TAX STRATEGIST WEBCAST SERIES

SECOND QUARTER TAX OUTLOOK

Navigating Tax Reform Under the Trump Administration

APRIL 23, 2025

Learning Objectives

Analyze how current tariffs are influencing tax reform measures

Evaluate new and proposed legislative and regulatory guidance

Examine key factors for compliance amid recent developments

With You Today

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Our Agenda Today

- Customs and Tariff Developments
- Tax Legislative Outlook
- Planning Considerations
- Questions Encouraged Throughout!

Customs and Trade

Making Sense of the Tariff Action

Presidential Authority on Tariffs

Article 1 of the U.S. Constitution gives Congress the power to determine and assess regular ("Normal Trade Relations") tariffs. Congress has enacted certain laws allowing the President to impose other kinds of tariffs.

INTERNATIONAL EMERGENCY ECONOMIC POWERS ACT OF 1977

Presidential authority to address unusual and extraordinary threats to national security through economic sanctions.

SECTION 338 OF THE TARIFF ACT OF 1930

Presidential authority to impose additional tariffs of up to 50% on any country that discriminates against U.S. goods following investigation and recommendation by U.S. International Trade Commission.

SECTION 301 OF THE TRADE ACT OF 1974

Presidential authority through the USTR to investigate foreign trade practices that burden or restrict U.S. commerce. President Trump used Section 301 to impose the current tariffs on China starting in 2018.

SECTION 232 OF THE TRADE EXPANSION ACT OF 1962

Presidential authority to take actions (both tariff- and non-tariff-based) to restrict imports that threaten national security. Requires investigation and recommendation by Commerce Dept. President Trump used Section 232 in 2018 to impose tariffs on steel and aluminum.

SECTION 201 OF THE TRADE ACT OF 1974

Presidential authority to protect domestic industries from import surges, such as on washing machines and solar panels. Requires investigation and recommendation by the U.S. International Trade Commission.

SECTION 122 OF THE TRADE ACT OF 1974

Presidential authority to impose an additional 15% tariff on imports for 150 days *"[w]henever fundamental international payments problems require special import measures to restrict imports."*

Fair and Reciprocal Plan

- On February 13, 2025, the White House issued a memorandum introducing a "Fair and Reciprocal Plan" (Plan) aimed at addressing the large and persistent trade deficits the U.S. has with its major trading partners.
- The Plan includes new "reciprocal" trade actions (both tariffs and non-tariff measures) against U.S. trading partners around the globe that engage in trade practices deemed to be unfair or that result in imbalances; was announced on April 2nd.
- The stated goal of the Plan is to determine the "equivalent" of a reciprocal tariff with foreign trading partners by examining foreign duty rates on U.S. goods and "non-reciprocal" trade relationships with all U.S. trading partners.

Fair and Reciprocal Plan

The Plan's approach is comprehensive in scope and covers:

1

Tariffs imposed on U.S. products (by tariff code under the Harmonized Commodity & Description Coding System (HS))

2

Unfair, discriminatory, or extraterritorial taxes imposed by trading partners on U.S. businesses, workers, and consumers, including digital services taxes and VAT

3

Costs to U.S. businesses, workers, and consumers arising from nontariff barriers or measures and unfair or harmful acts, policies, or practices, including subsidies (and import bans, license requirements, or quotas), and burdensome regulatory requirements on U.S. businesses operating in other countries

Fair and Reciprocal Plan

The Plan's approach is comprehensive in scope and covers:

4

Policies and practices that cause exchange rates to deviate from their market value to the detriment of Americans, as well as wage suppression and other mercantilist policies that make U.S. businesses and workers less competitive

5

Any other practice that, in the judgment of the United States Trade Representative, in consultation with the Secretary of the Treasury, the Secretary of Commerce, and the Senior Counselor to the President for Trade and Manufacturing, imposes an unfair limitation on market access or structural impediment to fair competition with the U.S. market economy

The Plan allows the U.S. to factor "in losses as a result of measures that disadvantage the United States as applied, regardless of what they are called or whether they are written or unwritten." Essentially, the U.S. can increase the "equivalent" reciprocal tariff for any trade practice by a foreign trading partner that it deems to operate counter to U.S. national interests, however the U.S. wishes to define those interests.

