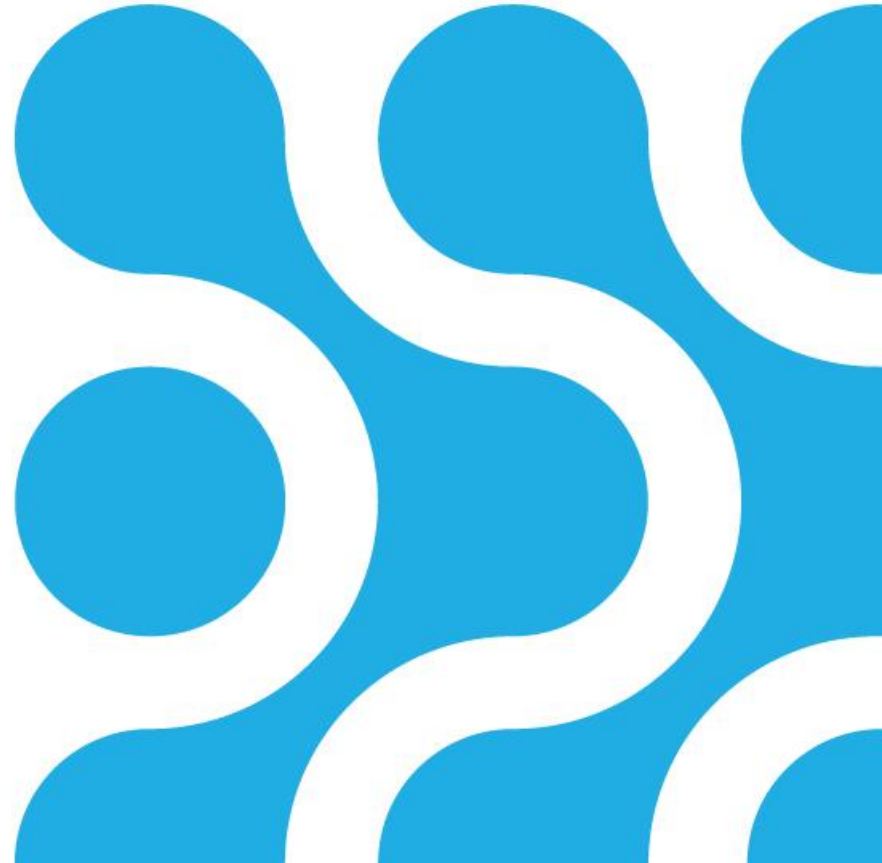


Tariffs 101: Definitions, Legislative Framework, History and Current Status

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Electronic Components Industry Association



Summary

- Background
- Tariff History
 - Section 301
 - IEEPA Fentanyl
 - IEEPA Reciprocal
 - Section 232
- Key Terms
 - Importer of Record
 - Foreign Trade Zone
 - USMCA

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Background

- **What is a tariff?**
 - A schedule of duties “tax” imposed by a government on imported goods.
- **When do you pay for a tariff?**
 - When goods are imported into the country. The importer of record, usually the buyer or their agent, is responsible for paying the tariff to the customs authorities at the port of entry.
- **Why would a country impose them?**
 - Protect domestic business
 - Raising the price of imports, making a domestic good comparatively more affordable
 - Raise revenue
 - Tariffs are paid to the government as a tax
 - Manage trade imbalances
 - Boost national defense
 - Onshoring of manufacturing allows greater control of supply chain for intercountry conflicts

Background

- **How is the tariff rate identified?**

- The general rate is based on the Harmonized Tariff Schedule (HTS) Classification
- In addition to the general rate, there may be other Trade Remedies associated to the item, e.g. antidumping/countervailing duty. These tariff programs are generally product and country specific and therefore identified by Country of Origin, HTS code, or constituent material.
- Current trade remedies impacting tariff cost of goods
 - Section 301 [Section 301 Trade Remedies Frequently Asked Questions | U.S. Customs and Border Protection](#)
 - Section 232 [Section 232 Tariffs on Steel and Aluminum Frequently Asked Questions | U.S. Customs and Border Protection](#)
 - International Emergency Economic Powers Act (IEEPA) [International Emergency Economic Powers Act \(IEEPA\) Frequently Asked Questions | U.S. Customs and Border Protection](#)
 - Reciprocal Tariffs
 - Fentanyl Tariffs
 - Quota [Quota FAQs | U.S. Customs and Border Protection](#)
 - Antidumping/Countervailing Goods [Antidumping and Countervailing Duties \(AD/CVD\) Frequently Asked Questions | U.S. Customs and Border Protection](#)

