



Accounting Brief

Financial reporting implications of tariffs

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Update



Note to readers: In light of the February 20, 2026, U.S. Supreme Court decision in *Learning Resources, Inc. v. Trump*, in which the Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were unlawful, we have updated and expanded this publication to provide additional accounting and disclosure considerations.

As organizations navigate through this changing environment, it is important for members of finance, legal, compliance, operations, accounting and tax to work together to identify and assess the risks tariffs may present to an entity's operations, financial condition and cash flows. This publication highlights some of the financial reporting considerations associated with the intricacies of evolving tariffs, including the potential for tariff refunds that may result from the Supreme Court's recent decision.

1 Implications of evolving tariff policies (Updated)

Imposition of tariffs on imported products is a long-standing governmental policy of most countries. As we have seen, shifts in tariff policy since the spring 2025, including reciprocal tariffs, have impacted many entities across industries. Entities have responded to these policy shifts through supply chain modifications, changes in pricing strategy, revised asset use, altered investment decisions and litigation. Each of these actions, along with their potential impact on profitability, have created several financial reporting considerations.

Tariff policy has continued to shift and evolve in 2026, most notably as a result of the Supreme Court's February 20, 2026, decision, *Learning Resources, Inc. v. Trump and Trump v. V.O.S. Selections, Inc.* (*Learning Resources*), which invalidated tariffs imposed under IEEPA.

The Supreme Court's decision provided clarity on certain key points:

- The Supreme Court ruled that the tariffs imposed under IEEPA were unlawful, determining that IEEPA does not grant the president authority to levy duties. Rather, this core taxing power is reserved to Congress under Article I of the Constitution. As a result, the "emergency" tariffs imposed under IEEPA in early 2025—including reciprocal, baseline, and trafficking or fentanyl tariffs—are now invalid and unenforceable going forward.
- The decision did not affect tariffs imposed under other statutes, such as Section 232, Section 301, Section 201, antidumping and countervailing duties, or most-favored-nation duties, all of which remain legally intact.

However, the Supreme Court's decision was silent regarding certain follow-on effects of its ruling:

- The Supreme Court did not address whether or how impacted entities can seek refunds of tariffs already paid under IEEPA. The case has been remanded to the U.S. Court of International Trade (CIT) to address next steps, which may include developing a methodology for any potential refunds of tariffs paid.
- There is considerable uncertainty regarding the timing and amount of any financial statement impact for entities affected by the decision, as the resolution of refund claims and related accounting considerations are yet to be determined (see [Section 2](#)).

In response to the *Learning Resources* ruling, on February 20, 2026, the U.S. president issued a proclamation imposing a 10% ad valorem tariff on many imports from nearly all trading partners, invoking Section 122 of the Trade Act of 1974 (Section 122) rather than IEEPA. This tariff took effect February 24, 2026, and is time-limited to 150 days unless Congress approves an extension (see [Section 4.1.1](#)).

Since the *Learning Resources* ruling and the subsequent imposition of tariffs under Section 122, there has been significant uncertainty affecting the capital markets related to this matter. While the Supreme Court's decision removed one source of tariff risk, tariff risk itself remains. As it relates to tariffs, markets are now focused on:

- How long the Section 122 regime lasts and whether it escalates
- Whether parties that previously paid tariffs under IEEPA will actually receive refunds and, if so, when and for what amount
- How aggressively the U.S. administration pursues alternative tariff authorities
- Whether U.S. trading partners that negotiated bilateral and sectoral trade arrangements reached in 2025 in the shadow of the now-invalidated tariffs will honor those trade arrangements or seek to renegotiate
- Whether uncertain tariff trajectories depress capital expenditures, cross-border transactions and supply chain investment decisions

It is important that personnel across all disciplines of potentially impacted entities work together to identify and assess the risks tariffs may present to the entity's operations, financial condition and cash flows. This publication highlights some of the financial reporting implications associated with the intricacies of evolving tariffs and potential tariff refunds.

