THE TARIFF EFFECT

Impact & Strategies

MARINA GENTILE

Partner, Withum Global Transfer Pricing Strategies
Leader, HLB International Transfer Pricing

MARINA GENTILE a partner with over 25 years of extensive experience in providing all aspects of global transfer pricing services to multinational firms operating in various countries and across multiple industries. She advises clients regarding the market/arm's-length nature of their transfer pricing structure related to cross-border transfers of tangible goods, intellectual property (technology or marketing intangible assets developed, such as proprietary software/hardware/processes, trademarks, trade names, brand names), administrative and other services, and intercompany financing. She provides transfer pricing documentation for tax compliance purposes, transfer pricing planning analyses for start-ups or restructuring or globalization of operations, transfer pricing analyses to support corporations' world-wide tax minimization strategies and analyses to support negotiations with multiple tax authorities for advance pricing agreements and tax controversy/audit defense situations. She advises multinational corporations and their worldwide affiliates in navigating and complying with the vast array of transfer pricing guidelines and methods applicable in different countries, as well as OECD guidelines. She has experience advising a diverse client base operating in multiple industries and countries.

MARK LUDWIG

National Leader, Trade and Tariff Advisory Services
RSM US LLP

MARK LUDWIG heads RSM US LLP's national trade advisory services, helping corporations to structure, establish and execute compliant and cost-effective sourcing, manufacturing and distribution operations. Leading global teams to support clients in the design and implementation of strategies, processes, controls and programs, Ludwig serves as a catalyst for reduced operating costs, managed risk and sustained performance excellence in cross-border activities. With direct experience across many industries and all major regions of the United States, Ludwig helps companies effectively address and navigate myriad complex supply chain and international trade matters, such as customs valuation, trade agreements, classification, origin and preferential programs. As a former partner with a Big Four firm, where he served as co-leader of the customs and international trade practice in the Americas, and founder of his own consultancy, Ludwig has been a recognized authority and trusted advisor to hundreds of large and midsize businesses around the world for over 25 years. Additionally, he has held executive management roles in several multinational corporations, most recently as the global head of supply chain operations at Bloomberg LP, and as senior director of global trade and logistics at Tiffany & Co.

THE TARIFF EFFECT: IMPACT & STRATEGIES

Businesses in Los Angeles are traversing a uniquely unpredictable economic landscape shaped by unprecedented tariff activity. Whether companies are seeking advice on best practices pertaining to navigating impending new supply chain and international trade challenges, price fluctuations, access to capital in the altered economy, solutions for multinational organizations, or financial resilience for publicly traded companies, strategic money management is more critical than ever.

To help business owners and executives make informed financial decisions relating to tariffs and prepare for what might be coming, we spoke with two experts on the subject: Marina Gentile with Withum Global Transfer Pricing Strategies and HLB International Transfer Pricing; and

Mark Ludwig with RSM US LLP. Gentile and Ludwig generously shed some light on what businesses need to know moving forward.

How can a company understand the true cost of tariffs for its imported goods?

LUDWIG: At a foundational level, to understand the true cost of tariffs, a company must accurately classify its products using Harmonized System (HS) codes, determine the country of origin of such goods, and be aware of what types and at what rates customs duties apply. The total cost includes not only the tariffs but in many cases also freight, insurance, customs fees, handling charges, certain types of commissions, direct and indirect payments for assists, royalties, license fees, etc. A comprehensive assessment of what comprises the entire customs value of an individual imported item, as well as that of all the other imported goods, multiplied by the quantities traded, respective tariff rates and the resulting duty impact should provide a good estimate of the true cost of tariffs. From this understanding, a company can consider and determine its product pricing, among others, and start framing strategies to help manage tariff spend.

How have tariffs impacted key industries in Los Angeles, such as technology, manufacturing and logistics?

GENTILE: Tariffs have impacted key industries in Los Angeles to varying degrees. As of today, the least impacted industries seem to be services and technology, though that may change as things progress. The highest-impacted businesses are those involving the manufacturing and distribution of tangible products. There is a lot of uncertainty ahead for US-based companies importing their products from foreign markets, with at least 10% tariffs and in some cases much higher, like China at 145%. In many cases, a portion of this cost increase will need to be passed along to the consumer. Hollywood is also impacted, especially in relation to China and Canada. China is already limiting market access for US films, so studios' revenue potential could be negatively impacted. There are concerns that Canada may reconsider the tax incentives for production in its country, driving up the production costs as studios try to find alternatives.

Are Free Trade Agreements such as USMCA still available to lower tariffs?

