

Main Street in Crisis: The Trump Trade War

Democratic Staff Report
House Committee on Small Business
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Committee on
**SMALL
BUSINESS**



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Introduction

Throughout the 2024 campaign, President Trump promised that aggressive tariffs would reindustrialize the American economy, establish leverage to renegotiate trade agreements on more favorable terms, and generate federal revenue to reduce the fiscal deficit. In the past year, the United States has failed on all three fronts. Domestic manufacturing has neither returned on a meaningful scale, nor grown at the margins, but rather seen a wholesale decline. Despite repeatedly promising trade deals, announcements have rarely reduced trade barriers between countries. The administration collected \$160 billion in tariffs that the Supreme Court has now ruled illegal,¹ and the government may be required to refund them. After deepening the deficit with tax cuts for the rich, the U.S.'s fiscal position is worse than ever.

The tariff rates have often far exceeded anything promised during the campaign, and have applied not only to adversaries like China, but to longstanding allies and neighbors whose cooperation American businesses depend on every day. Canada and Mexico—the United States' two largest trading partners—were subject to sweeping tariffs alongside Beijing. The EU, Japan, and South Korea, allies whose economic relationships with the United States represent trillions in annual trade, were treated as threats to national security under statutes designed for emergencies. These countries didn't just absorb the tariffs, they retaliated, targeting American exports on agricultural goods and manufactured products from the same small businesses and farmers the administration claimed to champion.

Congress has long recognized that small firms face fundamentally different constraints than larger ones, and that distinction has never been clearer than under the current tariff regime. Small businesses represent 99 percent of all American firms, half the private sector workforce, and generate two-thirds of all new jobs.² For millions of Americans, owning a small business is one of the primary paths to upward mobility, and they anchor local economies across the country. Yet the administration's tariff policy was designed as though the American economy were composed entirely of large corporations with the resources to absorb, adapt to, and lobby against sudden shifts in trade policy, and the small firms that do exist are so locally oriented that trade policy wouldn't matter. In reality, small businesses are deeply integrated into global supply chains. According to the FedEx Small Business Trade Index, 76 percent of respondents import products from other countries to create a product domestically, while 61 percent export goods to international markets.³

Tariffs do not affect all businesses equally. Small firms cannot draw on cash reserves to absorb tens of thousands of dollars in new import costs, warehouse inventory to wait out uncertainty, or leverage supplier relationships to shift costs upstream.

1 Erica York, Alex Durante, Supreme Court Strikes Down President Trump's Tariffs, TAX FOUNDATION (Feb. 20, 2026). <https://taxfoundation.org/blog/supreme-court-trump-tariffs-ruling/>

2 U.S. SMALL BUS. ADMIN., OFF. OF ADVOCACY, 2025 Small Business Profile, (2025)

3 FEDEX, 2025 FedEx Small Business Trade Index highlights Trade's Influence on Small Business Decisions, FedEx Newsroom (2025). <https://newsroom.fedex.com/newsroom/global-english/2025-fedex-small-business-trade-index-highlights-trades-influence-on-business-decisions>

They lack the diversification, legal staff, and supply chain infrastructure that large corporations deploy. What will emerge from this environment is not the reindustrialized, competitive economy the administration promised, but a more consolidated one, where small firms are replaced by large incumbents best positioned to survive the storm.

This report will document the harm on several fronts: First, it will outline the history of tariffs and the recent action by the Trump Administration. Then, it will detail the economic impact on growth, jobs, prices, and selected sectors. Finally, it will explore the many ways small businesses are disproportionately impacted by the President's Tariffs including testimony from small businesses, who shared their stories directly with the Committee.

Background on Tariffs and the President's Powers

Tariffs are a tax levied on imported goods and services, and indeed historically, they were often the primary source of federal revenue through the late-nineteenth century.⁴ Because tariffs are a relatively easy way to collect revenue, they serve as a way to raise funds primarily for developing countries.⁵ But for more developed nations, tariffs are a damaging and inefficient way to raise funds, both by distorting economic outcomes and by disproportionately taxing lower income consumers. The power to levy tariffs was assigned explicitly to Congress by Article I Section 8 of the U.S. Constitution, and while Congress has delegated this authority in specific instances, it has not given the President authority to levy them arbitrarily and at will.



4 CONG. RSCH. SERV., IF11030 U.S. Tariff Policy: Overview.

5 Douglas A. Irwin, Clashing Over Commerce: A History of U.S. Trade Policy, 28 EXPLORATIONS IN ECON. HIST. 139 (2017), <https://www.sciencedirect.com/science/article/abs/pii/S0014498317302541>.

President Trump's Asserted Tariff Power

President Trump has levied tariffs primary through two laws: The International Emergency Economic Powers Act (IEEPA, 50 U.S.C. Sec. 1701 et seq.), and Section 232 of the Trade Expansion Act of 1962. Following the February 20, 2026, 6-3 Supreme Court ruling striking down the use of IEEPA, the President has invoked Sec. 122 of the Trade Act of 1974 to raise global tariffs to 15 percent.

IEEPA authority, the Administration argued, authorizes the President to “regulate” certain economic transactions, including imports, in response to declared emergencies concerning certain “unusual and extraordinary” threats to national security, foreign policy, or the economy. President Trump used IEEPA authority to levy tariffs on Canada, Mexico, and China through several executive orders on February 1, 2025. The stated emergencies related to the inflow of fentanyl for all three countries, and illegal border crossings from Mexico. He also leveraged this stated power to increase tariffs on countries that import Venezuelan and Russian oil, primarily on India. Additionally, he used the asserted power to eliminate the de minimis exemption for goods valued at under \$800, punish Brazil for prosecuting former President Bolsonaro, and establish his liberation day “reciprocal” tariffs on every other country. In total, IEEPA tariffs are estimated to have cost American businesses \$160 billion in direct costs.⁶

On February 20, 2026, the Supreme Court ruled in *Learning Resources, Inc. v. Trump and V.O.S Selections v. United States* that IEEPA does not authorize the president to impose tariffs. The plaintiffs were small business owners, including American manufacturers and retailers, joined by several state attorneys general. No court at any level had accepted the administration’s interpretation: the Court of International Trade ruled the tariffs illegal unanimously in May 2025, and the Court of Appeals upheld that decision in August. The ruling rendered three-fourths of the President’s new tariff revenue illegal and may require refunds of more than \$160 billion collected from American importers. As of writing, more than 2,000 importers have filed cases with the Court of International Trade for refunds of IEEPA tariffs.⁷



⁶ Tax Foundation, *Supra* note 1.

⁷ DUANE MORRIS LLP, *International Emergency Economic Powers Act Tariffs are Out, Section 122 Tariffs are in*, Duane Morris Alerts (Feb. 2026)

https://www.duanemorris.com/alerts/international_emergency_economic_powers_act_tariffs_are_out_section_122_tariffs_are_in_0226.html

The ruling has not resolved the uncertainty. Within hours of the decision the President signed an executive order imposing a 10% tariff on all countries under Section 122 of the Trade Act of 1974 and threatened raising it to 15% the following day. Unlike IEEPA, Section 122 tariffs are limited to 15% and expire after 150 days without Congressional approval. Moreover, these tariffs are statutorily required only to resolve balance of payments issues – something not currently happening. However, the 150-day timeframe will give the President enough time to prepare tariff acts through more legally justifiable means, such as section 232 or section 301, discussed below.

Section 232 of the Trade Expansion Act of 1962 authorizes the President to impose import restrictions if the Secretary of Commerce determines that a product “is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.” It requires a process of investigation and formal approval before resulting in tariffs. These investigations take time but give the President authority to set taxes on imported goods without a ceiling. Referencing determinations made under the first Trump administration, the President imposed tariffs on steel and aluminum, as well as automobiles and parts, and hardwood lumber and cabinets. There are currently 12 ongoing Section 232 investigations listed in the table below, with more potentially being announced during the temporary section 122 tariffs.

On March 11, 2026, the President announced he would be initiating additional investigations under section 301 of the Trade Act of 1974, which allows the U.S. Trade Representative to impose trade sanctions on foreign partners found to violate U.S. trade agreements or engage in acts that are unjustifiable or are unreasonable or discriminatory and burden or restrict U.S. commerce. This was one mechanism by which the President established tariffs on China during his first term. The countries under investigation will include China, the European Union, Singapore, Switzerland, Norway, Indonesia, Malaysia, Cambodia, Thailand, Korea, Vietnam Taiwan, Bangladesh, Mexico, Japan, and India.⁸ These tariffs would be used to replace IEEPA tariffs once section 122 expires. Treasury Secretary Scott Bessent predicts that by August, U.S. tariffs would return to levels in effect before the Supreme Court’s ruling.⁹ Below is a list of all tariff action taken by the administration so far, before the aforementioned 301 investigation announcement.

