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Unpacking the New Reciprocal Tariffs Reshaping US Trade Policies

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On April 2, President Trump declared "Liberation Day" and unveiled a series of sweeping tariff measures aimed at addressing trade imbalances and foreign trade practices while boosting domestic manufacturing. Marking the occasion with a broad executive action under the International Emergency Economic Powers Act (IEEPA), President Trump issued an executive order, "Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits" (Reciprocal Tariff Order), which imposes new tariffs on nearly all U.S. trading partners, including an elevated tariff rate on dozens of trading partners that run trade surpluses with the U.S. (Reciprocal Tariffs).

The global trade landscape is shifting rapidly, and businesses should closely monitor developments to assess the potential impact on their operations and supply chains.

Tariff Rates and Effective Dates

Starting April 5, a 10% tariff will be imposed across the board on all imported goods from almost all countries unless an exemption applies (10% Reciprocal Tariff). Such rates of duty shall apply with respect to goods entered for consumption, or withdrawn from warehouse for consumption, on or after 12:01 a.m. Eastern Daylight Time (EDT) on April 5, 2025, except that goods loaded onto a vessel at the port of loading and in transit on the final mode of transit before 12:01 a.m. EDT on April 5, 2025, and entered for consumption or withdrawn from warehouse for consumption after 12:01 a.m. EDT on April 5, 2025, shall not be subject to such additional duty.

Subsequently, on April 9, higher tariffs rates will take effect for 57 trading partners identified in Annex I of the Reciprocal Tariff Order that have significant trade surpluses with the U.S., even if the goods are imported under a free trade agreement (Country Specific Reciprocal Tariff). This rate applies to goods entered for consumption or withdrawn from a warehouse for consumption on or after 12:01 a.m. EDT on April 9, 2025, with the same exception for goods already in transit. These rates include the 10% baseline tariff and are not additive to it.

Annex III of the Reciprocal Tariff Order outlines the corresponding updates to the Harmonized Tariff Schedule of the U.S. (HTSUS) to align with the Reciprocal Tariff Order. On April 8, U.S. Customs and Border Protection (CBP) released operational guidance on the Reciprocal Tariffs to assist importers, including the application of additional duty rates, HTSUS Chapter 99 secondary classification requirements, HTSUS Chapter 98 exclusions, drawback applicability, and entry reporting requirements.

Tariff Stacking

The Reciprocal Tariffs are applied in addition to most existing duties, meaning they are layered on top of pre-existing tariffs, including general rates of duty, those imposed pursuant to Fentanyl/Migration IEEPA Orders (defined below), antidumping and/or countervailing duty orders, Section 301 of the Trade Act of 1974 (Section 301), and Section 201 of the Trade Act of 1974 (Section 201). For example, Chinese goods, which are already subject to a 20% additional tariff pursuant to Executive Order 14195, as amended by Executive Order 14228, now face an additional 34% reciprocal tariff. As a result, at a minimum, Chinese imports, which are not Exempt Goods (defined below) are subject to a combined duty rate of 54%, not including any additional tariffs imposed against China, such as Section 301 and/or Section 201 tariffs.

Mexico and Canada

The existing fentanyl and migration IEEPA-related tariffs issued under Executive Orders 14193, 14197, and 14231 with respect to goods from Canada, and Executive Orders 14194, 14198, and 14227, with respect to goods from Mexico (collectively, Fentanyl/Migration IEEPA Orders) will remain in effect, but, for the time being, Canada and Mexico are excluded from the Reciprocal Tariffs. Specifically:

- U.S.-Mexico-Canada Agreement (USMCA) ?-compliant goods — those that meet the USMCA's rules of origin and other regulatory requirements — will continue to enter the U.S. duty free (*i.e.*, a 0% tariff);
- Non-USMCA-compliant goods remain subject to a 25% tariff; and
- Non-USMCA-compliant "energy and energy resources" (as defined in Executive Order 14156) and potash imported from Canada will remain subject to a 10% tariff.

If the Fentanyl/Migration IEEPA Orders are lifted, USMCA-compliant goods will (barring any future change in these tariff policies) continue to receive preferential duty treatment (*i.e.,* duty-free), but non-USMCA-compliant goods from Canada and Mexico, including energy products and potash, will instead become subject to a 12% reciprocal tariff.

Exempted Goods

The following goods are exempt from the Reciprocal Tariffs (collectively, Exempt Goods):

- Articles subject to 50 U.S.C. § 1702(b), such as postal communications, donations for humanitarian relief, accompanied baggage for personal use, and informational materials;
- Steel and aluminum articles subject to duties imposed pursuant to Section 232 of the Trade Expansion Act of 1962 (Section 232) and Proclamations 9704, 9705, 9980, 10895, and 10896;
- Automobiles and automobile parts subject to duties under Section 232 and Proclamation 10908;
- Copper, pharmaceuticals, semiconductors, and lumber;
- All articles potentially subject to future tariffs imposed pursuant to Section 232;
- Bullion;
- Energy and certain minerals not available in the U.S.;
- Goods from Cuba, Belarus, Russia and North Korea with which the U.S. does not maintain normal trade relations; and
- Any other articles delineated in Annex II of the Reciprocal Tariff Order

U.S. Content Reduction

The Reciprocal Tariff Order allows importers to benefit from reduced tariff rates on goods that contain at least 20% U.S.-origin content. If an imported good contains at least 20% U.S.-origin content—meaning 20% of its value comes from components produced or substantially transformed in the United States—the additional Reciprocal Tariff applies only to the non-U.S.-origin portion of the good's value. This is designed to incentivize the inclusion of U.S.-origin components in goods imported into the U.S. CBP is tasked with collecting documentation regarding imported goods, including entry filings, to verify the value of U.S.-origin content in the good and determine if the good was "substantially finished" in the U.S.