LUDWIG: Yes, Free Trade Agreements (FTAs) like the US-Mexico-Canada (USCMA) are still available to lower tariffs. Goods that meet the specific USMCA rules of origin can qualify for preferential tariff treatment – that is, duty-free import – significantly reducing or eliminating tariffs altogether. While there are the recent additional reciprocal and other tariffs imposed on many countries that have FTAs with the US such as Australia, compliance with the rules of origin of a given FTA still exempts qualifying goods from the normal, or Most Favored Nation, tariff. Companies must claim this benefit based on a certification of origin, ensuring compliance with the particular agreement's requirements.

How should Los Angeles businesses adjust their tax strategies to offset the financial impact of tariffs?

GENTILE: Every company should be taking the tariff increase and working it through their financials to understand the ripple effect on their businesses and their tax position. This is true for all companies, but especially those multinationals with related entities in their supply chain. These companies need to consider and realize that paying more customs duty ends in paying less corporate tax to the IRS. The lower overall taxable income as a result of higher tariffs could potentially drive businesses into losses, putting them at risk for transfer pricing audits by the IRS. Companies need to understand the impact on the entire business and reconsider their global tax and transfer pricing strategies, so they do not put themselves at risk for a transfer pricing income adjustment, and a potential double taxation situation.

Are there special customs or trade programs that may lower or eliminate tariffs?

LUDWIG: Yes, there are multiple well-established customs and trade programs available to help reduce, defer or eliminate tariffs altogether, while driving competitive advantage. These include bonded warehouses, temporary importations, Foreign Trade Zones, duty drawback and tariff exemptions based on product usage or country-specific agreements. In the current environment, we are witnessing that bonded warehouses are attracting renewed interest due to their numerous benefits, such as providing short- or long-term duty deferral or exemption for production and distribution operations. They also can be established over existing facilities if necessary, or bonded warehouse space leased from existing operators. Still, not all benefits are driven by formal programs alone, as tariff-saving strategies and tactics can be developed and deployed around key drivers such as merchandise valuation, product classification and country of origin.

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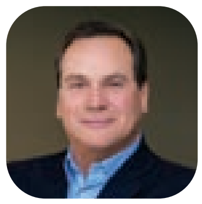
How do tariff-driven price increases impact financial planning, cash flow and profit margins for local businesses?

GENTILE: The tariffs create a financial strain on businesses, especially on US distributors of physical products. The distributor is typically the Importer of Record, which means they are solely responsible for paying the customs duty and the entire tariff increase. Distributors typically have thin margins to begin with, so a 10% or 25% (or higher) increase in product price would drive many companies into a loss position. Some distributors will be able to renegotiate their supply agreements, but some will not since they are under contract and may not have the bargaining power to force the manufacturer to share the increased tariff burden. Some distributors will be forced to pass along the increased tariff cost to the consumers. Whether or not this is possible depends on the demand for the product and how much of a price increase the end user will bear before going to a competitor product or doing without.



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How does the concept of tariff engineering help in reclassifying products to lower tariff spend?

LUDWIG: Tariff engineering involves, among others, modifying a product's materials, structure, or assembly to fit within lower-taxed tariff classification codes. For example, changing the material of a product or its design can shift it into a more favorable tariff classification code and associated duty rate. This strategic approach can help businesses reduce costs and support improved compliance with trade regulations. Critically, the rules and requirements that govern the determination of how an item is classified can be complex, and there may be multiple codes that seemingly apply. Arriving at the correct tariff classification code is only part of the process, and another key aspect is properly documenting how the determination was made in order to defend the decision and use of one code over others.

Should businesses be exploring alternative pricing strategies to absorb tariff costs while maintaining competitiveness?

GENTILE: Businesses should be exploring every possible way to absorb tariff costs while maintaining competitiveness, but it is a tricky balance, and the tipping point is unique to every industry, company, country and product. There is no one answer that will work for everyone. There is a point where too much of a price increase to the end consumer will drive them away to a competitor, possibly to a cheaper product

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from a business in a different geographic market that is not as impacted by tariffs. If the product is a necessity, like an energy source, and the consumer cannot do without it or easily replace it, then they will be forced to bear the higher price. If the product is optional, like maple syrup from Canada, then consumers may elect to do without, so the full tariff cost cannot likely be passed along. As sad as their pancakes would be, they will survive.

As the recent additional tariffs are applied on a percentage basis, are there any ways to lower the declared value and thus the tariff owed?

LUDWIG: To lower the declared value and thus the tariff owed, companies can explore strategies such as evaluating import prices and associated profit margins and charges, and considering the use of the "first sale for export" customs valuation strategy. Other approaches may also be leveraged such as excluding non-dutiable charges such as bona fide buying commissions from the entered value, declaring imported values on an FOB versus CIF basis as permitted under US customs regulations, and weighing opportunities to reduce product profit margins. For trade between related party foreign exporters and US importers, assessing whether there are inter-company charges that may be legitimately separated from the cost of an item can help lower the price and thus tariffs at import. In any of these or other potential actions, proper analysis, documentation and compliance with customs valuation rules are essential to manage risks such as fines and penalties for underdeclared import values, particularly for related party transactions where an arm's-length prices must be maintained and proven for every item.