8 OFFICE OF THE U.S. TRADE REPRESENTATIVE, Initiation of Section 301 Investigation: Industrial Excess Capacity, 91 Fed. Reg. (March 11, 2026).

<https://ustr.gov/sites/default/files/files/Press/Releases/2026/USTR%20301%20FRN%20Industrial%20Excess%20Capacity%203-11-26.pdf>

9 Dan Mangan, Trump Administration Launches Section 301 Trade Probes into Mexico, China, EU, others, CNBC (March 11, 2026) <https://www.cnbc.com/2026/03/11/trump-trade-investigations-ieepa-tariffs.html>

Figure 1. Summary of U.S. Executive Tariff Action

January 20, 2025 – March 2026

Actions under the International Emergency Economic Powers Act (IEEPA)		
Fentanyl-Related	Canada	35% on most goods; 10% on potash and Canadian energy; United States-Mexico-Canada (USMCA exemption)
Fentanyl & Migration	Mexico	25% on most goods; 10% on potash; USMCA exemption
Fentanyl-Related	China	20% on all goods ended de minimis duty-free treatment
Venezuelan Oil	Designated	25% on all goods from countries designated by Sec. of State.
Trade Deficit/ Reciprocal	Global	10%-41%, by country or origin; on most goods (with exemptions); Paused: 125% on China
Ending De Minimis Treatment	Global	Ended de minimis duty-free treatment.
Brazil's Government Policies	Brazil	40% on select goods (with exemptions).
Russian Oil	India	Russian Oil India 25% on most goods (with exemptions)

Actions under Section 232 of the Trade Expansion Act of 1962 (Section 232)

Steel	Global	50% globally; 25% on United Kingdom (UK)
Aluminum	Global	50% globally; 25% on UK
Automobiles & Parts	Global	25% globally; 10% for UK; 15% for Japan; some USMCA exemptions. (Pending Implementation: 15% for the EU and South Korea).
Copper	Global	50% globally on semi-finished copper products.
Timber/Lumber	Global	Timber/Lumber Global 10%-25% globally, 10% for UK, 15% for Japan, South Korea, EU.
Semiconductors	TBD	Investigation Initiated (April 2025).
Pharmaceuticals	TBD	Investigation Initiated (April 2025).
Critical Minerals	TBD	Investigation Initiated (April 2025).
Trucks/Buses	Global	10% on buses globally; 25% on trucks and truck parts; USMCA exceptions.
Aircraft	TBD	Investigation Initiated (May 2025).
Drones	TBD	Investigation Initiated (July 2025).
Polysilicon	TBD	Polysilicon TBD Investigation Initiated (July 2025).
Wind Turbines	TBD	Investigation Initiated (August 2025).
Medical Equipment	TBD	Investigation Initiated (September 2025).
Robotics	TBD	Investigation Initiated (September 2025).

Actions Under Section 301 of the Trade Act of 1974 (Section 301)

China's Semiconductors	China	Investigation ongoing. (Public hearings held March 2025).
Foreign Digital Services Taxes	TBD	President Directed USTR to consider renewing a previous investigation.
China's Shipping Industry	China	Investigation completed. USTR considering remedies
International Seafood	TBD	President directed USTR to consider a new investigation
Brazil's Trade Practices	Brazil	Investigation initiated (July 2025).

Actions Under Section 122 of the Trade Act of 1974 (Section 122)

Balance-of-Payments	Global	15% on all goods, excluding critical minerals, fertilizers, agricultural products like beef, tomatoes, and oranges, certain electronics, certain aerospace products, USMCA products, and all articles currently subject to Sec. 232 tariffs.
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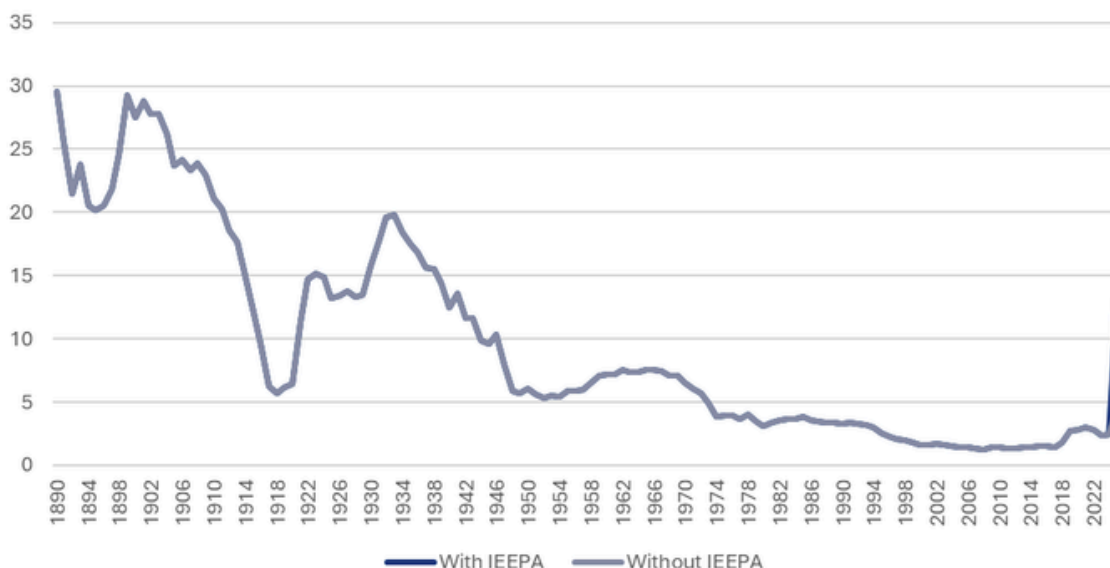
Rates and Revenue

Prior to 2018, tariffs were a declining part of U.S. economic and foreign policy. Trade liberalization was broadly embraced under the rules-based global trading system that emerged after World War II. Between 1890 and 2017, the average tariff rate on all imports dropped from nearly 30 percent to just 1.4 percent. President Trump began slowly reversing this trend in his first term and obliterated it in his second. The magnitude of the policy shift constitutes a genuine economic shock. In a world that had been dissolving trade barriers for some 80 years, the enactment of the President's tariff regime marks a stark reversal.

Figure II. Historic Average Tariff Rate on U.S. Imports

1890-2025

Source: Tax Foundation



In total, the federal government collected \$287 billion in customs duties in 2025, nearly triple the prior year.¹⁰ As a share of GDP, tariff revenue now exceeds 1 percent, roughly five times the OECD average for advanced economies, and comparable to rates seen in developing nations like Zambia and Tunisia.¹¹ In 2025, with IEEPA tariffs, the cost per household amounted to roughly \$1,000.¹² As of February 2026, the Tax Foundation estimates the remaining tariffs amount to an average tax increase of \$600 per household for the rest of the year, accounting for 10 percent Sec. 122 tariffs for 150 days!¹³ Notably, this does not predict what tariff levels will be once additional Section 232 and 301 tariffs are implemented.

¹⁰ Marina Azzimonti, Jacob Titcomb, and John O'Trakoun, How Much Revenue Has Been Raised by Tariffs So Far?, FED. RSRV. BANK OF RICHMOND (Jan. 13, 2026)

https://www.richmondfed.org/research/national_economy/macro_minute/2026/how_much_revenue_raised_by_tariffs_so_far

¹¹ Jay Shambaugh, Tariffs are a Particularly Bad Way to Raise Revenue, BROOKINGS (Nov. 4, 2025).

<https://www.brookings.edu/articles/tariffs-are-a-particularly-bad-way-to-raise-revenue/>

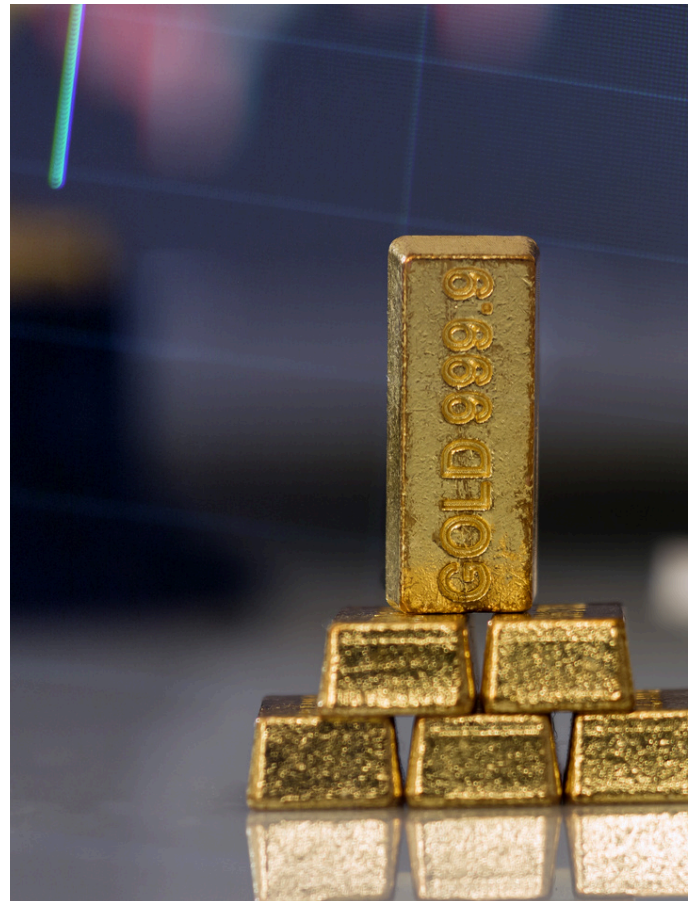
¹² Erica York, Alex Durante, Tariff Tracker: Impact of Trump Tariffs & Trade War by the Numbers, TAX FOUNDATION (Feb. 23, 2026). <https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war>

¹³ Id.