2 Accounting and disclosure considerations for potential refunds (New)

While the Supreme Court ruled that the president cannot authorize tariffs under IEEPA, the Learning Resources decision did not address whether or how refunds would be issued for tariffs paid to U.S. Customs and Border Protection (CBP) under IEEPA. Instead, the Supreme Court remanded the case to the CIT to address next steps.

Entities should continue to monitor developments related to potential IEEPA tariff refunds, including whether the CBP or CIT will establish a process to issue refunds to parties with eligible claims or whether importers of record that paid the tariffs will instead need to seek court-ordered relief through the CIT or other courts, as applicable.

2.1 Consideration of Supreme Court decision as a subsequent event

For entities whose financial statements had not been issued (for Securities and Exchange Commission [SEC] filers) or were not available to be issued (for most other entities) as of February 20, 2026, the Supreme Court's ruling is a subsequent event to be evaluated under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 855, *Subsequent Events*. We believe it is acceptable for entities to treat the Learning Solutions decision as a non-recognized (Type 2) subsequent event under ASC 855. As more fully discussed in [Section 3.1](#) below, Type 2 subsequent events require disclosure in an entity's financial statements if the impact of the event is expected to have a material effect on the entity's financial statements or if not disclosing the event would otherwise result in the financial statements being misleading. Per ASC 855-10-50-2, entities should disclose the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

2.2 Accounting for potential tariff refunds

The Learning Resources decision raises several financial reporting issues related to the potential for IEEPA tariff refunds, including recognition, classification and presentation, and related disclosure considerations. Although there is no guidance in U.S. generally accepted accounting principles (GAAP) that explicitly addresses tariff refunds, we address each of these considerations below.

2.2.1 Recognition considerations

We are aware of two acceptable alternatives to account for potential refunds of tariffs paid under IEEPA by analogy to other GAAP—the gain contingency model under ASC 450-30, *Contingencies – Gain Contingencies*, and the loss recovery model under ASC 410-30, *Asset Retirement and Environmental Obligations – Environment Obligations*. However, given the current significant uncertainties concerning any potential tariff refund process, we generally believe the threshold for recognizing a receivable has not been met as of February 28, 2026, regardless of the model applied.

Entities that paid IEEPA tariffs as the importer of record will need to carefully consider all relevant facts and circumstances to determine whether and when to recognize a receivable for tariff refunds.

- **Gain contingency model under ASC 450-30**

Under ASC 450-30, the IEEPA tariff refunds or related receivables should not be recognized in the financial statements until they are effectively realized or realizable. As the Supreme Court remanded the Learning Resources case to the CIT to address next steps, and given the significant uncertainty that remains concerning whether entities seeking refunds will be required to litigate, we believe the Learning Resources decision does not result in such refunds being deemed to be currently realizable.

Entities should therefore continue to monitor when those conditions supporting realizability of refund payments are met; for example, when a court judgment or CBP determination results in a valid legal right to tariff refunds and no further appeal or significant contingencies remain (such as potential government appeals of specific claims or a requirement to verify eligibility for refunds). In addition to the disclosure considerations discussed in [Section 3](#), entities should also provide adequate disclosure of the contingency per ASC 450-30-50-1, exercising care to avoid misleading implications as to the likelihood of realization.

- **Loss recovery model under ASC 410-30**

Under the ASC 410-30 model, an entity would recognize a receivable when receipt of a tariff refund is deemed probable. Loss recovery accounting would require any recovery above the amount of tariffs previously paid (e.g., interest) to be treated as a gain contingency not recognized until realized or realizable.

Entities should carefully monitor facts as they develop to assess probability of receipt of tariff refunds, including the specific details of CIT or other court decisions, CBP actions, and potential challenges or uncertainties related to an entity's ability to effectively make refund claims. To the extent that significant uncertainties continue to exist during any CIT, CBP or other administrative process to claim refunds, the timing of recognition of refunds under the loss recovery model may ultimately not differ significantly from the timing of recognition under the gain contingency model.