Legal Basis for the New Tariffs

In announcing many of these new tariffs, the President relied on the International Emergency Economic Powers Act (IEEPA) as the legal basis allowing him to take such actions.

This law was enacted in 1977 and cited in 2019 during the first Trump administration as the basis for threatened tariff increases of 25% on all goods exported from Mexico unless Mexico addressed illegal immigration issues at the border.

In the EO, President Trump claimed to have declared such an emergency with respect to "influx of illegal aliens and illicit drugs" on his first day in office.

Legal Basis for the New Tariffs

Many legal scholars question whether IEEPA allows the President to impose tariffs to counter "economic emergencies" that must be declared before any economic measures can be taken.

IEEPA has traditionally been viewed as the heart of the U.S. sanctions regime targeting countries, entities, organizations, and individuals that pose a national security threat to the United States by, e.g., freezing bank accounts and adopting embargoes.

It has never been used to impose tariffs – EVER.

Lawsuits have already been filed challenging the President's use of IEEPA in this manner.

Legislation has been introduced in Congress to prohibit the Executive Branch from using IEEPA to levy tariffs.

Understanding U.S. Tariff Actions

Country Of Origin	Legal Authority	Proposed/Effective Tariffs	Effective Date
All Countries	IEEPA	Reciprocal Tariffs (“Universal”): 10%; except CA & MX Reciprocal Tariffs: country-specific rates as of April 9, except CA & MX; otherwise, 10%; now paused until no later than July 9th Exempt for section 232 items, oil and gas products, and electronics	April 5 – all countries, except CA & MX April 9 – country-specific rates; 90-day pause *various product exclusions;* *> 20% US originating content; tariff then assessed only on non-US content;*
Canada	IEEPA	All products: 25% - exception for USMCA-qualifying products; Energy products & potash: 10% - exception for USMCA-qualifying products	March 4 March 4
Mexico	IEEPA	All products: 25% - exception for USMCA-qualifying products	March 4
China & Hong Kong	IEEPA	20% (10% effective on Feb. 4; other 10% on March 4); 125% (effective April 9) for a total rate of 145%	Feb. 4 / March 4 / April 9
China	Section 301	7.5%, 25%, 50%, 100%	2018 to Present

Understanding U.S. Tariff Actions

Country Of Origin	Legal Authority	Proposed/Effective Tariffs	Effective Date
All Countries	Section 232	25% on steel & aluminum products and certain derivatives (by tariff code)	March 12; *excluded from reciprocal tariffs*
All Countries	Section 232	25% on passenger vehicles/light trucks & certain auto parts	April 3 for vehicles/light trucks; May 3 for parts; *both excluded from reciprocal tariffs*
All Countries	IEEPA	25% on Countries importing oil from Venezuela	TBD
All Countries	Section 232	Under investigation: ▶ Copper ▶ Lumber ▶ Timber ▶ Certain derivatives of lumber/timber ▶ Semiconductors ▶ Pharmaceutical products/ingredients/derivatives ▶ Critical minerals and derivatives	TBD; *excluded from reciprocal tariffs*
All Countries	TBD	External Agricultural Products	TBD

Understanding Global Tariff Responses

Retaliating Country	Proposed/Effective Tariffs	Effective Date
Canada	25% tariffs on certain products such as appliances, wine, bourbon, and orange juice 25% duties on steel, aluminum, computers, sports equipment, and other goods – no relief for USMCA-qualifying goods 25% on U.S. motor vehicles; assessed on full value for non-USMCA qualifying vehicles; for USMCA-qualifying vehicles, assessed only on value of non-Canadian and non-Mexican content	March 4 / April 4 / April 4
China	125% on all U.S. goods	April 10
EU	Rebalancing Regulations 1 and 2 were to go into effect in April 15th and later in May; these countermeasures were suspended for 90 days on April 10 Targeted at U.S.-origin goods covering food, alcohol, motorcycles, clothing, video games, articles of plastic, and more New list released April 16th covering over 1,000 items.	Paused for 90 days
Brazil	The countermeasures may come in the form of duties imposed on the import of goods or services, suspension of concessions or obligations under Brazil's trade agreements, and suspension of obligations relating to intellectual property.	TBD

