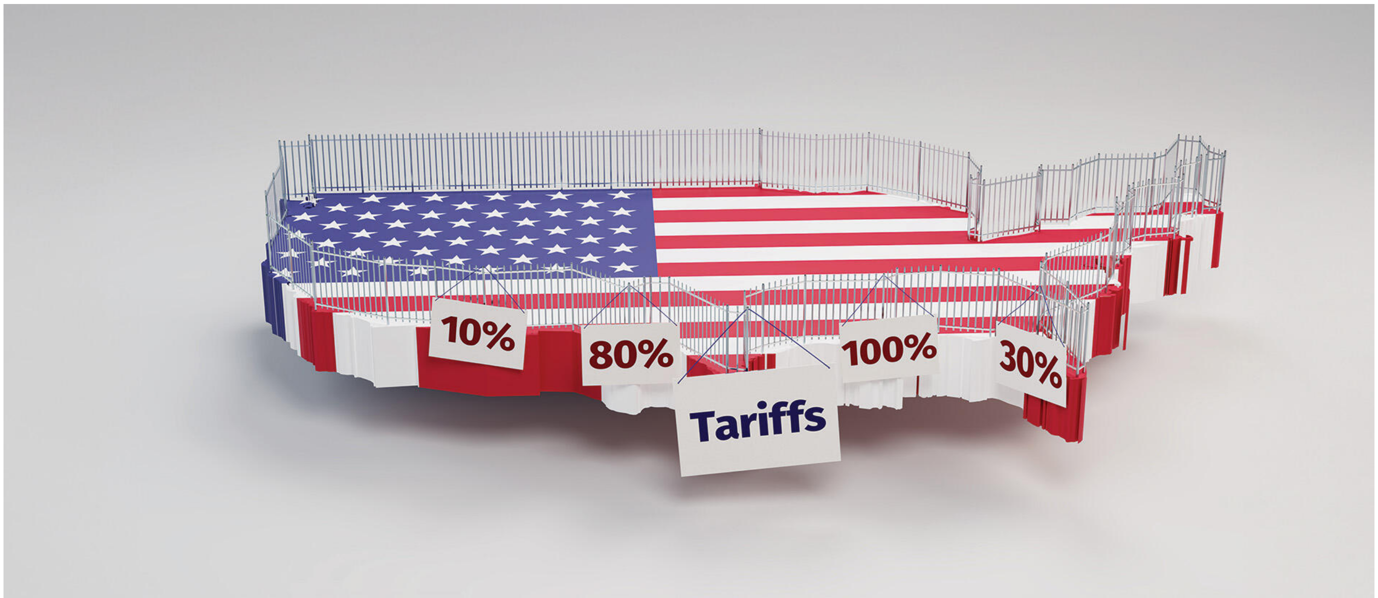
The drama of US tariffs: a practical response

International Tax | Large Corporate



23 June 2025

We examine the impact of recent US tariff increases, and the steps that businesses can take to manage tariff exposure in the short term.

Key Points

What is the issue?

Businesses are facing several challenges due to US tariff actions, including increased import duty rates, higher freight costs and supply chain disruptions, prompting businesses to reconsider cost structures. Immediate, drastic changes are advised against given the uncertain regulatory environment.

What does it mean to me?

Three key areas can help businesses to manage tariff exposure – classification of imported goods, establishing the proper origin of goods and the complexities of customs valuation.

What can I take away?

Businesses are advised to use the current period of uncertainty to review their current practices, ensuring correct classification and due diligence on origin and customs valuation. For the long term, strategic considerations may include relocating manufacturing or altering sourcing strategies.

In April, US President Donald Trump introduced a swathe of increased tariffs (or customs duties) in an attempt to stamp out trade deficits and encourage corporations to produce their goods in the US rather than elsewhere. The future of the tariff increases hangs in the balance, as the US Court of International Trade has declared them unlawful. However, the White House has appealed and on 10 June a US federal appeals court ruled that the tariffs will remain in place pending a review by the full 11 member court. The hearing is scheduled to start on 11 July.

These potential increases, coupled with the removal of the de minimis exemption for products from Hong Kong and China, are beginning to have huge implications for both large and small US businesses. To manage the uncertainty, businesses should look at practical steps, which includes firstly understanding the impact of the tariff increases.

What is the impact?

By disrupting global trade, President Trump has reversed a 40 year trend which had seen reduced tariffs, as globalisation produced reciprocal trade deals and faster growing economies. The direct result of the President’s actions has been threefold at a minimum: the obvious increased cost of doing business; supply chain disruption; and market uncertainty.

We will delve into these further, as well as how businesses can manage tariff exposure and formulate a strategy for now and the future.

Increased costs

We are already seeing small businesses importing into the US in the textiles sector facing big increases in import duty rates. This risks affecting demand and profitability, wiping out their margins and potentially leading them to close their business. In addition, freight costs have been adversely affected, as was evidenced in the run up to the 2 May deadline for the elimination of the de minimis limit for Hong Kong and Chinese goods.