It should also be noted that revenue rates are expected to fall as real-world adjustments are considered. Theoretically, consumers will shift to alternatives unaffected by tariffs, and the economic damage caused by tariffs reduces output, lowers incomes, and diminishes investment, causing lower tax receipts on one hand, and less spending on the other. Moreover, the Supreme Court's ruling may require refunds of \$160 billion in illegally collected IEEPA tariffs, wiping out 75 percent of what has been collected to date. Finally, economists estimate the efficiency cost of tariffs at rates similar to last fall approximately 30 percent of revenue raised, meaning for every dollar collected, 30 cents in economic value are destroyed through distorted production and consumption decisions.¹⁴ Tariffs have undoubtedly raised revenue, but revenue raised through illegal tariffs are essentially a loan from importers (and by extension consumers) to the federal government. They are simply a bad way of raising that revenue and come with significant economic costs.

Economic Impact of Tariffs

The economic evidence on tariffs is unambiguous. A study published by the IMF analyzed macroeconomic data from 151 countries over five decades found that tariff increases led to persistent and statistically significant declines in output and productivity, higher unemployment, greater inequality, and a negligible improvement in the trade balance.¹⁵ These findings reflect a consensus in the economics profession as settled as the scientific consensus on climate change. The 2025 tariffs are confirming this consensus in real time: Economic growth has slowed, employment has flattened, the trade deficit has not meaningfully improved, consumer prices have risen (disproportionately for lower-income households), manufacturing employment has declined, and major exporters, like farmers, have been caught in the crossfire of higher import costs and foreign retaliation.



¹⁴ Kimberly Clausing, Maurice Obstfeld, Trump's Tariffs as Fiscal Folly, CEPR (Oct. 20, 2025). <https://cepr.org/voxeu/columns/trumps-tariffs-fiscal-folly>

¹⁵ Davide Furceri et al., Macroeconomic Consequences of Tariffs, Int'l Monetary Fund, Working Paper No. 19/09 (Jan. 2019) <https://www.imf.org/-/media/files/publications/wp/2019/wp1909.pdf>

Economic Growth and Job Creation

In 2025, the gross domestic product (GDP) grew at a 2.1% rate, slowing from 2.8% in 2024.¹⁶ The Tax Foundation projected that the current Section 232 Tariffs reduced long-run GDP by 0.2%, while IEEPA tariffs reduced long-run GDP by 0.4%.¹⁷ While GDP growth numbers were strong in the second and third quarter of 2025 and were lowered substantially by the prolonged government shutdown in the fourth quarter, the headline numbers seem to mask vulnerabilities in the U.S. economy. Much of the GDP growth in 2025 can be attributed to increased consumer spending concentrated mainly in the top 10 percent of households and investments in AI datacenters.¹⁸ Importantly, the computers and parts necessary to construct datacenters are the single largest category of tariff exempted items, as of last summer. Moreover, imports of the large computers found in datacenters have surged by more than 100 percent since the start of 2025 reflecting both hype around the new technology and a natural flow of capital to more efficiency.

While GDP growth was relatively sustained during 2025 despite the economic shock of tariffs, job creation stalled. Throughout the entire year, U.S. employers added just 181,000 jobs, 69 percent fewer jobs than its initial estimate of 584,000.¹⁹ Between January 2025 and January 2026, every sector other than construction, utilities, private education and health services, and leisure and hospitality had negative employment growth, and private education and health services is the only sector with any meaningful growth.²⁰

For small businesses in particular, the data is dramatically worse. In November 2025, for instance, private firm ADP estimated a net loss of 32,000 jobs. Broken down by employer size, businesses between one and 49 employees shed an estimated 120,000 jobs, while medium and large businesses added jobs to make up the difference.²¹ And the disproportionate impact on small businesses is just beginning to come through in official data: Business Employment Dynamics for Q2 of 2025 found that between March and June, 7.9 million jobs were lost as a result of contracting and closing private sector establishments. Over the same period, companies with 1-49 employees had a net loss of 180,000 employees, while firms with between 50 and 249 employees saw a net gain of 33,000 employees.²² Firms with fewer than 50 employees accounted for nearly half of the job losses that quarter.²³

Layoffs and downsizing weren't the only outcome of tariffs. The cumulative strain of higher input costs, uncertainty, and compressed margins that resulted from tariffs, post-pandemic inflation and higher interest rates is showing up in bankruptcy filings as well. Through November of 2025, 717 large corporations filed for bankruptcy, the highest number since 2010 and 14 percent more than 2024.²⁴ This spike is prevalent among small businesses, too, which can file through subchapter V if they have less than \$3 million in debt. Between January and Mid-December, more than 2,300 filings occurred through this method, a 10 percent increase from 2024.²⁵ In November alone, small business bankruptcies were up 23 percent from November 2024.²⁶

16 BUREAU OF ECON. ANALYSIS, Gross Domestic Product (Second Estimate), Fourth Quarter and Year 2025 (2026), <https://www.bea.gov/news/2026/gdp-advance-estimate-4th-quarter-and-year-2025>

17 Supra note 10.

18 Gregory Daco, US GDP (Q4 2025 – First Estimate), EY INSIGHTS (Feb. 20, 2026), https://www.ey.com/en_us/insights/strategy/macroeconomics/us-gdp

19 Ben Casselman, Job Growth was Overstated, New Data Shows, N.Y. TIMES (Feb. 11, 2026), <https://www.nytimes.com/2026/02/11/business/economy/january-jobs-report-revisions.html>

20 BUREAU OF LAB. STAT., Employment By Industry, Monthly Changes, (Feb. 2026), <https://www.bls.gov/charts/employment-situation/employment-by-industry-monthly-changes.htm>

21 ADP RSCH., ADP National Employment Report: Private Sector Employment Shed 32,000 Jobs in November; Annual Pay was Up 4.4% (Dec. 3, 2025), <https://mediacenter.adp.com/2025-12-03-ADP-National-Employment-Report-Private-Sector-Employment-Shed-32,000-Jobs-in-November-Annual-Pay-was-Up-4-4>

22 BUREAU OF LAB. STAT., Business Employment Dynamics, Table 4 (2025), <https://www.bls.gov/news.release/cewbd.t04.htm>

23 Id.

24 Aaron Gregg, Jaclyn Peiser, Bankruptcies soar as Companies Grapple with Inflation, Tariffs, WASH. POST (Dec. 27, 2025), https://www.washingtonpost.com/business/2025/12/27/corporate-bankruptcies-economy/?_pml=1

25 Natalie Musumeci, Bankruptcies are Exploding Across the Economy, Hitting Small Businesses and Households, Few Industries are Immune, BUSINESS INSIDER (Dec. 27, 2025), <https://www.businessinsider.com/bankruptcies-across-economy-small-business-households-corporate-2025-12>

26 Id.

At a macro-level, the impact of tariffs has been counterproductive on growth and job creation, but they also come at the tail end of 40-year high inflation and an ongoing cost-of-living crisis.

Consumer Prices and Cost of Living

Tariffs are, by design, a mechanism for raising prices. By increasing the price of imported goods, domestically produced goods can become more competitive and/or more profitable, bolstering those industries. While targeted tariffs can increase prices for certain goods to make them more competitive domestically, broad-based tariffs like those imposed through IEEPA have inflationary impact on the entire economy.

What makes tariffs particularly painful is that they arrive after a dramatic spike in inflation and in the midst of a cost-of-living crisis. As a result, margins for small businesses were already compressed, and consumer tolerance for further price increases had already eroded significantly. When President Trump took office, the inflation rate had been trending downward after spiking to 9.2 percent in the aftermath of the pandemic and the war in Ukraine. However, evidence is growing that tariffs, among other factors, reversed that trend.