Background

• Anatomy of an HTS

- Tariffs are determined based on the Harmonized Tariff Schedule (HTS) classification.
 - Current US Schedule can be found here - [Harmonized Tariff Schedule](#)
 - HTS code is identified as 8542.31.0075
 - 85 = chapter
 - 8542 = heading
 - 31 = subheading
 - 00 = subheading
 - 75 = statistical suffix
 - Tariff rate for a product is defined at either its 8-digit or 10-digit level
 - Tariff rate is listed in one of three columns:
 - Column 1
 - General – Normal Trade Relations
 - Special – Special Tariff Programs
 - Column 2 - Specific Countries (Belarus, North Korea, Cuba, Russia)

XVI
85-80

Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	Rates of Duty		
				1		2
				General	Special	
8542		Electronic integrated circuits; parts thereof:				
8542.31.00		Electronic integrated circuits:				
		Processors and controllers, whether or not combined with memories, converters, logic circuits, amplifiers, clock and timing circuits, or other circuits.....		Free ¹²		35%
		Controllers (including microcontrollers):				
	15	8-bit.....	No.			
	20	16-bit.....	No.			
	25	32-bit.....	No.			
	30	Other.....	No.			
		Processors (including microprocessors):				
	35	Digital signal processors (DSPs).....	No.			
	40	Graphics processing units (GPUs).....	No.			
	45	Central processing units (CPUs).....	No.			
	50	Other.....	No.			
		Programmable logic devices (PLDs):				
	55	Complex programmable logic devices (CPLDs).....	No.			
	60	Field programmable gate arrays (FPGAs).....	No.			
	65	Other.....	No.			
	70	System on chip (SoCs).....	No.			
	75	Other.....	No.			

Background

- **Are there exclusions for tariffs?**

- Exclusions exist for most Trade Remedies. These exclusions are usually called out within the notes of the trade remedy in chapter 99 of the Harmonized Tariff Schedule, or within the scope rulings of the AD/CVD ruling published in the Federal Register.
- In the case of Quota merchandise, no exclusions exist, the product is either in quota or exceeding quota
- Exclusions can be based on HTS, constituent material, end use, or physical product characteristics.
 - Exclusions are often updated/removed, so reading the notes is imperative in staying up-to-date

Heading 9903.88.03 applies to all products of China that are classified in the following 8-digit subheadings, except products of China granted an exclusion by the U.S. Trade Representative and provided for in (1) heading 9903.88.13 and U.S. note 20(p) to subchapter III of chapter 99; (2) heading 9903.88.18 and U.S. note 20(w) to subchapter III of chapter 99; (3) heading 9903.88.33 and U.S. note 20(ii) to subchapter III of chapter 99; (4) U.S. note 20(mm) to subchapter III of chapter 99; (5) heading 9903.88.35 and U.S. note 20(nn) to subchapter III of chapter 99; (6) heading 9903.88.36 and U.S. note 20(oo) to subchapter III of chapter 99; (7) heading 9903.88.37 and U.S. note 20(pp) to subchapter III of chapter 99; (8) heading 9903.88.38 and U.S. note 20(qq) to subchapter III of chapter 99; (9) heading 9903.88.40 and U.S. note 20(ss) to subchapter III of chapter 99; (10) heading 9903.88.41 and U.S. note 20(tt) to subchapter III of chapter 99; (11) heading 9903.88.43 and U.S. note 20(vv) to subchapter III of chapter 99; (12) heading 9903.88.45 and U.S. note 20(xx) to subchapter III of chapter 99; (13) heading 9903.88.46 and U.S. note 20(yy) to subchapter III of chapter 99; (14) heading 9903.88.48 and U.S. note 20(aaa) to subchapter III of chapter 99; (15) heading 9903.88.56 and U.S. note 20(iii) to subchapter III of chapter 99; (16) heading 9903.88.64 and U.S. note 20(qqq) to subchapter III of chapter 99; (17) heading 9903.88.66 and U.S. note 20(sss)(iii) to subchapter III of chapter 99; (18) heading 9903.88.67 and U.S. note 20(ttt)(iii) to subchapter III of chapter 99; (19) heading 9903.88.68 and U.S. note 20(uuu)(iii) to subchapter III of chapter 99; or (20) heading 9903.88.69 and U.S. note 20(vvv)(iii) to subchapter III of chapter 99. **[Compiler's note: only subdivisions (vvv) and (www) are now in effect. The list of subheadings may begin on following page; read numbers from left to right.]**