Strategies to Navigate Trade Policy Changes

TAX STRATEGIES | **OPERATIONAL STRATEGIES**

MINIMIZE IMPACT

Tax strategies

- Customs Valuation Strategies (i.e., first sale)
- Deconsolidate Bundled Payments for Goods (i.e., services, royalties)

Tax and operational strategies

- Tariff Engineering
- Foreign-Trade Zone/Special Trade Programs
- Country of Origin Engineering
- Re-evaluate U.S. Principal Structures

Operational strategies

- Update Manufacturing Footprint and/or Source Domestically
- Increase Yield/throughput from U.S. Manufacturing Sites

OFFSET IMPACT

Tax strategies

- Duty Drawback
- Reduce Transfer Price within Range

Operational strategies

- Renegotiate Supply Agreements
- Initiate Non-tax Cost Reduction Initiatives

Transfer Pricing for Customs Values

Be aware that traditional function/risk analyses to benchmark arm's length pricing between related parties could be affected by any significant tariff increases on tangible goods transactions.

Closely coordinate new transfer pricing studies (or update existing ones) with customs valuation rules for related party pricing to achieve the lowest possible value for customs without running afoul of income tax rules which could lead to "double taxation" (paying indirect tax, i.e., duties, and income tax) on incorrect values.

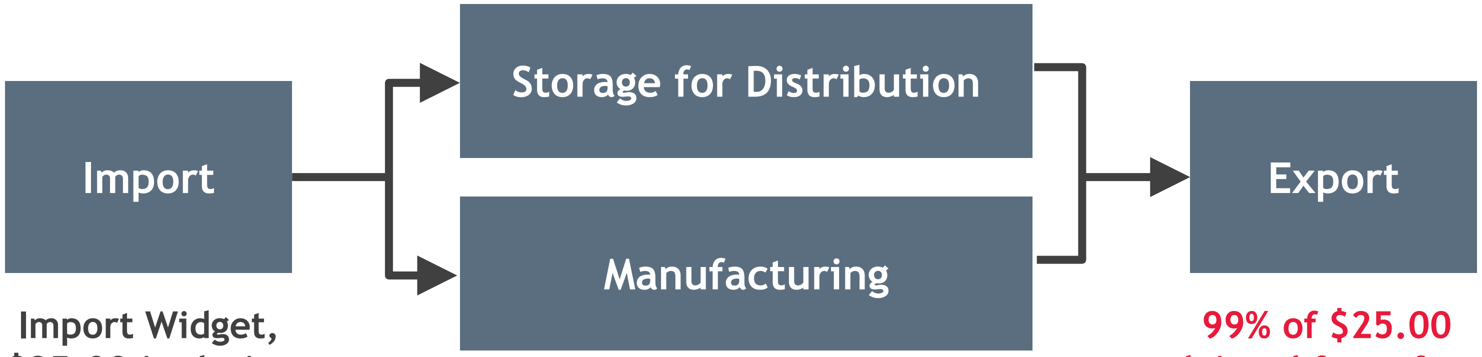
Include a cost-unbundling review to carve out any elements of a product's unit price which could be characterized as non-dutiable or create new services/intangibles that could escape inclusion in the duty basis.

CUSTOMS REFUNDS

Duty Drawback

Duty Drawback is a refund on duties, taxes, and fees paid on imported merchandise that is subsequently exported unused **OR** on imported merchandise used to manufacture a product that is later exported.