According to one study, retail tariff pass-through reached 24 percent, contributing about 0.76 percentage points to the all-items Consumer Price Index by October 2025.²⁷ Tariff costs incurred by importers have been gradually but steadily passed onto U.S. consumers at the retail level, with additional spillovers to domestic goods, meaning domestically produced goods saw prices increase with less foreign competition. But, as that inventory is exhausted and consumers adjust, prices will continue to rise until the pass-through rate reaches 100 percent.²⁸ According to projections by the Yale Budget Lab, the passthrough of tariffs to imported core goods prices through December 2025 is somewhere between 40 percent and 76 percent and did raise prices relative to pre-tariff trends.²⁹ Moreover, the CATO institute found that at least seven independent studies from publishers like NBER, Goldman Sachs, and the Federal Reserve Banks of New York and St. Louis, have found that American consumers and businesses are bearing most of the tariffs' economic burden.³⁰ In addition, while tariff rates may have already peaked, their impact on price will continue growing in 2026. Many firms who initially absorbed tariffs through margin compression and pre-tariff inventory will continue easing those tariff costs into the price of their products.

Below is a chart from Cavallo, Llamas, and Vazquez, which analyzed price data of over 350,000 products from 5 US online retailers and matched prices to tariff rates and countries of origin, then compared retail prices changes to pre-tariff trends.

27 Alberto Cavallo, Andres Llamas & Maria Vazquez, Tracking Tariffs: Retail Price Effects of the 2025 U.S. Trade War (Jan. 30, 2026). https://www.pricinglab.org/files/TrackingTariffs_Cavallo_Llamas_Vazquez.pdf

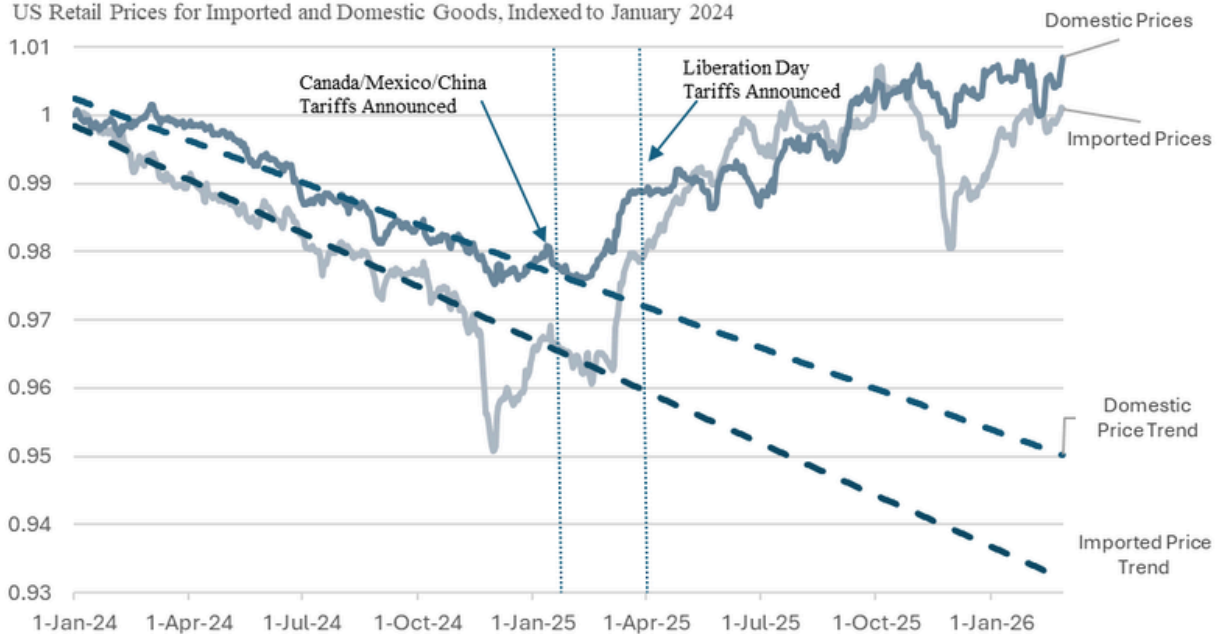
28 Preston Caldwell, Inflation Set to Rise in 2026 as Tariff Costs Hit Consumers, MORNINGSTAR (Jan. 14, 2026). <https://www.morningstar.com/economy/inflation-set-rise-tariff-costs-hit-consumers-2026>

29 YALE BUDGET LAB, Tracking the Economic Effects of Tariffs (March 2, 2026) <https://budgetlab.yale.edu/research/tracking-economic-effects-tariffs>

30 Scott Lincicome and Nathan Miller, The White House Still Can't Grasp that Americans Pay US Tariffs, CATO INST. BLOG (Feb. 19, 2026). <https://www.cato.org/blog/white-house-still-cant-grasp-americans-pay-us-tariffs>

Figure III. Trump's Trade War and Prices

US Retail Prices for Imported and Domestic Goods, Indexed to January 2024



Note: Last updated February 26, 2026

Source: Cavallo, Llamas, and Vazquez (2026), "Tariff Tracker."

The burden of these price increases is not shared equally. The Cavallo study found that lower-priced product varieties experienced faster and larger price increases than higher-priced ones (roughly five percent for the cheapest quartile compared to 2.5 percent for the most expensive). This has direct distributional consequences: lower-income households, who spend a larger share of their income on goods, and who disproportionately purchase lower-priced varieties, face a proportionally greater tariff burden. The Yale Budget Lab found that the tariff burden on the lowest income decile is more than three times that of the top decile as a share of after-tax income.³¹

According to a 2026 report on Employer Firms from the 2025 Small Business Credit Survey by the Federal Reserve Bank of Cleveland (Fed Survey), the most common financial challenge reported in the prior 12 months has been the rising cost of goods, services, and/or wages.³² According to that survey, more than four in 10 firms reported that increased costs associated with tariffs were a financial challenge.³³ Moreover, 76 percent of firms affected by tariffs reported passing on at least some of the higher costs on consumers, while 60 percent reported absorbing some of the cost.³⁴ Not only were consumers charged higher prices, but small businesses saw smaller margins as a result. In addition, few firms reacted to tariffs by changing to a domestic

31 YALE BUDGET LAB, State of Tariffs: February 21, 2026 (Feb. 2026). <https://budgetlab.yale.edu/research/state-tariffs-february-21-2026>

32 Fed. Rsrv. Banks, 2026 Report on Employer Firms: Findings from the 2025 Small Business Credit Survey (2026). [https://www.fedsmallbusiness.org/2026-report-on-employer-firms?](https://www.fedsmallbusiness.org/2026-report-on-employer-firms?utm_source=GR&utm_medium=email&utm_campaign=sbcs-marketing)

[utm_source=GR&utm_medium=email&utm_campaign=sbcs-marketing](https://www.fedsmallbusiness.org/2026-report-on-employer-firms?utm_source=GR&utm_medium=email&utm_campaign=sbcs-marketing)

33 Id.

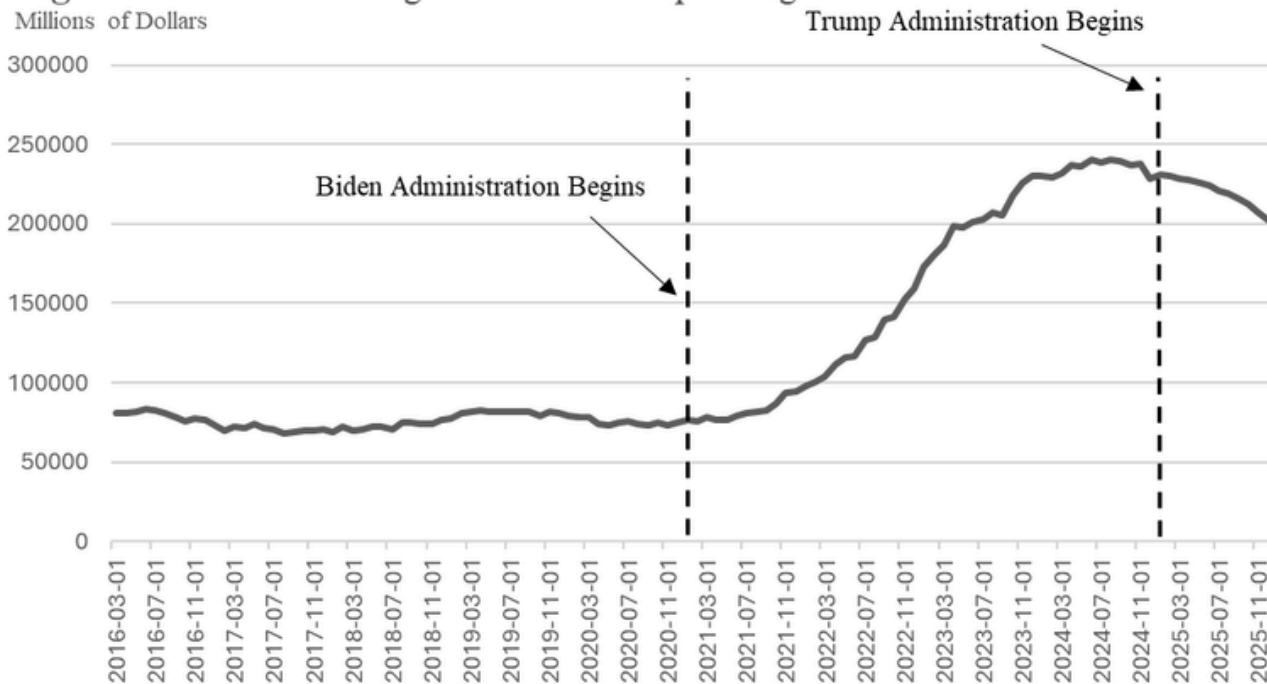
34 Id.

supplier, changing to a different foreign one, or relocating their production to the U.S.³⁵ This finding undercuts the central premise of the tariff regime—that higher input costs would incentivize domestic production. Without a holistic plan for reshoring production, tariffs simply raised costs without creating viable alternatives.