U.S. Tariff History

- **Tariff Act of 1789**

- Proposed by then Secretary of Treasury Alexander Hamilton to pay off war debts as a newly formed nation

- **1800s and Industrial Revolution**

- Tariffs were introduced in a rapidly growing country to protect the domestic steel industry during westward expansion and construction of railroads
- Additional tariffs up to the close of the 19th century spurred debate in the government between isolationist and free trade policies

- **1930 Smoot-Hawley Tariffs**

- Aimed at the agricultural industry – these tariffs caused fierce backlash from countries on which they were imposed
- Many economists point to this act as a catalyst to worsening and prolonging the Great Depression

- **Free Trade Period**

- Until 2018, the United States erred on the side of free trade policies, creating NAFTA and the USMCA in the process.

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U.S. Tariff History – Section 301 Tariffs (2018 – 2024)

- **Section 301 of the US Trade Act of 1974**
 - Grants the US Trade Representative (USTR) authority to investigate and act (e.g., impose tariffs) to enforce U.S. rights under trade agreements and respond to certain foreign trade practices.
- **2018 – 2020**
 - The Trump administration, over the course of its first term and under Section 301, placed tariffs on a large range on Chinese-made goods.
 - These tariffs were enacted across 4 lists (tranches) and ranged from 7.5%-25% based on specific HTS codes.
- **2024 – 2026**
 - The Biden administration increased Section 301 tariffs for goods impacting various sectors from electric vehicles, semiconductors, solar cells, steel and aluminum, and other medical products.
 - These rates ranged from 7.5% to 100% and some tariffs started in 2024, while others will be phased in during 2025 and 2026.

U.S. Tariff History – IEEPA Fentanyl

- **International Emergency Economic Powers Act (IEEPA) – Enacted in 1977**
 - United States federal law authorizing the president to regulate international commerce after declaring a national emergency in response to any unusual and extraordinary threat to the United States which has its source in whole or substantial part outside the United States
 - Passed by Jimmy Carter in response to the Iran Hostage Crisis
- **IEEPA Fentanyl – Enacted February & March 2025**
 - Enacted to address the flow of illicit fentanyl and precursor chemicals into the U.S.
 - 25% blanket tariffs on products from Canada and Mexico
 - 20% blanket tariffs on products from China and Hong Kong.
 - In addition to the 301 tariffs already in place
 - USMCA exemptions are available for Canada and Mexico
 - Drawback is not permitted

U.S. Tariff History – IEEPA Reciprocal

- **IEEPA Reciprocal – Enacted in April 2025**

- Designed to match or be reciprocal to the tariffs imposed by other countries on goods from the United States
- April 5th - 10% baseline tariff imposed on all countries except for Canada and Mexico
- April 9th - Increased reciprocal tariffs for 60 specifically named countries were paused same day pending a 90-day review. 10% stayed in effect for all countries except Mexico, Canada, China/HK. China/HK were increased to 125% in response to China's increase on U.S. exports
- May 12th – U.S. & China agree to a trade deal bringing their tariffs from 125% to 10% (Section 301 & IEEPA Fentanyl still apply)
- Exceptions are available – mainly deal with semiconductors
 - April 9th - Annex II list of HTS Codes
 - April 11th - Memorandum which includes more HTS codes (Apple)
 - The memorandum explains that smartphones, automatic data processing machines, magnetic or optical readers, flat panel modules, electronic integrated circuits, and certain semiconductor devices and parts are included within the meaning of the semiconductors exemption and therefore exempted from Reciprocal Tariffs

U.S. Tariff History – Section 232

- **Section 232 of the Trade Expansion Act of 1962**

- Grants the President authority to restrict import of goods if the U.S. Secretary of Commerce determines, after investigation, that those imports “threaten to impair” U.S. national security.