How are businesses modifying their supply chains to mitigate tariff impacts, and which strategies have been most effective?

GENTILE: Some businesses are trying to diversify where they source their products. This works to varying degrees of success and is not possible for every business. All countries are hit with at least 10% tariffs, so that will be hard to avoid, and there is no point in switching up those markets. Companies are considering moving their manufacturing out of China, currently at a 145% tariff. Often, companies will expand into North America with one distributor in the US that sells to consumers in Canada and Mexico. Companies are very much reconsidering the flow of their products into the US market. It may no longer make sense for products that don't stay in the US to cross the border and pay a tariff when they are destined for sale in another market without a tariff on the original manufacturer. We may see the US bypassed in favor of setting up direct supply channels in Canada and Mexico.

What procedures and measures should companies have in place to support trade compliance, and avoid fines and penalties?

LUDWIG: Companies should implement robust customs and trade compliance programs that include formal company-wide policies, procedures and personnel trained in import and export laws and requirements. Conducting regular internal audits of cross-border trading operations and transactions, supporting and providing awareness training to employees, monitoring external supply chain partners such as customs brokers, and leveraging technology are all crucial areas and efforts to support and manage a dynamic compliance program. As a best practice, such should be supplemented with engaged outside expertise to help bring additional technical guidance and assist the business in staying current with ever-changing rules and regulations in the US and globally.

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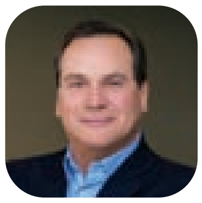
Could shifting global trade policies create opportunities for nearshoring, and what does that mean for Los Angeles businesses?

GENTILE: In theory, yes. In practice, it is difficult to shut down an existing and streamlined manufacturing plant in a foreign market and build a new one in the US. It would not likely be in an expensive state like California, but in some Midwest states with better tax incentives. Barriers include the capital required to build (with increased costs for steel, aluminum and lumber sourced outside the US), the years it takes, employing new people and establishing entirely new supply chains. Everything in the US is more expensive, especially labor costs, so it will be a challenge to manufacture a product to be competitive with Asia Pacific-produced products. The higher the cost of the product, the higher the price to the consumer. It's not a good idea to make long-term and costly decisions in a volatile environment that could potentially be a short-term issue. Trump is already talking about China tariffs going "way down" but it's anyone's guess what that actually means.

How can businesses communicate tariff impacts to stakeholders?

LUDWIG: The complex and technical nature of issues such as customs valuation, rules of origin and product classification that form the foundation of tariff applicability, combined with now rapidly changing trade policy positions, requires a solid and current understanding of tariffs and their impact on the company. Therein, a key part of effective communication with stakeholders involves being proactive, transparent and as detailed as possible about the challenges posed by tariffs. If a business does not have clear and timely lines of sight into what, from whom, how much, where and when it imports and pays for goods, then gaining detailed visibility into such should be among its first priorities. From an improved understanding of its cross-border sourcing activities, supply chain partnerships, import/export cost structures, and customs duty and indirect tax spends, a company can outline potential cost impacts, set clear expectations, establish a process to ensure tracking of developments and share regular updates as appropriate to the intended audience. Armed with such, the focus can turn to tailoring the communication to address the specific concerns of employees, customers, suppliers and investors helps in preserving trust and business relationships.



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Tune into a very special video webinar with these same two experts as they share further insights on the impact of tariffs. Watch at: labusinessjournal.com/digital-roundtables

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Almost Half of all Businesses Plan to Pass Tariff Costs to Customers

Zilliant, a leader in pricing lifecycle management, recently released findings from its Business Tariff Impact Survey, revealing how US business leaders are adapting pricing strategies amid evolving trade conditions, in particular confirming that many are planning to pass on costs and shift supplier in response to rapid changes in US tariff strategy. The survey of 400 senior executives – including CEOs, chief financial officers and chief revenue officers from companies with over $250 million in revenue — provides insight into how businesses are responding to recent tariff policy shifts and other macroeconomic challenges.

"Businesses continue to face difficult decisions about how to manage changing cost structures, but the past five years of disruptions and inflation have helped prepare them for this moment," said Pascal Yammine, CEO of Zilliant. "While this data outlines the strategic approaches companies are taking to maintain profitability in this volatile environment, it will be crucial for them to be transparent with customers, partners, shareholders and other stakeholders about their decision making and avoid potential backlash."

The survey found that 90% of business leaders report macroeconomic factors have impacted their pricing levels over the past 12 months, with 44% describing the impact as "significant" or "severe."