The decision to make with the increased costs is: who pays them? Does the importer absorb them, does the importer pass them onto the consumer, or do the importer and exporter to the US share the costs? This will depend on the relationship between the parties but such a decision could be the difference between staying afloat or having to close their doors.

Supply chain disruption

When confronted with increased costs, the first thing many businesses will look at is where to strip out unwanted costs. Supply chains cannot be changed overnight and due to the uncertainty caused by the President's approach, making long-term changes, when things could quickly switch, is not recommended. As a result, using the current 90 day pause as a time to reflect on the things that can be achieved relatively quickly is a sensible thing to do.

This involves looking at your current customs position for imports into the US and checking, for example, that the business is using the correct commodity codes. If the business is not, then duty could be being overpaid already, regardless of the impact of Trump's tariffs.

Market uncertainty

Long-term planning is not really a viable option. Given the frequency of change and as global stock markets fluctuate, businesses are being railroaded into looking at the short-term only, which means that any investment and growth decisions have to be postponed. Worse still, it could mean businesses pulling out of the US altogether, with little consideration being given to actually relocating manufacturing there. On the plus side, we have seen businesses which are using this time as a chance to 'take stock' and properly evaluate whether their current supply chains are fit for purpose.

Managing tariff exposure

The amount of customs duty payable is driven by three cornerstones: classification, origin and the customs value of the goods. Managing these elements is key to the success of managing any tariff exposure, in addition to checking whether any special procedure duty relief could be considered.

Classification

Classification involves assigning the correct commodity code to the goods imported. Each imported good will have a commodity code, the first six digits of which is harmonised across all World Trade Organisation (WTO) members, and each commodity code has a customs duty rate or tariff assigned to it.

Making sure that the commodity code is correct is of vital importance. An incorrect commodity code might mean that a business is underpaying or overpaying customs duty, so this is likely the first exercise which ought to be undertaken. If the commodity code is wrong now, it will continue to be wrong going forward, which means a business will be compounding its tariff issues.

Origin

There has been a lot of media attention in relation to origin. Some advisers are advocating that a simple change in the country of shipment would be enough to change the origin of the goods. This is not the case. There must be substantial transformation to confer non-preferential origin, and this will need to be proved to change the origin from being Chinese, for example.

Making sure that the appropriate due diligence for country of origin purposes has been recorded will be important in case the US Customs and Border Protection raise any concerns. During the current 90 day pause, consideration should be given as to whether any due diligence has actually been done in the first place and if so, whether the correct conclusions were reached.

Customs valuation

This is the most complex area of customs duty and, as such, should not be dealt with lightly. Arriving at the appropriate value for customs purposes is not simply a matter of using the value shown on the commercial invoice; there is much more nuance involved.

Many businesses are looking at ways of ‘unbundling’ the customs value of the goods, thereby removing non-dutiable elements from the customs value in order to pay less customs duty on import. The aim is to be able to do this in a bona fide way, without adding artificial entities into the supply chain.

This is achievable but is based on and specific to an individual business’s fact pattern. However, a word of caution: businesses need to be aware of unscrupulous advisers who are new to the marketplace, offering schemes which appear too good to be true.

Customs duty special procedure reliefs

Some form of duty mitigation is often used as an acceptable way of suspending any customs duty and import VAT. In certain situations in the US, ‘duty drawback’ may be approved by the US Customs and Border Protection as a way of managing any tariff exposure.

It is also worth considering if any special procedures could be used further down the supply chain to reduce the total customs value when it comes to the US import shipment. An example would be a UK manufacturer using an Inward Processing scheme, where duty and import VAT are suspended. The net effect is that the duty is never paid (the import VAT is also suspended but would have been recovered or accounted for in the next VAT return) and therefore not included in the customs value in the onward sale to the US. To manage the tariff exposure, a business will need to calculate it. Step one therefore must be ensuring that the correct commodity codes are being used.

Formulating a strategy

Businesses should be encouraged to use this time wisely, by checking their commodity codes are correct, checking their due diligence on origin, or seeing if there is a more optimal way of valuing their goods. In reality, any strategy probably needs to be considered as short term and long term.

Short term

Formulating a strategy means looking at the business's own individual footprint to see if, and where, changes can be made. In the short term, this will be based on how costs will increase for that business, what supply chain inefficiencies can be quickly dealt with and what emphasis a business needs to place on both the US market and on long-term planning. If a business wants to operate in the US market, it needs to be agile and adapt quickly. This means keeping tabs on trade developments, as every change in international trade has a knock-on effect somewhere in the world.

Long term

It is possible for medium to long-term plans to be made. Strategies on changing sourcing and manufacturing come into play with consideration being made to potentially relocating to the US, or if the tariffs persist on China, moving manufacturing somewhere else in the Far East. Getting the short-term plans right will be essential to looking into the long term as the basis point will be set. As with the short-term vision though, taking a view on whether the business wants to be in the US market is key.

Editor's note: This article was written before the UK-US tariff deal was announced on 16 June. While the new deal allows 100,000 cars into the US on a 10% tariff, details of the tariff for steel and aluminium are yet to be clarified. 'We're gonna let you have that information in a little while,' said President Trump. It's definitely not a time to be making too many long-term plans...