- **Section 232 – 2025**

- The Trump administration-imposed tariffs on steel, aluminum, automobiles, and automobile parts.
 - **Steel & Aluminum**
 - On 3/12/2025, a 25% tariff was placed on all articles and derivatives of steel and aluminum from any country.
 - On 6/3/2025, the tariff rate on these goods was increased to 50% for all countries other than the UK, which remains at 25%.
 - The rates are only applied on the value of the steel/aluminum content of the import, not the value of the entire import.
 - **Automobile and Automobile Parts**
 - On 4/3/2025, a 25% tariff was placed on all automobiles, and on 5/3/2025, a 25% tariff was placed on all automobile parts.
 - For USMCA-qualified imports, the rates are only applied to the non-US made content.

U.S. Tariff History – De Minimis Tax Exemptions

- **De Minimis Tax Exemption (1930)**

- Was formalized as part of the Tariff Act of 1930 to help avoid administrative costs for minimal revenue.
- Pre-2025 the Customs provision allowed for goods valued under \$800 to enter the US duty-free
- As of 4/2/2025, the De Minimis rule will no longer apply to imports of Chinese-made goods. There is additionally a minimum tariff amount of \$200 placed on these imports (raised from \$100 on 6/1/2025).

Key Terms

- **Duty:** A customs duty, or import duty, is a tax levied on goods entering a country's territory.
- **Tariff:** A tax, or duty, imposed by a country on goods imported from another country
 - Ad-Valorem: A percentage of the value of the imported good.
 - Specific: A fixed fee per unit of the imported good.
 - Compound: Combine both specific and ad-valorem elements.
- **Tariff Stacking:** Occurs when multiple tariffs apply to the same imported good under different trade actions, resulting in a cumulative duty.
- **De Minimis:** Exempt from import duty due to minimal value of good imported.
- **Duty Drawback:** A system that allows importers to recover some or all of the duties and taxes paid on imported goods that are later exported or destroyed.
- **Commercial Invoice:** Critical for international trade, serves as a formal request for payment and a customs declaration for goods shipped across borders.
- **Entry Summary:** In the context of trade, refers to the documentation required to be filed with US Customs and Border Protection for goods entering the US.

Key Terms

- **Customs Broker:** A licensed professional or company that facilitates the import and export of goods by managing the customs clearance process.
- **Freight Broker/Forwarder:** An intermediary in the transportation and logistics industry who facilitates the movement of goods by connecting shippers with carriers.
- **Third Party Logistics (3PL):** Refers to the practice of outsourcing logistics and supply chain management functions to an external provider; involves delegating tasks like warehousing, inventory management, order fulfillment, and shipping.

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Freight Incoterms:

Incoterms® 2020 Rules Responsibility Quick Reference Guide											
Inco Docs    											
Freight Collect Terms						Freight Prepaid Terms					
Groups	Any Mode or Modes of Transport		Sea and Inland Waterway Transport				Any Mode or Modes of Transport				
Incoterm	EXW Ex Works (Place)	FCA Free Carrier (Place)	FAS Free Alongside Ship (Port)	FOB Free On Board (Port)	CFR Cost and Freight (Port)	CIF Cost Insurance & Freight (Port)	CPT Carriage Paid To (Place)	CIP Carriage & Insurance Paid to (Place)	DAP Delivered at Place (Place)	DPU Delivered at Place Unloaded (Place)	DDP Delivered Duty Paid (Place)
Transfer of Risk	At Buyer's Disposal	On Buyer's Transport	Alongside Ship	On Board Vessel	On Board Vessel	On Board Vessel	At Carrier	At Carrier	At Named Place	At Named Place Unloaded	At Named Place
Obligations & Charges:											
Export Packaging	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading Charges	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Delivery to Port/Place	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Duty, Taxes & Customs Clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on Carriage	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	*Seller	Negotiable	**Seller	Negotiable	Negotiable	Negotiable
Destination Terminal Charges	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Delivery to Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Unloading at Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Import Duty, Taxes & Customs Clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
 Create your Sales & Shipping Documents at www.incodocs.com *CIP requires at least an insurance with the minimum cover of the Institute Cargo Clause (C) (Number of listed risks, subject to itemized exclusions) **CIP now requires at least an insurance with the minimum cover of the Institute Cargo Clause (A) (All risk, subject to itemized exclusions) Copyright © 2020 Incosolutions Pty Ltd. All Rights Reserved. This is general information for guidance purposes only. Incosolutions Pty Ltd is not responsible for these contents nor do the contents listed above contain all details. For a full and complete description, refer to the full version of Incoterms 2020 by the International Chamber of Commerce at the ICC website.											