2.2.2 Classification and presentation of tariff refunds

Upon recognition of tariff refunds or a tariff refund receivable, entities will need to determine whether the tariff refunds should be recognized as a reduction of the carrying cost of inventory or other assets or as an increase to current period income. U.S. GAAP does not prescribe a single approach for determining how such refunds should be presented, but financial statement presentation should faithfully represent the nature of the item. We believe entities should consider their specific facts and circumstances and develop an accounting policy for the classification and presentation of IEEPA tariff refunds.

An approach that we believe would be acceptable for presenting the financial statement impact of tariff refunds received would involve recording the refunds in the following order:

1. A reduction of the carrying cost of an asset (e.g., inventory or property, plant and equipment [PP&E]) to the extent the original amount paid for the refunded tariff is included in the carrying cost of an asset on the balance sheet at the time of recognition of the tariff refund
2. A contra-expense in the same income statement line item in which the original tariff costs were recognized to the extent that the original tariffs have been recognized in the current period
3. A separate line item within other income to the extent the original tariffs were recognized as expenses in prior periods. Alternatively, any remaining amount of refund after applying the first two steps could be recognized as a contra-expense in the same income statement line item in which the original tariff costs were recognized (e.g., cost of goods sold), rather than other income.

Regardless of the accounting policy elected for presentation of IEEPA tariff refunds, entities should clearly disclose the accounting policy and related impact on the financial statements, including amounts recorded in each line item and in each period, if material.

2.3 Other financial reporting considerations related to the Supreme Court decision

2.3.1 Vendor-customer contracts

Vendors affected by tariffs often employ multiple strategies to mitigate the impact of these tariffs on their financial results. For example, some vendors utilize cost-plus contracts or other price adjustment clauses within revenue contracts through which the cost of tariffs flows directly into the transaction price. Depending on the nature of these contractual clauses, vendors that receive tariff refunds may be required

to refund a portion or all of the tariff-related price adjustments back to their customers. A vendor may also ultimately pass through a portion or all of tariff refunds to customers due to explicit or implicit price concessions.

Entities should apply the guidance in ASC 606-10-32-5 through 32-14 concerning variable consideration when determining how to account for potential refunds to their customers. For example, to the extent that an entity has a legal obligation to refund amounts received from customers under a price-adjustment clause, it should apply the guidance in ASC 606-10-32-10, which states in part:

An entity shall recognize a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (that is, amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the contract liability) shall be updated at the end of each reporting period for changes in circumstances.

Note that application of this guidance could potentially result in the recognition of a refund liability under ASC 606, *Revenue From Contracts With Customers*, prior to recognition of an IEEPA tariff refund receivable.

Customers that did not pay IEEPA tariffs as the importer of record but that expect to be entitled to a refund from a vendor should generally not recognize the tariff-related refund until it is received, under the guidance on gain contingencies in ASC 450-30 or the guidance in ASC 705-20, *Cost of Sales and Services – Accounting for Consideration Received from a Vendor*, as applicable.

Additionally, some entities may choose to effectively pass through some or all tariff refunds to customers through a variety of methods, including offering discounts on future sales to impacted customers. Entities should carefully consider all relevant facts and circumstances to determine whether an arrangement represents consideration refunded from a prior contract or an adjustment to the transaction price of a future contract. To the extent an adjustment to the transaction price of a future contract results in expected losses on that contract, entities should determine whether the contract is in the scope of any industry- or transaction-specific requirements in U.S. GAAP for expected losses, including but not limited to guidance on provisions for losses on construction- and production-type contracts (ASC 605-35), recognition of losses on firm purchase commitments related to inventory (ASC 330-10-35-17 through 35-18), and accounting for loss contingencies (ASC 450-20). If not in the scope of such guidance, a loss on the contract is not recognized until the loss is actually incurred.