Unused Merchandise Drawback



Import Widget, $25.00 in duties

Manufacturing Drawback

99% of $25.00 claimed for refund

CLAIM BASES:

- Direct Identification (Product to Product)
- Substitution (HTS to HTS)

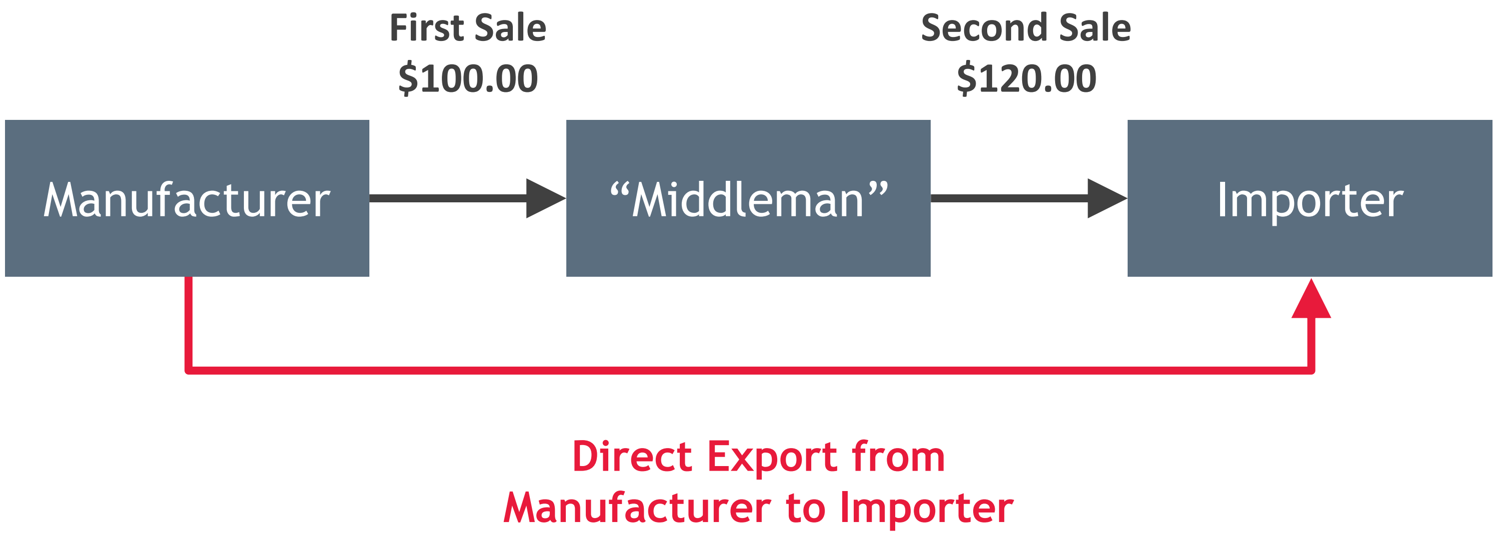
- **Who has the right to Drawback?** The exporter. The right to Drawback can be assigned.
- **Claim Timeframe:** 5 years from date of import, retroactive.
- **Payment Timeframe:** 30-45 days or 314+ days from filing, depending on “privileges.”

COST REDUCTION

“First Sale”

“First Sale” for Export

Where multi-tier transactions exist for imported merchandise, the importer may be able to declare an earlier price (as “transaction value”), so long as certain rules are met. The example scenario illustrated below unlocks a 16% reduction in the duties owed to U.S. Customs. **Retroactive claim options available.**



Instead of $120.00, the new basis for customs duties is $100.00.

Specially Designated Facilities

FOREIGN TRADE ZONES

Foreign-Trade Zones (FTZs) consist of specially designated secured access areas that are deemed outside the customs territory of the U.S. for purposes of customs duty, as well as certain excise and ad valorem tax assessments.