Key Terms

- **Country of Origin:** Refers to the country where a product was manufactured, grown, or mined.
- **Country of Diffusion:** Also referred to as the “Chip Country of Origin,” refers to the country where the wafer used in the semiconductor was fabricated.
- **Country of Assembly:** Refers to the location where a product is assembled from its components.
- **Substantial Transformation:** In the context of rules of origin (ROO), " refers to a significant change in a product's form, appearance, nature, or character during manufacturing or processing, typically leading to a new and different article with a distinct name, character, or use; this determination is crucial for identifying a product's country of origin in international trade, especially when goods are manufactured or processed in multiple countries.
- **Bonded Warehouse:** Primarily used for storing dutiable imported goods, allowing for duty deferral until goods are withdrawn for domestic consumption or re-exported. Bonded warehouses are generally confused with FTZ's due to them both offering the ability to store imported goods and allowing for duty deferral until shipment. However, FTZ's differ in that they offer more operational flexibility, including manufacturing, and are considered outside of the customs territory until goods are domesticated.

Importer of Record “IOR”

- **Importer of Record**

- The entity responsible for ensuring that imported goods meet all customs and legal requirements of the country of import; involves paying duties and taxes, submitting accurate import declarations, and ensuring compliance with import regulations.

Advantages

- When dealing with bonded items, the IOR can defer tariff payments until the goods are withdrawn for domestic use or export. If exported in bond U.S. tariffs can be eliminated.
- Removes dependency on supply chain partners for duty drawback for export shipments.

Disadvantages

- The importer pays the applicable tariff rate based on seller's resale to them. Does not allow for the manufacturer to discount the tariff rate.
- Increased liability. The IOR is legally responsible for ensuring goods comply with all import regulations.
- Increased cost. The IOR is responsible for paying all applicable duties, taxes, and fees associated with the imported goods.

Foreign Trade Zone “FTZ”

- **Foreign Trade Zone**

- Established in 1934 by the Foreign-Trade Zone act is a designated area within the United States where goods can be imported, stored, and manufactured without being the subject to customs duties until they enter the U.S. domestic market; these zones are meant to help businesses reduce costs and improve competitiveness by allowing them to defer or eliminate certain taxes and duties on foreign goods.
 - **Privileged Status:** Goods are taxed based on their condition when admitted into the FTZ rather than when they leave; this locks in the duty rate at the time of admission, regardless of whether the goods are transformed within the FTZ.
 - **Domestication:** Refers to the process of treating goods as domestic goods within a U.S. Customs territory; this involves applying domestic status to goods that are either grown, produced, or manufactured in the U.S., have had all internal revenue taxes paid, or have been previously admitted free of duty.
 - **In Bond:** A process in international trade where goods are transported under customs supervision without being released or subject to duties and taxes until they reach their final destination
- Foreign Trade Zone vs. Free Trade Zone
 - A foreign trade zone is the U.S. version of a free trade zone, specifically located within the U.S. and subject to CBP oversight.

Foreign Trade Zone “FTZ”

Advantages

- Deferred tariff payment and improved cash flow
- Duty savings on re-exports or unsold goods
- Flexibility in operations. Zone to Zone transfers
- Potential for lower insurance premiums
- Potential for savings on state and local taxes

Disadvantages

- Setup and Maintenance Cost. Significant upfront investments in infrastructure, security systems, and compliance procedures.
- Regulatory complexity and audits
- Third Party operator costs
- Risk and Liability
- Privileged Status. Newer tariff regulation requires tariffs to enter into the FTZ in privileged status which locks in the rate at time of entry.