Manufacturing

The President and his top economic advisors have promised that tariffs will revitalize domestic manufacturing. The outcome has been the opposite. Between January 2025 and February 2026, the manufacturing sector has shed 100,000 jobs.³⁶ The sector lost jobs in every month of the President’s second term outside of a 5,000 job gain in January 2026.³⁷ The Institute for Supply Management’s (ISM) Purchasing Managers’ Index (PMI) measures the health of the manufacturing sector, and readings above 50 indicate expansion, while below indicate contraction. Throughout 2025, the only months of expansion were January and February, before liberation day tariffs were implemented.³⁸ Even in the first two months of 2026, where the indicator seems to be expanding, prices are increasing, and hiring is still slowing.³⁹ Moreover, during the Biden Administration, due to investments in domestic manufacturing through the CHIPS and Science Act, as well as the Inflation Reduction Act, construction spending on new manufacturing plants grew significantly. But President Trump reduced many incentives for this investment, like tax credits for advanced manufacturing.⁴⁰ The result has been a consistent, month-by-month decline in investment.

Figure IV. Manufacturing Construction Spending



35 Id.
 36 FED. RSRV. ECON. DATA (FRED), All Employees, Manufacturing (MANEMP) (Updated March 6, 2026). <https://fred.stlouisfed.org/series/MANEMP>
 37 Id.
 38 TRADING ECON, United States ISM Manufacturing PMI (Feb. 2026) <https://tradingeconomics.com/united-states/business-confidence>
 39 INST. FOR SUPPLY MGMT., February 2026 ISM Manufacturing PMI Report (February 2026) <https://www.ismworld.org/supply-management-news-and-reports/reports/ism-pmi-reports/pmi/february/>
 40 MILLER & CHEVALIER, OBBBA Brings 45X Changes, Though Not Wholesale Repeal (Aug. 6, 2025) <https://www.millerchevalier.com/publication/obbba-brings-45x-changes-though-not-wholesale-repeal>

Moreover, one of the primary goals of the Trump Administration has been to boost domestic manufacturing to decrease the trade deficit. However, throughout 2025, the goods deficit actually increased by \$64.4 billion in 2025 (5.7 percent inflation adjusted, 2.1 percent nominal).⁴¹

It's not hard to see why. Manufacturers depend on imported raw materials and intermediate goods, many of which are simply unable to be sourced in the U.S. For essential inputs like steel and aluminum, which carry tariffs that are upwards of 50 percent against most of the world, manufacturers must pay higher prices, making them less competitive in export markets. This was already confirmed in the aftermath of the 2018 tariffs: while production of tariffed goods did increase, the outcome was larger negative effects on downstream industries, reducing manufacturing jobs to a lower level than they would have been absent any tariffs at all due to higher input costs and retaliation.⁴² Perhaps more importantly, many of the high-tech advanced manufacturing businesses in the U.S. – the ones that rely on an increasingly skilled STEM workforce, create high value products, and provide high-wage jobs – are the ones most reliant on importing as a share of inputs.⁴³

On November 20, 2025, the House Small Business Committee held a hearing titled, “Made in the USA: How Main Street is Revitalizing Domestic Manufacturing.” In it, Shirley Modlin, the owner of 3D Design and Manufacturing in Powhatan, VA testified:

Unfortunately, I'm here to tell you that my business and many of my peers are struggling under the current economic conditions. We've been in business since 2005 and we've never experienced such turmoil. This is largely due to the crushing tariffs that impact every area of our industry. Our products are made in America but a lot of the aluminum, steel and alloys we use in our manufacturing are imported from Canada and Mexico.

In addition to hurting our bottom line, tariffs create a lot of uncertainty. Over the past year, the tariff rate has changed drastically. I never know if there will be no tariff, a 25 percent tariff, a 50 percent tariff or an even higher tariff on aluminum. This makes it extremely difficult to set prices, which hurts our business. While we're being battered about, we cannot do the same to our customers. We quote our job and hold the price for five days. If the customer comes to us a bit later and prices drastically rise to account for new tariff levels, our customers won't tolerate that and will take their business elsewhere.

41 BUREAU OF ECON. ANALYSIS, U.S. International Trade in Goods and Services, December and Annual 2025 (Feb. 19, 2026). <https://www.bea.gov/news/2026/us-international-trade-goods-and-services-december-and-annual-2025>

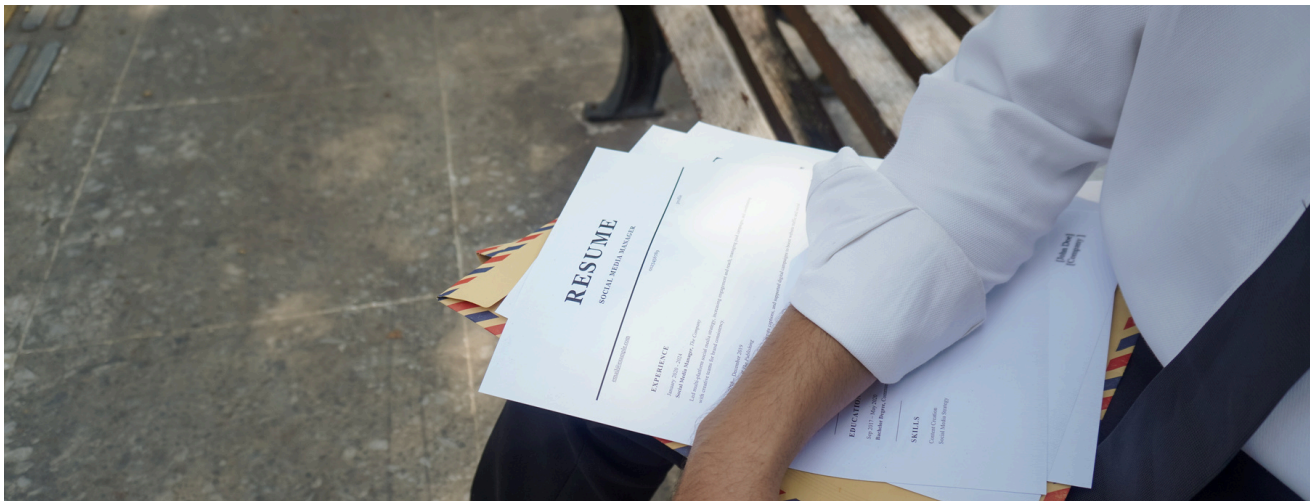
42 John C. Austin, Not Your Grandfather's Factor: Why Tariffs Won't Help Midwest Manufacturing, BROOKINGS (Jan. 22, 2026). <https://www.brookings.edu/articles/not-your-grandfathers-factory-why-tariffs-wont-help-midwest-manufacturing/>

43 Jiaxin He and Connor O'Brien, Blunt Tariffs Undermine Efforts to Reshore High-Tech Manufacturing, AGGLOMERATIONS FROM EIG (Sep. 10, 2025). <https://agglomerations.substack.com/p/blunt-tariffs-undermine-efforts-to>

According to 2023 data, manufacturers account for 54.8 percent of all imports, meaning over half of all tariffs are being charged to manufacturing companies.⁴⁴ With the goal of increasing manufacturing jobs in the U.S., it is counterproductive to disproportionately tax their inputs. At the November 20th hearing, Kurt Voss, the President and CEO of the AmeriLux Family of Companies headquartered in De Pere, Wisconsin, testified about how tariffs have hurt his ability to reshore manufacturing jobs:

Reshoring this manufacturing process required us to move specialized equipment from Ireland to the United States. We initiated this project long before the new tariffs were announced, with the goal of supporting domestic manufacturing and strengthening supply chain reliability. Under current tariff classifications, importing this equipment resulted in duties that were not structured with reshoring efforts in mind. These costs create a meaningful financial hurdle for companies attempting to build or rebuild domestic manufacturing capabilities, and they work against broader efforts to improve supply chain resilience and expand U.S. production capacity. In our case, the tariff added more than \$150,000 to the project and directly affected how quickly and efficiently we could bring production online in Wisconsin. These unexpected costs also make the long-term success of this domestic operation more challenging.

