KPMG

TaxNewsFlash

Canada

U.S. Vows 25% Tariffs on Imported Canadian Goods

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Canadian businesses should consider how they may be affected by significant U.S. tariffs that could be introduced next year. U.S. president-elect Donald Trump recently posted on social media that he is considering an executive order to enact a 25% tariff on all products entering the United States from Canada and Mexico starting January 20, 2025. If these changes are enacted, Canada may choose to respond with its own retaliatory tariffs on U.S. goods, as has happened in the past.

These changes, if enacted, could have a broad and significant effect on many Canadian businesses, including those that sell into the United States. In particular, Canadian businesses that are non-resident importers into the United States that do not take timely action may bear the full burden of any tariffs.

Take action now

Trade and customs considerations

Affected Canadian businesses should act quickly to consider how to proactively reduce risks and mitigate any impacts. Specifically, these affected businesses should:

- Ensure appropriate clauses are included or adjusted in sales agreements (e.g., all-inclusive contracts) dealing with sales into the United States so that any potential tariff costs can be passed on to purchasers

- Review their import and export pricing to ensure all statutory deductions allowable under customs valuation rules are properly applied to declarations at the border to ensure the lowest possible base upon which the tariffs would be calculated

- Verify the eligibility of goods and materials made or bought under the Canada-United States-Mexico Agreement (CUSMA) to minimize duties paid to offset tariff impacts

- Review their supply chains for opportunities to possibly diversify or shift goods and materials production, warehousing, and distribution in anticipation of possible disruptions that may occur.

KPMG observations
The possibility that the U.S. enacts this change causes significant uncertainty for businesses, as multinationals must consider these potential tariffs in addition to other ongoing and anticipated geo-political trade concerns. For example, it's unclear how dispute provisions under the World Trade Organization (WTO) rules and CUSMA may come into play for Canada and whether the United States will impose further tariff reciprocity legislation based on how Canada responds.

If the United States decides to provide tariff relief in certain circumstances as it has previously (such as for goods of strategic significance to the United States), companies may only have a short timeframe to make their case as to why they should qualify.

Indirect tax considerations

If Canada implements retaliatory tariffs on imported goods from the United States, these goods will become more expensive to Canadians. If the tax base increases, so will the GST/HST, QST and PST revenues for the federal and provincial governments. However, the total sales of imported goods may decrease due to new tariffs which might reduce the total GST/HST, QST and PST collected on a lesser volume of imported goods.

KPMG observations
Given the recently proposed GST/HST tax holiday and the Working Canadians Rebate by the federal government to offset inflationary pressures on consumers, the government could announce additional measures targeted at consumers who are impacted by higher prices as a result of the potential additional tariffs on such goods.

Transfer pricing considerations

A 25% tariff on goods imported into the United States from Canada may disrupt existing transfer pricing policies for certain Canadian multinationals selling goods through a U.S. related party distributor that earns a guaranteed target operating margin. The CRA may increasingly scrutinize this type of transfer pricing policy, on the basis that these guarantees of profit will shift taxable income from Canada to the United States. As these transfer pricing issues may have an immediate impact on customs valuations, Canadian businesses in this situation may only have a short time to reconsider their transfer pricing policies and focus more on the transfer price the U.S related party distributor will pay for the goods it purchases, rather than the profits that it should earn from its activities.

Canadian businesses that have yet to expand into the United States may find that this possible 25% tariff provides an excellent incentive to explore how different business models and transfer pricing can mitigate their impact. Now might be the right time for these businesses to set up a distribution warehouse closer to their biggest customers or expand their capacity through a U.S. manufacturing facility.

We can help

KPMG Canada is following these developments closely. Your KPMG adviser can help you assess the effect of any potential tariffs and discuss ways to mitigate their impact. For more details, contact your KPMG adviser.