Benefits:

- Lower Entry Processing Costs
- Duty Deferral
- Duty Reduction/Avoidance on Exports
- Property Tax Benefits

BONDED WAREHOUSES

A bonded warehouse is a secured area in which imported merchandise may be stored, manipulated, or undergo manufacturing operations without payment of duty for up to 5 years from the date of importation.

Benefits:

- Duty Deferral
- Duty Avoidance on Exports
- Typically, easier to locate a Bonded Facility or apply to be a Bonded Facility as compared to FTZs

Tax Legislative Outlook

What is the latest outlook and what does it mean for you?

Triggers in Place to Force Major Action on Taxes

Individual Expiring Provisions	Cost
Rate cuts and bracket changes	$2.4 trillion
AMT thresholds	$1.6 trillion
Section 199A deduction	$830 billion
Doubled estate and gift tax exemption	$235 billion
SALT cap and itemized deductions	- $1.2 trillion

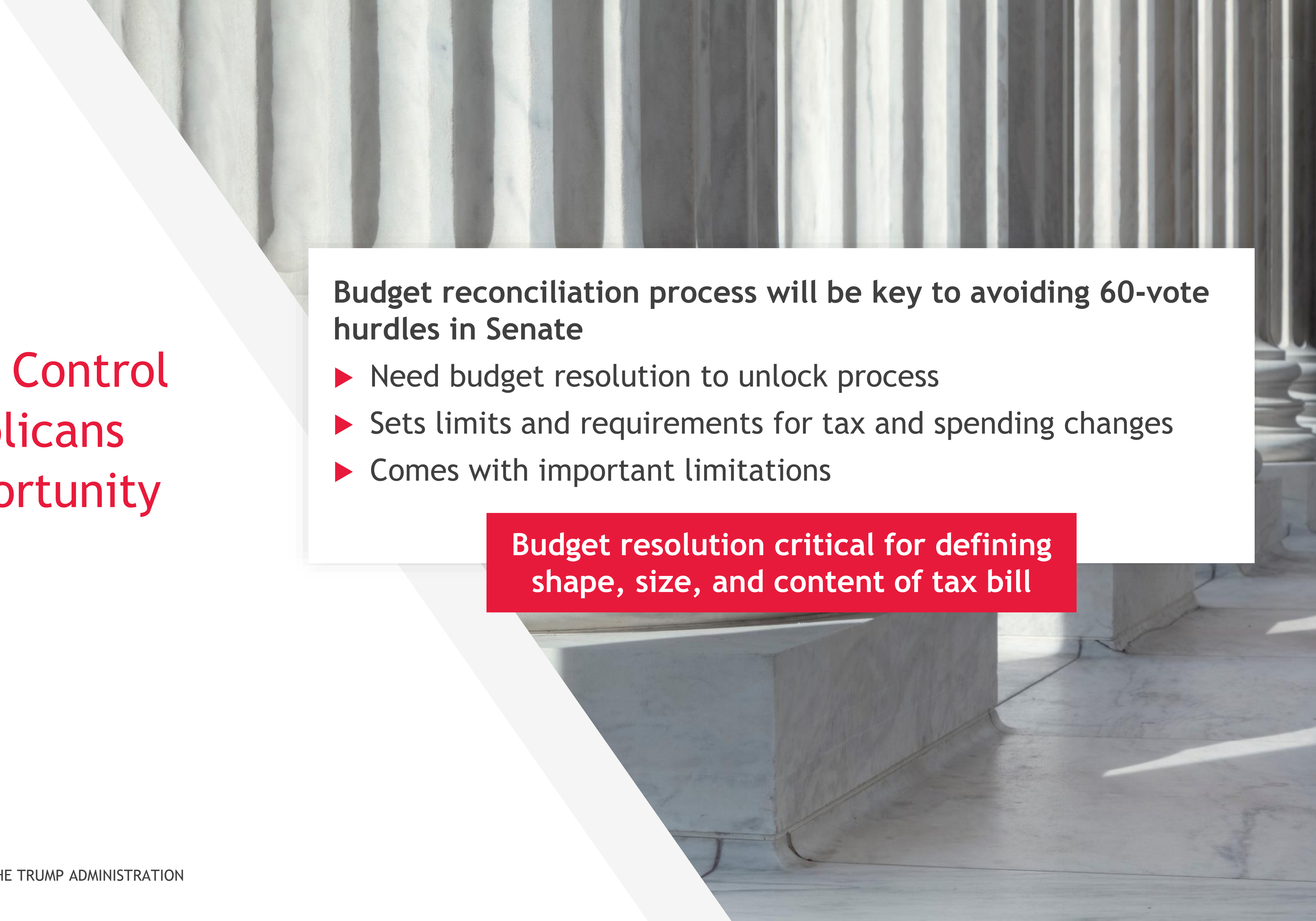
International Changes	Cost
BEAT rate increase and other changes	$38 billion
GILTI rate from 10.5% to 13.1% FDII rate from 13.1% to 16.4%	$161 billion
CFC look-through rule	$10 billion