2.3.2 Impact of Supreme Court decision on other financial statement accounts

Entities that recognize tariff refunds will also need to determine the effects on accounting for income taxes under ASC 740. For example, if tariff refunds are recognized in an interim period, for purposes of determining the interim tax provision an entity should consider whether the tax effects of these refunds are a component of the annual effective tax rate or are a significant infrequent or unusual item that would be reflected as a discrete item in the interim period incurred.

The recent Supreme Court decision may also require entities to update cash flow projections or other estimates used when accounting for other transactions. Entities should apply relevant accounting guidance related to updating estimates when determining the accounting impact resulting from changes in estimates. However, entities should not reverse previously recorded impairment charges as a result of these updated estimates.

3 Other disclosure considerations (Updated)

3.1 General considerations

In addition to the disclosure considerations discussed above, entities that have not yet issued their 2025 year-end financial statements should assess how to address the potential impact of tariff policy changes in required financial statement disclosures, particularly ASC 275, *Risks and Uncertainties*, and ASC 855.

Note that while the disclosure requirements of ASC 275 and ASC 855 should be assessed separately, the considerations in their application overlap.

ASC 275 requires discussion of estimates when, based on known information available before the financial statements are issued or are available to be issued, it is reasonably possible that an estimate will change in the near term and the effect of the change will be material. While the tariff policies of many economies continue to evolve, importers of goods from countries impacted by changes in tariffs should evaluate whether this situation meets the threshold for increased disclosure of risks and uncertainties. For example, importers of steel or aluminum should assess the sensitivity of accounting estimates for which raw material prices are inputs. If the entity concludes that disclosure is necessary, it should disclose the expected impact due to the change in circumstances that existed at the date of the financial statements. The disclosure should specify the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in the estimate will occur in the near term.

ASC 275 also requires disclosure of certain concentrations. Entities must disclose concentrations when they exist at the date of the financial statements, make the entity vulnerable to the risk of a near-term severe impact and are at least reasonably possible to occur in the near term. For example, if an entity imports all of its raw materials from a country subject to new or escalated tariffs, the impact of those tariffs on the entity's operations could be severe and warrant disclosure.

Even if all the conditions are not currently met, entities should monitor how tariff policies evolve and continually assess if the criteria for disclosure of concentrations under ASC 275 are met at a future date. For instance, retaliatory tariffs could impact the future sales of entities that export products subject to such tariffs, creating inventory valuation and liquidity concerns that may need to be disclosed in future accounting periods.

ASC 855 defines subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events:

- **Type 1:** Events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (i.e., recognized subsequent events).
- **Type 2:** Events that provide evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date (i.e., nonrecognized subsequent events).

For entities with calendar year-ends, the Section 122 tariffs imposed in February 2026 in response to the Learning Resources decision do not result in financial statement recognition as of or for the period ended December 31, 2025 (i.e., the tariff policy changes represent nonrecognized subsequent events). See [Section 2.1](#) for subsequent event considerations related to potential IEEPA tariff refunds.

However, some nonrecognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. ASC 855 does not provide an explicit threshold for determining which subsequent events require disclosure. Accordingly, the decision regarding when to disclose a subsequent event is based on specific facts and circumstances, including materiality, and requires judgment. For those events determined to be of such significance that disclosure is required, an entity should disclose:

- The nature of the event
- An estimate of the financial effect or a statement that such an estimate cannot be made

Entities should carefully monitor the evolving tariffs landscape to assess the impact on their operations, liquidity and financial reporting requirements. Recent developments treated as nonrecognized subsequent events as of December 31, 2025 (e.g., potential tariff refunds as a result of the Learning Resources decision), may require recognition in interim financial statements issued during 2026 or, at a

minimum, require disclosure in subsequent reporting periods to keep the financial statements from being misleading.