Overall, the President’s tariff strategy has been abysmal for manufacturing—cutting jobs and output while reducing incentives to reshore domestic productive capacity. It negatively affects the price of inputs, harming international competitiveness for exports by those same companies. Alongside agriculture, manufacturing may be the most disproportionately impacted sector, directly refuting the President’s stated goals.



44 U.S. CENSUS BUREAU, A Profile of U.S. Importing and Exporting Companies, 2022-2023 (April 3, 2025). <https://www.census.gov/foreign-trade/Press-Release/edb/edbrel2023.pdf>

Agriculture

No industry in the U.S. has faced greater hardship over the past year than agriculture. The U.S. Department of Agriculture (USDA) estimates that in 2025, America was home to just over 1.86 million farms, 95 percent of which are family-owned, small businesses.⁴⁵ Yet, in 2025 alone, the U.S. lost 15,000 farms, all of which were those with less than \$1 million in annual sales.⁴⁶ Farmers are already squeezed on both sides by low commodity prices for their crops and high input costs, like seeds, fertilizer, pesticides, and machinery. Tariffs have made this worse. Researchers found that IEEPA tariffs raised the overall tariff rate on agricultural inputs from 1 percent to 12 percent by August 2025.⁴⁷ However, the cost of the goods often increased more than the tariff itself. For instance, researchers found that retail fertilizer prices increased by one and a half times the amount of the tariff, likely because there is little competition in this market to stabilize prices or compress margins.⁴⁸ Moreover, U.S. farmers are heavily reliant on Canadian Potash, which has been subject to IEEPA tariffs by President Trump. Additionally, agriculture machinery depends on steel and aluminum imports that are subject to steep Section 232 tariffs, further raising input prices for farmers.

On the flip side, farmers have been particularly exposed to retaliation. For example, in 2024, the U.S. and Australia each accounted for about 9 percent of China's beef import market, while Brazil held 48 percent.⁴⁹ By the third quarter of 2025, the U.S. share had dropped to less than 1 percent, while Australia and Brazil's shares grew to 13 and 59 percent, respectively.⁵⁰ Similarly, for one of the U.S.'s largest exports, soybeans, China essentially placed an embargo on the U.S., importing no soybeans between May and October of 2025. By raising retaliatory tariffs on U.S. soybeans to 34 percent by August, Brazilian soybeans became more affordable to Chinese buyers.⁵¹ As a result of the President's tariff regime, the U.S. Agriculture sector was crushed. Tariffs increased the price of fertilizer and machinery inputs, further squeezing farmers to do more with less. Once their crop was harvested, the market they had traditionally sold into evaporated.

45 NAT'L AGRIC. STAT. SERV., U.S. DEP'T OF AGRIC., Farms and Land in Farms: 2025 Summary 5 (Feb. 13, 2026) and see NAT'L AGRIC. STAT. SERV., U.S. DEP'T OF AGRIC., Farms and Land in Farms: 2015 Summary 8 (Feb. 18, 2016). The USDA defines a farm as any place from which \$1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the year.

46 *Id.*

47 Arita, Shawn, et al. IEEPA Tariff Escalation: What It Means for U.S. Food and Ag-Input Imports. AGRIC. TRADE MONITOR, CENTER FOR AGRIC. POLICY AND TRADE STUDIES, NORTH DAKOTA STATE UNIV. 13 (Aug. 12, 2025). [<https://doi.org/10.22004/ag.econ.364771>]

48 *Id.*

49 SOUTHERN AG TODAY, Recent Trade Tensions Cause U.S. Beef to Lose Ground in China, Spurs Gains for Australia and Brazil (Oct. 30, 2025).

50 *Id.*

51 AMER. SOYBEAN ASSOC'N, Soybeans Without a Buyer: The Export Gap Hurting U.S. Farms (Aug. 20, 2025).

Small Business Impact

There are currently an estimated 36.2 million small businesses in the United States accounting for 99.9 percent of all businesses, employing 62.3 million Americans – 45.9 percent of the private sector workforce.⁵² These are not businesses insulated from global trade by their size. According to the FedEx Small Business Trade Index, 76 percent of small businesses import products used in final assembly while 61 percent export products into international markets.⁵³ When tariffs raise the cost of imports, small businesses do not have the option of opting out. They are embedded in the same global supply chains as their larger competitors but with fewer resources to absorb the shock.



While the tariff regime has imposed costs on all businesses, the burden is not shared equally. Small firms operate on thinner margins, with less capital in reserve, fewer supplier relationships to leverage, and no ability to spread increased input costs across diversified product lines or geographic markets. A large retailer importing goods from China can renegotiate terms, shift sourcing across countries, absorb short-term losses, and deploy teams of trade lawyers and customs specialists to navigate an increasingly complex landscape. A small importer placing a single seasonal order has none of those options. When costs rise, they face a choice between passing them to price-sensitive customers, who can simply walk to a larger discount retailer offering a lower price, or absorbing them through compressed margins. Small businesses have done both, and neither is sustainable.

Small businesses are a canary in the coal mine for the broader economy. The data discussed above bear this out: In November 2025, firms with fewer than 50 employees shed 120,000 jobs while firms with more than 50 added 90,000.⁵⁴ BLS data from the second quarter of last year saw employers with fewer than 50 employees lose 180,000 net jobs that quarter.⁵⁵ Moreover, bankruptcies surged among small businesses in 2025, with subchapter V elections within Chapter 11 up eleven percent over 2024.⁵⁶

52 Supra note 2.

53 Supra note 3.

54 Supra note 21.

55 BUREAU OF LAB. STAT., Business Employment Dynamics – Second Quarter 2025 (Feb. 26, 2026).
<https://www.bls.gov/news.release/pdf/cewbd.pdf>

56 EPIQ GLOBAL, Total Bankruptcy Filings Increase 11% in Calendar Year 2025 (2026).

<https://www.epiqglobal.com/en-us/resource-center/news/total-bankruptcy-filings-increase-11-in-calendar-year-2025>

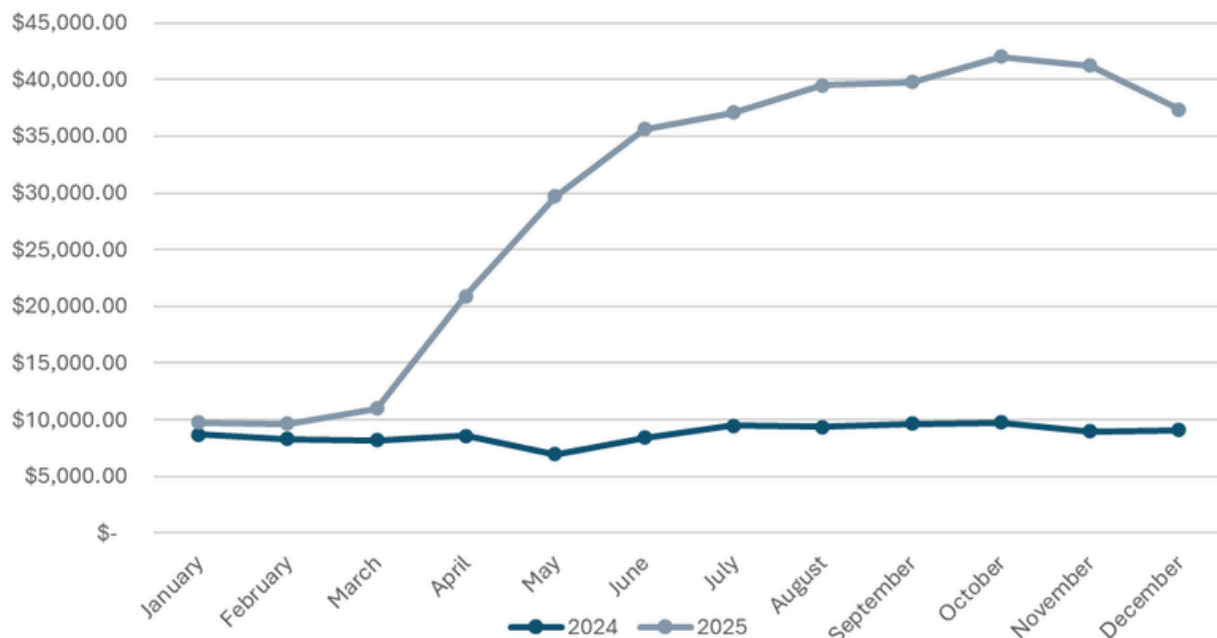
Direct Costs

The direct cost of the tariff itself is the most immediate and quantifiable burden, and it precedes and compounds every other challenge, from uncertainty to compliance costs to competitive pressures. The U.S. Chamber of Commerce estimates that over 236,000 small and medium sized firms⁵⁷ (SME, 500 employees or fewer) account for roughly a third (31.6 percent) of import volume, or \$868 billion of the \$2.7 trillion in imports annually in 2023.⁵⁸ Assuming the same ratio persisted in 2025, monthly tariff costs for SMEs increased 4x from \$2.3 billion in January to a peak of \$9.9 billion in October.⁵⁹ In total, tariffs cost small businesses \$83.4 billion in 2025.

