

# Tariffs 101

## What is a tariff?

A tariff is a tax imposed by a government on goods and services imported from other countries.

## Who sets a tariff?

Tariffs are set by the government of the importing country.

## Who pays a tariff?

The importer of the good is responsible for paying the tariff.

## How is a tariff paid?

Tariff payments are typically made by the importer to the customs authority of the importing country at the time of importation.

## How do importers regain their tariff costs?

Importers often regain their tariff costs by passing them on to consumers in the form of higher prices for goods and services.

## Do consumers pay tariffs?

Yes, American consumers indirectly pay tariffs set by the United States government through higher prices on imported goods.

## How do domestic producers respond to increased tariffs on imports?

Domestic producers often benefit as higher tariffs make their goods more price competitive. They may also raise prices for American consumers to boost profits due to increased competitiveness and greater market share.

## How have tariffs worked in the past?

In 2018, the Trump Administration imposed tariffs of 20-50% on imported washing machines and those extra costs were passed onto American consumers, raising prices by an average of \$86 per machine and adding \$1.5 billion to consumer expenses nationwide.<sup>1</sup>

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<sup>1</sup> *The Production, Relocation, and Price Effects of US Trade Policy: The Case of Washing Machines*, The University of Chicago Becker Friedman Institute for Economics, (Apr. 18, 2019), <https://bfi.uchicago.edu/working-paper/the-production-relocation-and-price-effects-of-us-trade-policy-the-case-of-washing-machines/>.

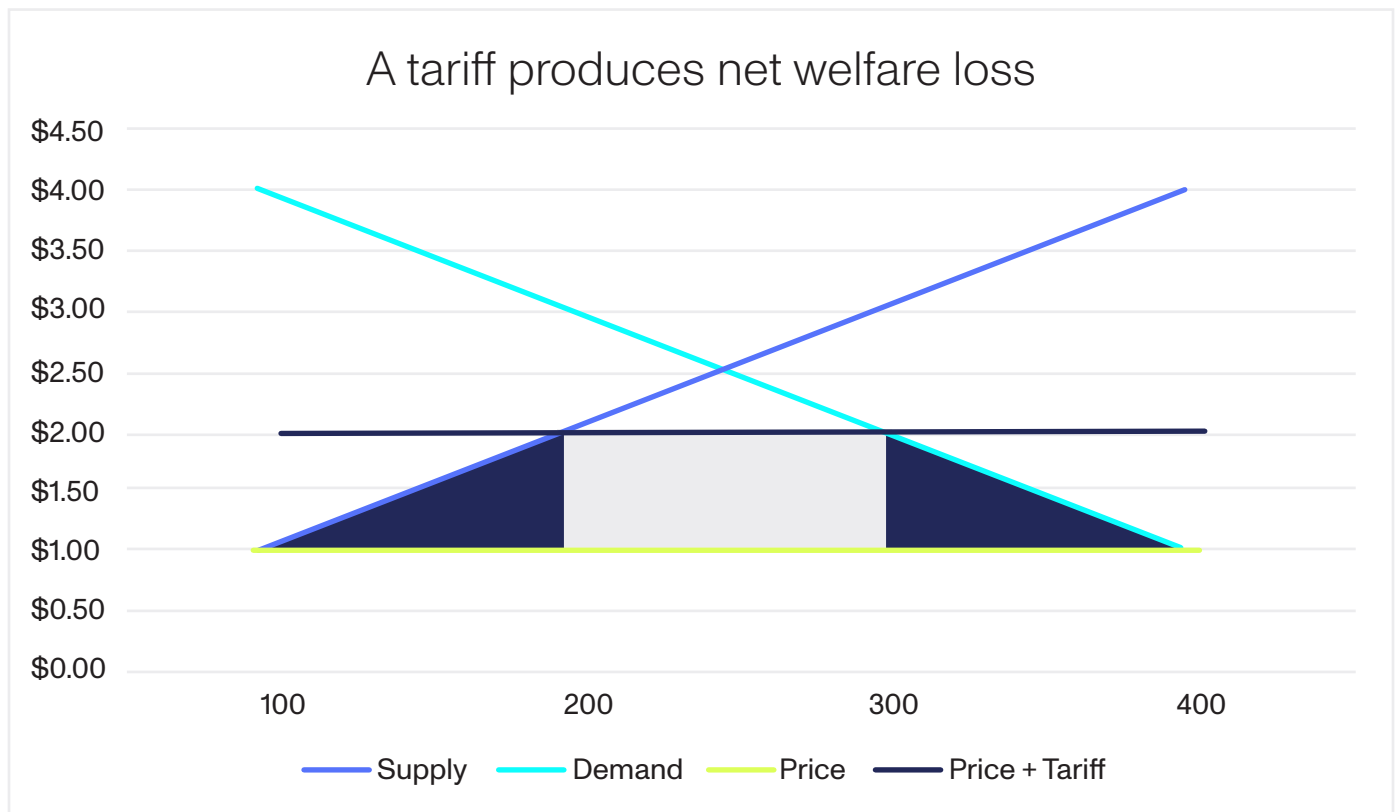
<sup>2</sup> *Trump Tariff Aid to Farmers Cost More than U.S. Nuclear Forces*, Forbes, (Feb. 6, 2020), <https://www.forbes.com/sites/stuartander-son/2020/01/21/trump-tariff-aid-to-farmers-cost-more-than-us-nuclear-forces/>.

## What happens when countries retaliate with their tariffs on American goods and services?

In 2018, tariffs on a wide range of Chinese imports led to a trade war – China retaliated with tariffs on American agriculture exports, causing a 75% drop in American soybean exports to China.<sup>2</sup> American farmers faced huge losses, prompting the Trump Administration to spend \$61 billion on subsidies, equaling 92% of the total revenue from the original tariffs.<sup>3</sup> To this day, soybean exports to China have not recovered to pre-tariff levels.<sup>4</sup>

### Economics 101: A visual representation of how a tariff works

The tariff increases the price of the good or service imported leading to a decrease in the quantity imported. As a result, the gray square is a creation of government revenue paid by American consumers through tariffs and the blue triangles are the net welfare loss to American consumers created by the tariff as less consumers can afford the imported good or service.



### About Consumer Technology Association

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<sup>3</sup> 92 Percent of Trump's China Tariff Proceeds Has Gone to Bail Out Angry Farmers, Council of Foreign Relations, (Oct. 28, 2020), <https://www.cfr.org/blog/92-percent-trumps-china-tariff-proceeds-has-gone-bail-out-angry-farmers>.

<sup>4</sup> The United States, Brazil, and China Soybean Triangle: A 20-Year Analysis, Forbes, (Feb. 20, 2024), <https://farmdocdaily.illinois.edu/2024/02/the-united-states-brazil-and-china-soybean-triangle-a-20-year-analysis.html>.