United States-Mexico-Canada Agreement (USMCA)

- **What is the USMCA?**

- A trade agreement between the U.S., Mexico, and Canada, replacing NAFTA in July 2020. It aims to modernize trade rules, strengthen worker protections, and promote fair trade practices across North America.

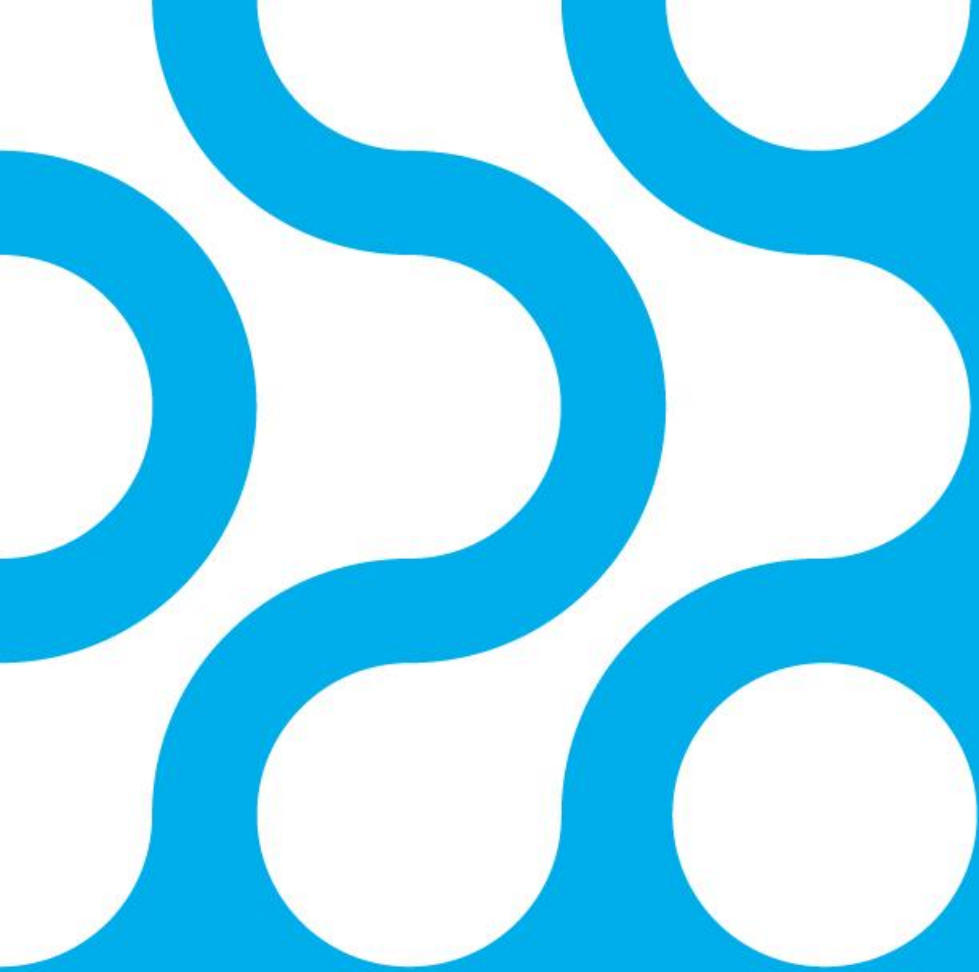
- **What key provisions are addressed?**

- Tariff-free movement of most goods within North America
- Improved rules of origin (especially for automotive and industrial goods)
- Simplified customs procedures and digital trade facilitation
- Strengthened enforcement of intellectual property rights
- Protection for small and medium-sized enterprises (SMEs)

- **What is key to know when it comes to USMCA and tariffs?**

- USMCA qualification is based on regional content. Not all product is eligible for USMCA just because the CoO is US, MX, or CA
- Certificate of origin is not mandatory, but documentation must support USMCA claims when importing into the U.S. for tariff avoidance.

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