Extrapolating the data from above, the monthly tariff costs for small farms can be calculated by multiplying monthly tariffs, as reported by the treasury, by 31.6 percent, and dividing that number by 236,045. Between April and December of 2025, SMEs on average paid an additional \$26,982 per month compared to the same period in 2024. The average SME paid \$353,558 in tariff costs in 2025, over \$248,000 more than in 2024.

Figure V. Small Business Monthly Tariff Costs Ballooned in 2025

Average total monthly tariff costs paid by small business importers, 2024-2025



Source: Monthly Tariff Collections from Monthly Treasury Statement, compiled by Tax Foundation, Census.gov

57 U.S. CENSUS BUREAU, 2024 Preliminary Profile of U.S. Importing and Exporting Companies (Dec. 11, 2025). <https://www.census.gov/foreign-trade/Press-Release/edb/2024prelimprofile.pdf>

58 Supra note 44.

59 Author's calculation, Tax Foundation, U.S. Dept. of Treasury, Monthly Treasury Statement.

It can further be broken down by business size. By using 2023 data from census about the size and relative volume of imports by employee number, the total tariff cost by business size per month and through 2025 can be estimated. Below are estimates about the significant costs that fall on relatively small businesses. For instance, a business with fewer than 20 employees could pay on average a total of \$162,278 throughout the course of 2025, roughly \$13,500 per month. This is no small charge. On average, a small firm could expect to be paying anywhere between 2 and 5 full-time equivalent employees for no additional productivity in return.

Employees	Percent of Import Value (2023)	Total firms (2023)	Average per month (2025)	Average per firm per month (2025)	Total per firm (2025)
N/A	10.20%	93895	\$ 2,244,850,000.00	\$ 23,908.09	\$ 286,897.07
1 to 19	5.80%	94392	\$1,276,483,333.33	\$ 13,523.22	\$ 162,278.58
20 to 49	3.20%	22259	\$ 704,266,666.67	\$ 13,523.22	\$ 379,675.64
50 to 99	3.00%	11536	\$ 660,250,000.00	\$ 57,233.88	\$ 686,806.52
100 to 249	5.30%	9809	\$ 1,166,441,666.67	\$ 118,915.45	\$ 1,426,985.42
250 to 499	4.30%	4155	\$ 946,358,333.33	\$ 227,763.74	\$ 2,733,164.86

While the calculation is based on averages of available government data, it may be difficult to parse how individual businesses are impacted. At the beginning of this crisis, on February 5, 2025, the House Small Business Committee held the hearing “Hope on the Horizon: Prioritizing Small Business Growth in the 119th Congress.” At the hearing, Ms. Molly Moon Neitzel, the Founder and CEO of Molly Moon’s Homemade Ice Cream testified about the projected costs of the threatened tariffs on her business:

We purchase all of our ice cream cups and pint containers from Canadian and Chinese Manufacturers. We spend over \$450,000 per year on paper products. A 10 to 25% tariff on those products would cost us over \$100,000, decimating our profits.

Haley Pavone, the CEO of Pashion Footwear, a company that makes adjustable and removable heels for women’s shoes, testified before the Democratic Steering and Policy Committee about the impact of tariffs on China last May on the unit cost of her goods:

This pair of shoes has a product cost of \$38.77, and we have historically sold it to customers for \$195. Once we include all product costs—such as freight, warehousing, and merchant fees—as well as accounting for operating costs, which is inclusive of our salaries, marketing budget, US contractor retainers, product development, and general overhead—we are left behind with a total net profit for this shoe sale of \$19.76.

However, with the implementation of these new tariffs as well as last Friday’s elimination of the de minimis value under Section 321, this math has now been flipped on its head.

Since these shoes are textile, they already recognize a base duty rate of 37.5 percent. Then, we add on 7.5 percent 301 tariff that was established in the first Trump administration, followed by the current 145 percent surcharge tariff for a grand total of 190 percent due at import on these shoes. My business has now, overnight, gone from profiting \$19.76 on this shoe to losing \$45.95 every single sale of this style.

While this cost may have been passed onto consumers or absorbed partially in the business’s margin, it likely decreased the volume of goods sold by lessening demand. According to a monthly survey by the Federal Reserve Bank of Atlanta, small firms reported a lower ability to pass through unit cost increases, while large firms had more confidence they could.⁶⁰ Many small businesses may not have had the cash reserves or cash flow to make payments on shipments without taking out a line of credit, and far fewer small firms are creditworthy than larger firms. According to one study, 27 percent of small importers have a high enough credit score for lenders to offer new lines of credit, compared to 70 percent of larger importers.⁶¹

Jesse Appell, online content creator and founder of Jesse’s Teahouse, sources his tea from China and Taiwan. He testified in September 2025 at hearing on digital content creation. He couldn’t afford the shock of the tariffs and thus lost a full subscription cycle on his tea subscription service:

The recent tariffs have had a devastating impact on my business. I estimate we have lost approximately \$250,000 in sales as a direct result of the most recent trade war. I run a subscription tea club, where every 3 months, we send our club members great new teas. But our May subscription box sat in the port during the trade war, and we had to skip it altogether. We also couldn’t get a single restock shipment between January and August.

60 FED. RSRV. BANK OF ATLANTA, Business Inflation Expectations (BIE) Survey (April 2025). <https://www.atlantafed.org/-/media/Project/Atlanta/FRBA/Documents/research/inflationproject/bie/2025/04/2025-04-monthly-chart-pack.pdf>

61 Jacob Jensen, The Impact of Tariffs on Small Businesses, AM. ACTION FORUM (Oct. 2025). <https://www.americanactionforum.org/research/the-impact-of-tariffs-on-small-businesses/>

These costs affect different business models differently. Notably, the franchise business model is theoretically made to insulate an investor or franchisee from navigating global trade. Since uniformity is often a core component of the franchising model, franchisees usually depend on centralized procurement from a limited number of approved suppliers. While this can give franchisees buyer power through franchisors, or potentially insulate them compliance with CBP importing rules, it also makes them inflexible in finding suppliers or responding to tariff costs. On January 22, 2026, Rico Macareg, the CEO of Strivewell, a multi-unit franchise operating company in the personal wellness industry, testified about the additional costs sprung on him when opening a new business in August of 2025:

Tariffs matter because they directly affect the cost of building and equipping a business—long before a single dollar of revenue is earned. Most furniture, fixtures, and equipment for the franchise businesses are sourced overseas, primarily from China. As a result, we have seen cost increases of 25 to 50 percent on required items.

After one of our projects opened, I received a \$30,000 tariff bill—three months after opening—for equipment we had already purchased and installed. That cost was never forecasted and could not be planned for. For a newly opened small business, that kind of surprise expense immediately drains working capital and often forces higher prices on consumers.

