Deloitte. Accounting Advisory Services

Navigating Tariffs: Accounting and Financial Reporting Considerations

Deloitte advises companies on navigating the challenges of the current macroeconomic environment, including the impact and management of tariffs.

Tariffs have become a prominent factor in the global economic landscape, reshaping business strategies across industries. The introduction or modification of import taxes can significantly alter existing cost structures, disrupt supply chains, and introduce new operational and compliance challenges, which can, in turn, lead to complex accounting and financial reporting implications.

Tariff rate changes may necessitate a review of existing business controls to ensure compliance with trade regulations and mitigate new financial risks. Inadequate controls within impacted areas may lead to underreporting tariffs, exposing businesses to penalties, fines, and reputational risk. Data accuracy can also affect the reliability of forecasts, which are needed to effectively evaluate the impact of tariffs. Understanding the impacts of tariffs is crucial for maintaining accurate financial reporting and effective business management in this evolving trade environment.

Deloitte is equipped to advise organizations in addressing these challenges, providing insights and strategies to support accurate financial reporting, effective risk management, and sustained business performance.

KEY IMPACTED INDUSTRIES

- Manufacturing and Automotive
- Consumer Products
- Oil and Gas
- Technology, Media and Telecommunications
- Life Sciences
- Agribusiness

Accounting and Reporting Considerations

Understand and evaluate tariff impact

Companies should regularly assess how tariffs affect their business, recognizing that impacts vary based on factors such as supply chain, pricing, and cost structure strategies. The complexity of measuring these effects and conducting scenario analysis depends on factors such as information technology infrastructure, data quality, resources, and other company-specific considerations.

Assess Internal Control over Financial Reporting (ICFR) impacts

Tariffs introduce new ICFR risks. Companies should evaluate whether current controls address tariff effects, and update controls as needed. Depending on the nature of tariffs affecting the organization, consider evaluating controls such as:

- **Identification controls**: Continuously monitor and respond to changes in trade regulations and trade agreements.
- **Measurement controls:** Consider various valuation impacts across the financial statements, including controls over the tariff obligations or offsets, which generally requires accurately identifying country of origin, calculating the product value, and classifying imported goods.
- **Compliance controls**: Evaluate compliance with trade regulation requirements.
- **Disclosure Controls:** SEC registrants should assess whether disclosures about material changes in ICFR need to be included in periodic filings.

Assess tariff impacts on revenue recognition

Areas impacted could include (but not be limited to):

- Transaction price measurement where the cost of tariffs can be recovered from customers,
- Measure of progress for over-time revenue recognition and/or loss accruals when contract costs will be impacted by tariffs, and
- Changes in collection risk if customer's intent or ability to pay amounts when due could be affected by tariffs.

WHO TO CALL

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ADDITIONAL RESOURCES

- Accounting Spotlight - Navigating Tariffs: Accounting and Financial Reporting Considerations *(August 13, 2025)*

Accounting and Reporting Considerations *(cont'd)*

Monitor for impairment triggers

Conduct impairment analyses as needed across affected asset categories, as tariff-related cost increases can have broad accounting impacts including, but not limited to:

- **Inventory valuation:** Tariffs may affect lower of cost or net realizable value assessments.
- **Intangible assets (including goodwill) and long-lived assets:** Tariffs may reduce operating results and alter fair value assumptions, increasing the risk of impairment and complicating forecasts. They may also drive companies to onshore certain capabilities, which could trigger the reassessment of the useful life and salvage value of related offshore assets.

Evaluate inventory costing methodologies

Review that tariff costs are properly capitalized into inventory, and standard costs are updated as needed. Confirm overhead absorption aligns with current production. Assess accounting for noncancellable purchase commitments affected by tariffs and carefully determine timing for recognizing tariff-related credits or offsets.

Understand income tax implications

Tariffs that impact profitability, liquidity, and asset impairments may require reassessment of deferred tax assets, valuation allowances, and the assertion of indefinite reinvestment of foreign earnings. Further, tariff-driven changes in income forecasts can affect the estimated annual effective tax rate (AETR).

Other considerations

- Assess whether changes in tariff rates meet the definition of a Type 1 or Type 2 subsequent event.
- Evaluate whether disclosures in the financial statements, risk factors, management's discussion and analysis, and forward-looking statements need to be updated to reflect tariff impacts.
- Question the use of non-GAAP measures that remove the impact of tariffs.

How Deloitte Can Advise

Advise on SOX harmonization and USMCA certification

Deloitte can provide recommendations regarding the alignment of SOX program design and supplemental business controls to address new material risks and assist with the analysis and documentation related to United States–Mexico–Canada Agreement (USMCA) certification processes.

Support tariff modeling and analyses

Deloitte can support management by providing guidance on the calculation, modelling and analyses, and documentation of tariff impacts, including supporting considerations related to revenue recognition, impairments, inventory costing, financial forecasting, and potential restructuring activities.

Engage Global Trade Advisory specialists

Deloitte can leverage our experience to quantify tariff impacts, evaluate mitigation strategies, review product exposures, support data solicitation, and provide advice on documentation and Customs and Border Protection inquiries.

Perform disclosure effectiveness reviews

Deloitte can provide guidance on enhancing the clarity and quality of financial disclosures, while streamlining reporting processes to reduce your company's burden.

Consult on digital internal audit analytics and automation

Deloitte can recommend leading practices for developing and implementing advanced analytics, automated controls, and streamlined processes within transformation initiatives, ERP systems, or cloud infrastructure to strengthen tariff compliance and assist in offsetting potential cost increases related to tariffs.