3.2 SEC reporting considerations

Under Item 105 of Regulation S-K, U.S. SEC registrants are required to discuss the material factors that make an investment in the registrant risky or speculative. They must concisely explain how each risk affects the registrant (or the securities being offered) and present entity-specific discussion of the nature of the risks that they face, rather than providing boilerplate disclosures. For some registrants, risk factors include those related to increased material cost, declining profitability, operational disruption and potential retaliatory actions. As tariff policies and their impact continue to evolve, registrants should continually review their Item 105 disclosures and update these disclosures in future SEC filings.

Registrants should also address the potential impact of tariff policy changes as part of their management discussion and analysis (MD&A) disclosures under Item 303 of Regulation S-K. It is likely that tariff policy changes will impact some registrants' liquidity and capital resources, results of operations, and critical accounting estimates. As with Item 105 disclosures, registrants should continually monitor the impact of trade policy decisions, assess the impact on their operations and adjust their MD&A disclosures in future filings to reflect any changed circumstances.

4 Other accounting considerations (Updated)

As tariff policies continue to evolve, entities with significant import or export activity subject to those tariffs are likely to see impacts to their cost structure and revenue streams, which may impact the inputs to models used to develop various accounting estimates under U.S. GAAP. The following sections address some potential accounting implications of the changing tariff policies. The list is not meant to be comprehensive.

4.1 Tariff-related liabilities (New)

The FASB's Conceptual Framework for Financial Reporting No. 8 defines a liability as a present obligation which requires an entity to transfer or otherwise provide economic benefits to others. Such obligations are often legally enforceable, as they arise from binding contracts, agreements, rules, statutes or other requirements that would be upheld by a judicial system or government. As such, we believe an entity should recognize a tariff liability when it is legally obligated to pay the tariff, which would be the case when the tariff is imposed through an executive order or similar proclamation and is actively enforced by U.S. CBP. In making this determination, an entity should not consider detection risk when calculating the accrual. Rather, an entity should record the amount that is legally due once it becomes a present obligation to the government, regardless of whether management expects the tax authority to identify the issue.

The Learning Resources decision invalidated only those tariffs imposed under IEEPA. Tariffs imposed under other statutes are still applicable. For example, the decision does not affect tariffs imposed under other statutes, such as Section 232 (steel, aluminum, autos), Section 301 (China-related duties), Section 201, antidumping and countervailing duties, or most-favored-nation duties, all of which remain legally intact. As such, liabilities should continue to be accrued for these tariffs when the obligating event has occurred.

Immediately following the Learning Resources decision, the U.S. administration terminated and stopped collecting all tariffs that had been imposed under IEEPA, including the fentanyl and trafficking tariffs on China, Canada and Mexico and the reciprocal global tariffs introduced in April 2025. CBP implemented the rescission effective February 24, 2026.

4.1.1 New global 10% tariff under Section 122

On February 20, 2026, President Trump issued a new proclamation imposing a 10% ad valorem tariff on most imports from nearly all trading partners, invoking Section 122 rather than IEEPA. This tariff took

effect February 24, 2026, and is time-limited to 150 days unless Congress approves an extension. The new ad valorem tariff includes broad exemptions, notably for:

- United States–Mexico–Canada Agreement-compliant goods from Canada and Mexico
- Pharmaceuticals and certain medical inputs
- Energy products
- Many vehicles and aerospace goods
- Certain agricultural products and critical minerals

Within days of announcing the 10% tariff, President Trump stated publicly that he intends to raise the Section 122 tariff to 15%, the statutory maximum, though no formal order had been issued or had taken effect as of February 28, 2026.

4.2 Revenue recognition

Entities use estimates extensively when applying ASC 606. Updated assumptions due to changes in tariff policy may impact estimates used when entities recognize revenue at a point in time under ASC 606, such as with estimates of variable consideration and stand-alone selling price (SSP). For instance, entities may increase the SSPs of products that are also sold in a bundle, resulting in the need to reassess SSP when applying the ASC 606 model.