Business Provisions	Cost
100% bonus deprecation	$384 billion
R&E expensing under 174	$139 billion
Section 163(j) calculation	$70 billion
Work opportunity tax credit	$17 billion
New markets tax credit	$7 billion
Film, TV, and theater expensing	$10 billion

Republicans see this as an opportunity for broader reform. Much more is on the table.

Scores based on 10-year estimates from CBO and JCT, except bonus depreciation, 163(j) and 174 changes, which also include retroactive relief

Single-Party Control Gives Republicans Unique Opportunity



Budget reconciliation process will be key to avoiding 60-vote hurdles in Senate

- Need budget resolution to unlock process
- Sets limits and requirements for tax and spending changes
- Comes with important limitations

Budget resolution critical for defining shape, size, and content of tax bill

Where are we in the process?

Feb 21
Senate passes budget 52-48 based on two bill approach

Feb 25
House passes budget 217-215 using one-bill approach

April 5
Senate passes amended House budget 51-48

April 10
House passes Senate budget 216 to 214

Aug to Sept
Debt limit relief needed to avoid default

Sept 30
End of government FY and deadline for reconciliation

Dec 31
TCJA cuts expire, affecting withholding in 2026

What does the budget provide?

SENATE INSTRUCTIONS

- $1.5 trillion for taxes
- Senate Budget Committee Chair has authority to set ‘current policy’ baseline
- $4 billion spending cut ‘floors’

HOUSE INSTRUCTIONS

- $4.5 trillion for tax cuts assuming current law baseline
- $1.5 trillion in spending cut minimum
- Tax cap reduced to extent spending cuts fall short or $2T (cap increased for cuts above $2 trillion)

House instructions likely less important: House can waive points of order by simple majority votes. Senate needs 60 votes to overcome noncompliance with budget rules.

What does budget mean for tax policy?

KEY IMPLICATIONS

- $1.5T under current policy baseline provides more room for tax cuts
- TCJA extensions cost ~ $3.8T to $4.5T so net tax cut ~ $5.5T to $6T
- Odds improve for business tax cuts, less need for revenue raisers: Tough choices still required
- Budget defers on key spending disagreements
- Tax parameters locked in, but spending fight could reduce appetite for tax cuts

Thune said parliamentarian 'deemed' budget 'appropriate' but unclear how extensively vetted: Lingering uncertainty over potential Democratic points of order

- Current policy baseline could mean permanent tax cuts: How do they define current policy?
- Tweaks could be required to ensure revenue impact is not 'merely incidental': Change 199A rate?

How do they satisfy deficit hawks?

BIGGEST HURDLE IS COST IN NARROWLY DIVIDED CHAMBERS

Tariff Revenue?

- Potentially trillions but not included in reconciliation itself: Republicans can argue it is effectively offsetting
- Revenue here to stay? Reversed by stroke of pen or challenged in court?
- Not gaining traction among conservatives yet, but could

DOGE Cuts?

- Not officially included either but same concept applies
- Hard to quantify without codifying through appropriations and does it scale?