Changes to Duty-Free De Minimis Treatment

President Trump took steps to end the de minimis program under 19 U.S.C. § 1321 that allows shipments worth $800 or less to enter the U.S. duty-free with minimal customs checks. Except for goods from China and Hong Kong, the de minimis treatment will remain available until the Secretary of Commerce notifies the President that "adequate systems are in place" to manage duty collection on these shipments.

Furthermore, President Trump signed a separate executive order ("Further Amendment to Duties Addressing the Synthetic Opioid Supply Chain in the People's Republic of China as Applied to Low-Value Imports") also on April 2, eliminating de minimis treatment for shipments from China and Hong Kong, effective May 2. All shipments from these locations, regardless of value, will be subject to applicable duties. Specific measures include a new postal duty rate of 30% of the shipment's value or a minimum of $25 per item, increasing to $50 per item after June 1, 2025. Carriers must now report shipment details to CBP and maintain an internal carrier bond to ensure compliance with duty payments. These changes are expected to impact businesses reliant on e-commerce and low-cost imports from China, necessitating a reassessment of supply chain strategies. Within 90 days, the U.S. Secretary of Commerce will evaluate the effects of these new rules and decide whether to expand their application to include packages originating from Macau.

Duration of and Changes to Reciprocal Tariffs

The Reciprocal Tariffs will remain in effect until President Trump determines that the trade deficit resulting from nonreciprocal treatment has been satisfactorily addressed. The Reciprocal Tariff Order outlines specific scenarios where Reciprocal Tariffs can be modified. For example, if a U.S. trading partner retaliates against the U.S. by imposing additional import duties on U.S. exports or other measures, the President has the authority to increase the Reciprocal Tariffs. Conversely, if a U.S. trading partner takes significant steps to address non-reciprocal trade barriers and aligns more closely with the U.S. on economic and national security matters, the Reciprocal Tariffs may be reduced. Additionally, if U.S. manufacturing capacity and output declines further, the President may opt to increase the duties to protect domestic industries. Lastly, if the Reciprocal Tariffs fail to effectively resolve the overall trade deficit or address nonreciprocal trade arrangements, the U.S. Secretary of Commerce and the U.S. Trade Representative can recommend additional actions to modify the Reciprocal Tariffs.

International Responses

The sweeping trade measures have sparked immediate reactions from U.S. trading partners. China has responded, imposing a 34% tariff on all U.S. imports starting April 10, alongside export controls on certain "rare earth" products and sanctions on several U.S. companies, signaling a sharp escalation in this ongoing trade war. The EU, facing a 20% Reciprocal Tariff, is preparing countermeasures, while still hoping for negotiations to mitigate the impact. Israel, hit with a 17% Retaliatory Tariff despite preemptively scrapping its own tariffs on U.S. goods, is seeking to negotiate a cancellation or reduction of the assigned Retaliatory Tariff with the Trump administration. Other countries, such as Japan and South Korea, have expressed regret and concern, while India is assessing its options without any specific announced counterstrategy yet countries like the UK and Australia, facing a baseline 10% tariff, are opting for a more measured approach, emphasizing dialogue over immediate retaliation. These varied responses highlight a mix of defiance, strategic caution, and economic recalibration amid fears of a global trade war.

Legal Challenges

On April 3, 2025, a federal lawsuit was filed in the U.S. District Court for the Northern District of Florida challenging the IEEPA-based additional 20% tariffs on Chinese imports, issued under Executive Order 14195, as amended by Executive Order 14228. The plaintiff, a Florida-based small business importing materials from China, argues that these tariffs were illegally imposed under the IEEPA, claiming that only the Congress has the constitutional authority to impose tariffs, that IEEPA does not authorize the imposition of tariffs, and that the President unlawfully bypassed required procedures in the tariff-specific statutes by imposing these tariffs under IEEPA. It will be critical to watch this and other expected litigation challenging the validity of these IEEPA-based tariffs, as well as legislative efforts seeking to limit presidential authority in this area, as companies consider whether or how to invest in modified supply chains due to these tariffs.

Conclusion

This alert is intended only as a high-level summary of recent developments and is not a substitute for specific legal or tax advice. Things are rapidly changing by the day and hour, and our Tariff Task Force will do its best to provide timely and relevant updates as things progress. Please don't hesitate to reach out to us with questions.

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