Entities recognizing revenue over time under ASC 606 will potentially see greater impacts on their revenue recognition. For example, assume that an entity uses imported materials subject to tariff increases in its production process. Increased tariffs on these materials could result in an increase in total contract costs, which is an input into the cost-to-cost method for recognizing revenue over time. The increase in total contract costs would impact estimated costs at completion, the completion percentage of the contract and the overall profitability of the contract. Moreover, if the cost of imported products used in the production process increases significantly, it could lead to estimated contract costs surpassing contract revenue. This may require the entity to recognize a loss for an onerous contract under ASC 605-35.

Entities may be able to recover the cost of tariffs through increasing the sales price of a product in a contract. Price increases based on existing contractual clauses related to tariffs would be accounted for as variable consideration. Those obtained by changing contractual terms would be accounted for as contract modifications. Lastly, any increase in consideration received due to tariff surcharges would not meet the “sales and use tax” practical expedient found in ASC 606-10-32-2A. As such, revenue including the tariff surcharge—and related tariff expense—would be recorded gross in the income statement.

4.3 Asset impairment

Various asset impairment models—including those for inventory (ASC 330), intangibles (ASC 350) and PP&E (ASC 360)—rely on estimates of future cash flows to determine if impairment exists and, if so, the amount of impairment to recognize. These estimates could be impacted by tariff policies.

For example, when determining the net realizable value (NRV) of non-last-in-first-out raw material and work-in-process inventory (WIP) under ASC 330, an entity estimates its selling price, reduced by the reasonably predictable costs of completion, disposal and transportation of the product. Increased tariffs on inputs used to complete raw material and WIP inventory could result in increased completion costs for the product, thereby decreasing its NRV (and increasing the likelihood of its impairment), unless the entity is able to implement price increases to offset the increased costs.

Additionally, cost increases due to rising tariffs could reduce the estimated fair value of intangible assets subject to impairment testing under ASC 350, especially when using an income-based estimate to determine the fair value of the intangible asset. Assume that due to market conditions, an entity must absorb the cost of increased tariffs, rather than passing them on to its customers. This would result in

reduced cash flows arising from the use of the intangible asset. These reduced cash flows would result in a reduced fair value for the asset, increasing the likelihood of the asset's impairment.

The assessment of impairment of PP&E under ASC 360 involves a two-step model that also considers future cash flows generated from the use of the asset group. An increase in costs due to elevated tariffs may lead to the carrying amount of the asset group assessed for impairment that includes PP&E exceeding the undiscounted net cash flows expected from utilization and eventual disposal of the asset group. If the carrying amount of the asset group is greater than the undiscounted cash flows as per Step 1 of the ASC 360 impairment test, the asset group is deemed not recoverable, necessitating the evaluation of whether an impairment loss must be recorded, which would be measured as any excess of the carrying amount over its fair value (Step 2 of the ASC 360 impairment test). Additionally, negative financial implications resulting from tariffs could diminish the estimated fair value of the asset group.

4.4 Risk mitigation activities

Increased uncertainty over tariff policies could lead to greater foreign exchange volatility, which may result in earnings volatility for entities with significant foreign currency exposure. To mitigate this risk, entities may use derivative instruments such as forward and futures contracts to, among other things:

- Hedge foreign currency exchange risk
- Hedge future purchase commitments in anticipation of the rising costs of goods

Entities seeking to also mitigate the potential earnings volatility that may result from the fair value accounting for investments in derivative instruments should familiarize themselves with the requirements to achieve hedge accounting treatment under ASC 815, *Derivatives and Hedging*.

Entities that have already entered into cash flow hedges under ASC 815-30 to mitigate price fluctuations on forecasted transactions should ensure that the transactions remain probable of occurring during the hedge period. If economic uncertainty changes the probability that a forecasted transaction will occur, entities may be required to discontinue cash flow hedge accounting. The accounting impact going forward depends on the revised probability. If the forecasted transaction is no longer probable of occurring, hedge accounting is discontinued. If the forecasted transaction is probable of not occurring, not only is hedge accounting discontinued, but the deferred hedge gains and losses must be reclassified from other comprehensive income to earnings.