TARIFFS ARE SHIFTING BUSINESS PLANS

Tariffs are increasingly influencing business strategy, with 23% of respondents identifying tariff-related expenses as their primary pricing challenge in 2025—second only to competitive pricing pressures (33%). In response to these changes, companies are implementing multiple strategies:

- 44% of businesses plan to pass increased costs to customers as a direct result of recent tariff changes.
- 45% of respondents identified tariff-related expenses—including the tariffs themselves and rising supplier costs—as their primary pricing challenges in 2025.
- 42% of companies have shifted suppliers or sourcing regions to respond to tariff changes, indicating a significant reshaping of supply chains.

COMPETITION ALSO A TOP CONCERN FOR THE FUTURE

While tariffs are top-of-mind, the majority (33%) of respondents cited competitive pricing pressures as their primary pricing challenge in 2025. Looking ahead 12-24 months, both "competitive price wars" and "tariff and trade uncertainty" tied as the biggest concerns at 27% each.

"What we're seeing is a significant shift in how companies approach pricing strategy as respondents understand how tariffs will be a blanket concern for their industry and will be monitoring how competitors react," said Stephan Liozu, chief value officer at Zilliant. "Rather than making across-the-board price increases, forward-thinking organizations are implementing targeted pricing strategies that balance profitability with competitive positioning."

Despite these challenges, 87% of executives remain optimistic about maintaining profitability amid current economic conditions. One potential source of this widespread optimism is the availability of AI solutions – 83% of respondents say they are currently using AI-driven pricing technology to adapt to economic volatility.

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PASCAL YAMMINE
Zilliant

CEOs / CHIEF COMMERCIAL OFFICERS ARE LEADING PRICING DECISIONS

The survey also revealed in light of the importance of pricing in today's times, CEOs and CCOs are taking the driving seat when it comes to pricing decision making. This also suggests that those who do not elevate those decisions to the top risk falling behind.

- 98% say they have an internal champion who is the final decision maker on how to update their pricing strategy in light of market conditions, although that role varies.
- 87% of chief commercial officer respondents said they're the decision-maker.
- 68% of CEOs claimed that responsibility.
- As far as who they think should be the final decision-maker, the majority (56%) think it should be the CEO.

The survey included respondents from diverse industries, including manufacturing, finance, IT/telecommunications, retail, building, education, and others, providing a comprehensive view of how tariff impacts vary across sectors. Zilliant will release the full report next week, offering deeper analysis of industry-specific trends and strategic recommendations for businesses navigating the complexities of tariff-influenced pricing.

Learn more at zilliant.com.

Oracle Helps Customers Navigate Tariff and Global Trade Complexity

New capabilities within Oracle Cloud SCM help organizations navigate current trade disruptions, minimize costs and improve efficiency

Oracle has added new trade management capabilities within Oracle Fusion Cloud Supply Chain & Manufacturing (SCM) to help organizations manage the complexities of import tariffs and trade agreements. Made available at the end of last month, the latest updates to Oracle Fusion Cloud Global Trade Management enable customers to automate global supply chains processes, increase order shipment visibility and enhance supply chain decision-making.

"Supply chain leaders are rising to the moment by seeking new ways to manage their business with global trade agreements and international tariffs in a state of flux," said Chris Leone, executive vice president of applications development, Oracle. "To help our customers with this complexity, we have added new capabilities within Oracle Global Trade Management that enable supply chain leaders to quickly respond to changes and minimize disruption to their global supply chains."

Oracle Global Trade Management enables organizations to centrally manage cross-border trade processes, increase visibility and control over orders and shipments, minimize tariff exposure, and adapt to fast-changing trade regulations. The latest capabilities include:

AI-powered product classification: Helps logistics managers quickly and accurately classify new and modified products based on tariff schedules, export control lists, and munitions lists by utilizing machine learning-based product classification.

US foreign trade zone support: Helps logistics managers defer or reduce duties and tariff exposure on US imports by managing foreign trade zone status, auditing inventory levels, and generating foreign trade zone reports.

Trade incentive program processing relief: Helps logistics managers mitigate the impact of tariffs on the supply chain and better utilize duty drawback programs by tracking goods and duties from import to export.

Trade incentive program reporting: Helps logistics managers reduce costs by quickly generating the required data and reports needed to prepare and file drawback claims with customs authorities.

Part of Oracle Fusion Cloud Applications Suite, Oracle Cloud SCM enables customers to seamlessly connect supply chain processes and quickly respond to changing demand, supply and market conditions. In addition, embedded AI acts as an advisor to help analyze supply chain data, generate content, and augment or automate processes to help improve business operations and create a resilient supply network to outpace change.

Learn more at oracle.com.