Tax Increases!

House Budget Committee Chair released 'menu' of revenue options

Key Tax Increase Options

Proposal	Revenue	
Corporate SALT cap	$310 billion	▶ Idea has been floated, but lobbyists haven't mobilized yet
Repeal IRA credits	$500-$800 billion	▶ Investment in Republican districts, 14 members on record to preserve ▶ Speaker Johnson promised 'scalpel,' not 'sledgehammer' ▶ Changes likely prospective for future projects
End nonprofit status for credit unions, hospitals	$30 billion	▶ Unlikely, but changes to community benefit requirements possible
Endowment tax	$10 billion	▶ All the revenue is in rate increase, not expansion
Border adjustable tax	$1.2 trillion	▶ Aligns with Trump goals ▶ Unpopular the first time and not much talk now
End bond preferences	$364 billion	▶ Big money but targets local projects for members
Corporate rate hike	$100B per point	▶ Unlikely to be enacted
Carried interest	$13B	▶ Favored by Trump but will Republicans support?

Will everything in TCJA be extended?

> *Raising tax on millionaires “a fair thing to consider”*
>
> FREEDOM CAUCUS CHAIR
> ANDY HARRIS

Expect Extension

- Most individual provisions, including Section 199A

Likely to Change

- Bill unlikely to survive House without SALT relief
- Tax writers currently offering $25,000: SALT caucus threatening it is not enough

Less Likely to Change But Not Impossible

- Estate and gift tax could break either way
- Reverse tax cuts for high incomes?

What happens to bonus depreciation, R&E expensing, and interest limit?

Current Law

- R&E amortized over 5 years (15 abroad) under §174 after 2021
- Interest deduction limited under §163(j) to 30% of EBITDA instead of EBIT after 2021
- Bonus depreciation phasing out

BONUS DEPRECIATION	
Year	**Rate**
2023	80%
2024	60%
2025	40%
2026	20%
2027	0

Outlook

- Senate instructions give more room for taxes, but are these included in current policy baseline?
- Full retroactive reinstatement seems unlikely
- Trump pledging reinstatement of 100% bonus effective Jan. 20
- Support for fixing §174 and §163(j) as well, but less certain: Senate Republicans killed fix last year
- Don't sit around with fingers crossed: Implement interest capitalization and other mitigation strategies

What about international provisions?

SCHEDULED CHANGES FOR 2026

- FDII rate from 13.125% to 16.4%
- GILTI rate from 10.5% to 13.125%
- BEAT rate from 10% to 12.5% and unfavorable changes to credits
- CFC look-through rule expires

OUTLOOK FOR ADDRESSING

- Business community pushing
- Senate budget makes it easier, but implementing higher rates would raise revenue for other priorities
- Will Pillar Two affect policy decisions?

Significant opportunities for planning, including arbitrage and accounting method to leverage current rules. Expiration of CFC look-through would force adjustments to manage impact.

Outlook for Trump Campaign Promises

GREEN LIGHT: ACTION IS PRIORITY

- No tax on tips
- No tax on overtime

YELLOW LIGHT: ACTION IS POSSIBLE

- No tax on Social Security payments
- Auto loan interest deduction
- 15% rate on domestic activity

RED LIGHT: DOESN'T LOOK PROMISING

- No tax on Americans abroad

What does this mean for planning right now?

- Interest capitalization strategies
- Fixed asset planning
- Re-evaluate Section 174 calculation?
- Model transactions for future tax efficiency
- Accelerate energy projects?
- Prepare transfer tax options
- Move forward with Pillar Two compliance
- Consider GILTI, FDII, and BEAT arbitrage
- Prepare CFC look-through response

Audience Survey

Would you like to speak with someone at BDO about any of these topics discussed in today’s webcast?

A. Tariffs
B. Pillar Two implementation
C. International tax planning
D. Interest capitalization and/or fixed assets
E. Not interested at this time

Thank You!

CONTACT US ▶

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