Fair value hedging under ASC 815-25 applies to firm commitments (binding agreements for future transactions). If a firm commitment no longer qualifies under ASC 815-25, entities must discontinue fair value hedge accounting and immediately recognize previously recorded fair value adjustments related to the firm commitment in earnings.

4.5 Income taxes

Entities should assess the impact of pre-tax tariff-related charges on amounts recorded under ASC 740, *Income Taxes*. For example, management's assessment of whether deferred tax assets (DTAs) are more likely than not to be realized may be affected if tariff-related uncertainty negatively impacts forecasted future earnings or if an entity amends transfer pricing agreements as a result of tariffs. Entities that use future earnings as their primary source of positive evidence to support the realizability of DTAs should assess the need to update such forecasts, especially if negative economic trends occur, which may require the establishment (or increase) of a valuation allowance.

Changes to transfer pricing arrangements in response to tariffs could result in an entity reassessing its accounting for uncertain tax positions under ASC 740. Potential challenges by taxing authorities on changes in transfer pricing could revise an entity's assessment of the amount that is more likely than not of being sustained upon examination of the arrangement. Entities should also consider the impact of changes in transfer pricing arrangements on their intent and ability to indefinitely reinvest foreign earnings.

When preparing its interim income tax provision, an entity should assess the guidance in ASC 740-270 in determining whether the income tax effects of any tariff related adjustments qualify as a significant or unusual item and should be recognized discretely during the quarter of recognition or whether the adjustments are part of annual ordinary income to which the entity's estimated annual effective tax rate is applied. Additionally, when an entity is unable to reasonably estimate a portion of its ordinary income (or loss) or the related tax (or benefit)—for example, due to ongoing uncertainty regarding tariff policies—but can otherwise make a reliable estimate, the portion of tax (or benefit) that cannot be estimated should be recognized in the interim period in which the respective item is reported.

4.6 Performance-based vesting conditions

Tariff-induced economic uncertainty could impact entities that have granted share-based compensation awards. Many share-based awards accounted for under ASC 718, *Compensation – Stock Compensation*, include performance-based vesting conditions. These awards vest based on the entity achieving a performance target such as profitability or other operating metrics. When the achievement of the performance condition is no longer probable of occurring, the entity would reverse compensation cost for the impacted awards.

4.7 Refunds under duty drawback programs (New)

Under duty drawback programs, importers are entitled to receive a refund of up to 99% of duties, taxes and fees paid on imported merchandise when that merchandise is subsequently exported or destroyed under CBP supervision.

An entity would recognize a receivable for a drawback refund when it has assessed that it is entitled to the refund and that it can comply with the laws and regulations related to the refund.

Entities with established histories of compliance with the requirements of the drawback program could support the recognition of the refund receivable contemporaneously with the export or destruction of the good subject to tariffs. Alternatively, entities without such history of compliance or subject to more complex compliance requirements should consider delaying the recognition of the refund receivable until it believes that it has complied with the requirements for a drawback refund.

An entity should continually assess its recognition policy as it gains experience with the drawback process and builds a history of successful compliance with it.

5 Conclusion (Updated)

The implications of evolving tariff policies in the U.S. and abroad are both wide-ranging and potentially significant. Entities should be proactive in monitoring policy changes, assessing the impact on their operations and updating assumptions used in developing accounting estimates, as necessary, to ensure proper recognition and disclosure of these effects in their financial statements.

For information on other impacts of tariffs, including financial, tax and operational issues, see the following RSM articles:

- [Supreme Court tariff ruling: Financial and operational issues for importers](#)
- [Tariffs, trade and transformation: What every CFO needs to know](#)
- [Supply Chain Report 2025: Optimize supply chains for greater resilience](#)

For additional information and analysis of tariff policy and supply chain issues, visit RSM's [The Real Economy Blog](#).



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