Uncertainty

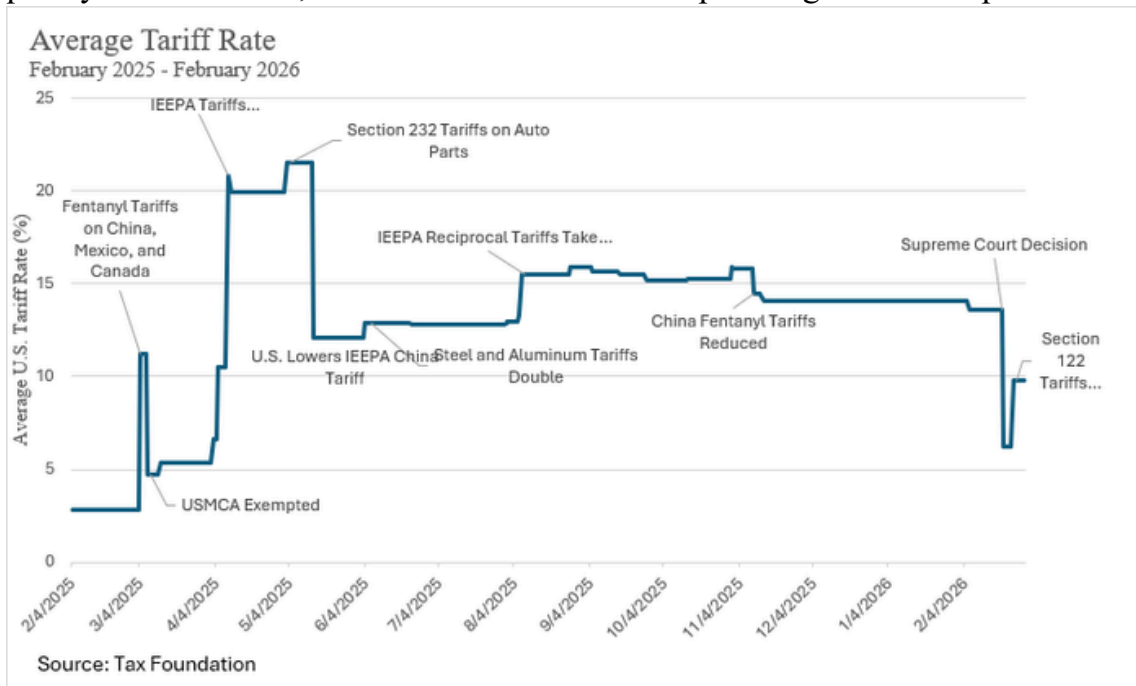
The central job of any business owner is planning. Planning for future demand, inventory purchases, when to hire, and when to cut back. This planning relies on having a stable environment that allows business owners to extrapolate from previous experience and make reasonable projections about costs, revenue, and growth. Tariffs upend this process. They drive input costs higher, disrupt established pricing structures, and alter consumer demand simultaneously. When tariffs shift erratically and unpredictably, the damage extends beyond the rate of the tariff itself. Navigating the decisions necessary to minimize costs and disruptions leads to uncertainty and the uncertainty makes it impossible to plan at all. The uncertainty caused by tariffs caused the National Federation for Independent Business's (NFIB's) uncertainty index, which measures how many small firms are unable to answer the questions in their monthly optimism survey, to skyrocket in early 2025 to reach a record high.⁶² This surpassed peaks recorded during the financial crisis and the onset of the pandemic. Moreover, the Trade Policy Uncertainty Index, which counts the frequency of joint occurrences of trade policy and uncertainty terms across major newspapers, also skyrocketed in the early days of 2025 and remains significantly elevated to the present.⁶³

62 William C. Dunkelberg and Holly Wade, Small Business Economic Trends, NFIB (Jan. 2026)

<https://www.nfib.com/wp-content/uploads/2026/02/NFIB-SBET-Report-January-2026.pdf>

63 Caldara et al., Trade Policy Uncertainty Index (Jan. 2026). https://www.policyuncertainty.com/trade_cimpr.html

Between January 2025 and February 2026, the effective tariff rate on U.S. imports changed more than 20 times. Rates jumped from 2.5 percent at inauguration to over 20 percent after liberation day – a nearly ten-fold increase in just three months. These tariffs were then partially rolled back, reimposed, expanded, paused, raised again, reduced through exemptions, and ultimately struck down by the Supreme Court, only to be reimposed within hours under different authorities at different rates. At various points, the President announced tariff changes via social media before formal proclamations were issued, leaving businesses and their customs brokers scrambling to determine what rate actually applied to goods already in transit. The chart below, compiled by Tax Foundation, illustrates the scale and frequency of these shifts, which made basic business planning become impossible.



For a large corporation with a diversified supply chain, dedicated trade counsel, and months of inventory in warehouses, this kind of volatility, while painful, is manageable. But for a small business placing their holiday season order from a single supplier overseas, it is not. Consider a small business that imports from China. Total U.S. tariffs on Chinese exports began the year at 20.7 percent.⁶⁴ Using a combination IEEPA and Section 232 tariffs, President Trump raised effective tariff rates on Chinese exports to 30.7 percent on February 4th, 40.7 percent on March 4th, 50.2 percent on April 5th, 105 percent on April 9th, and peaking at 135.4 percent on April 10th.⁶⁵ After over a month, President Trump reduced the cumulative 125 percent IEEPA tariffs back to 10 percent, leaving an effective rate of 51.8 percent on Chinese goods, accounting for other tariffs in place such as Section 232 tariffs on steel and aluminum and automobile parts and pre-existing Section 301 tariffs from 2018.⁶⁶ A retailer that placed an order in early March and received it in late April paid a tariff rate at least three times higher than what was expected. A competitor that delayed its order by six weeks may have paid substantially less (or substantially more, depending on the week).

⁶⁴ Chad P. Bown, US-China Trade War Tariffs: An Up-to-Date Chart, PETERSON INST. OF INT’L ECON. (2019). <https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart>

⁶⁵ Id.

⁶⁶ Id.

During the height of the trade war with China, on May 8th, 2025, the Democratic Steering and Policy Committee held a hearing on the impact of tariffs on small firms. Sarah Wells, the CEO of Sarah Wells Bags testified:

On a recent shipment when the 2025 tariff was set at 20%, I paid a surprise \$15,000 in fees just to release my goods from port. That alone was devastating. But now, under the new rules, that same shipment would cost me an extra \$86,000 in duties—the equivalent of one or two full-time salaries. That kind of burden jeopardizes every job I've created, including military spouses on my team who rely on flexible, remote work as they relocate bases.

At the same hearing, Walt Rowen, the President of Susquehanna Glass Company in Pennsylvania said:

A significant portion of my business involves decorating Chinese-manufactured Christmas ornaments for a major client. We typically ship over 100,000 pieces during the holidays—a substantial part of our annual revenue. But with the current 145% tariff, my client faces a cost crisis, leaving my business in limbo.

This affects everything. I employ 35 people in our Pennsylvania town and normally would be hiring 20-30 season workers soon for our Christmas rush. But how can I commit to those hires with such uncertainty?

The consequences of the uncertainty undermined the stated goal of the policy itself. According to the Fed Survey, while most firms responded by raising prices or reducing margins, 28 percent changed the timing of purchases, but only a handful (13 percent) changed to domestic suppliers, fewer (8 percent) changed foreign suppliers, and only 3 percent relocated production to the U.S.⁶⁷ Understanding that tariff rates could change on a whim, very few firms took to the administration's ideal pathway of long-term investments in U.S. domestic production capacity because the very environment of tariffs created by the president disincentivized long-term planning

Haley Pavone made this point in her testimony to the Democratic Steering and Policy Committee:

I can appreciate the Administration's desire to onshore more of our manufacturing. However, the simple fact is that supply chains do not grow overnight. Speaking to my own industry, building out a high-end technical footwear manufacturing facility in the US would take 3-5 years and tens of millions of dollars that a company my size simply does not have.

⁶⁷ Supra note 32.

That leaves us with the option of trying to move from China to another country—however, not all countries are created equal when it comes to facilities, materials, and labor at their disposal. In Vietnam, we would be forced to adjust our minimum order quantity from 200 pairs per style to 3000 pairs—representing a massive budget increase. In Brazilian factories, the equipment they have is not the same as China—making our \$400k in custom molds & tooling incompatible. We’d have to abandon those assets and then pay to re-open them in Brazil to begin production there.

Looking forward, the uncertainty is worse than ever. The Supreme Court’s February 20th ruling striking down IEEPA tariffs provided potentially several hours of relief for small firms, but many were thrown back into uncertainty as the President announced the use of Section 122 authority. The President initially announced 10 percent universal tariffs, then threatened to raise them to 15 percent, although the official implementation of that never came. Section 122 tariffs are already on legally dubious grounds and are limited by statute to 150 days requiring Congressional approval to extend. Moreover, on March 4, 2026, the Court of International Trade ruled that the Administration must refund IEEPA tariffs, not only to those with lawsuits, but all importers.⁶⁸ However, whether those refunds ultimately make it back into the pockets of businesses who paid the tariffs, or customers who saw higher prices, is still uncertain. Customs and Border Protection doesn’t have an adequate system in place to fulfill refunds and asked for 45 days to set one up.⁶⁹ In addition, Wall Street has been taking advantage of desperate small businesses, buying the full value of tariff refunds from these businesses at a fraction of the cost.⁷⁰

Complexity and Compliance

Much of the discussion about tariffs falls on the direct costs and the uncertainty created by their erratic implementation, but an underdiscussed aspect of the current tariff regime is the severe operational burden on any business that imports goods. For a corporation with a dedicated compliance department, these costs are part of overhead, significant but manageable. For a small business owner who is simultaneously the purchasing manager, the accountant, and the person unloading the truck, this burden can be overwhelming. For most imported products, there is real work that goes into proving to Customs and Border Protection that you are importing the correct product, using the correct classification, knowing the real country of origin, using the correct documentation, not violating any ancillary restrictions, like sanctions.

68 HOLLAND & KNIGHT LLP, Court of International Trade Orders Nationwide Tariff Refunds, But Expect Government to Appeal (March 6, 2026). <https://www.hklaw.com/en/insights/publications/2026/03/court-of-international-trade-orders-nationwide-tariff-refunds>

69 Doug Palmer, CBP Tells Judge it Needs 45 Days to Start Tariff Refunds, POLITICO (March 6, 2026). <https://www.politico.com/news/2026/03/06/cbp-tells-judge-it-needs-45-days-time-to-start-tariff-refunds-00816862>

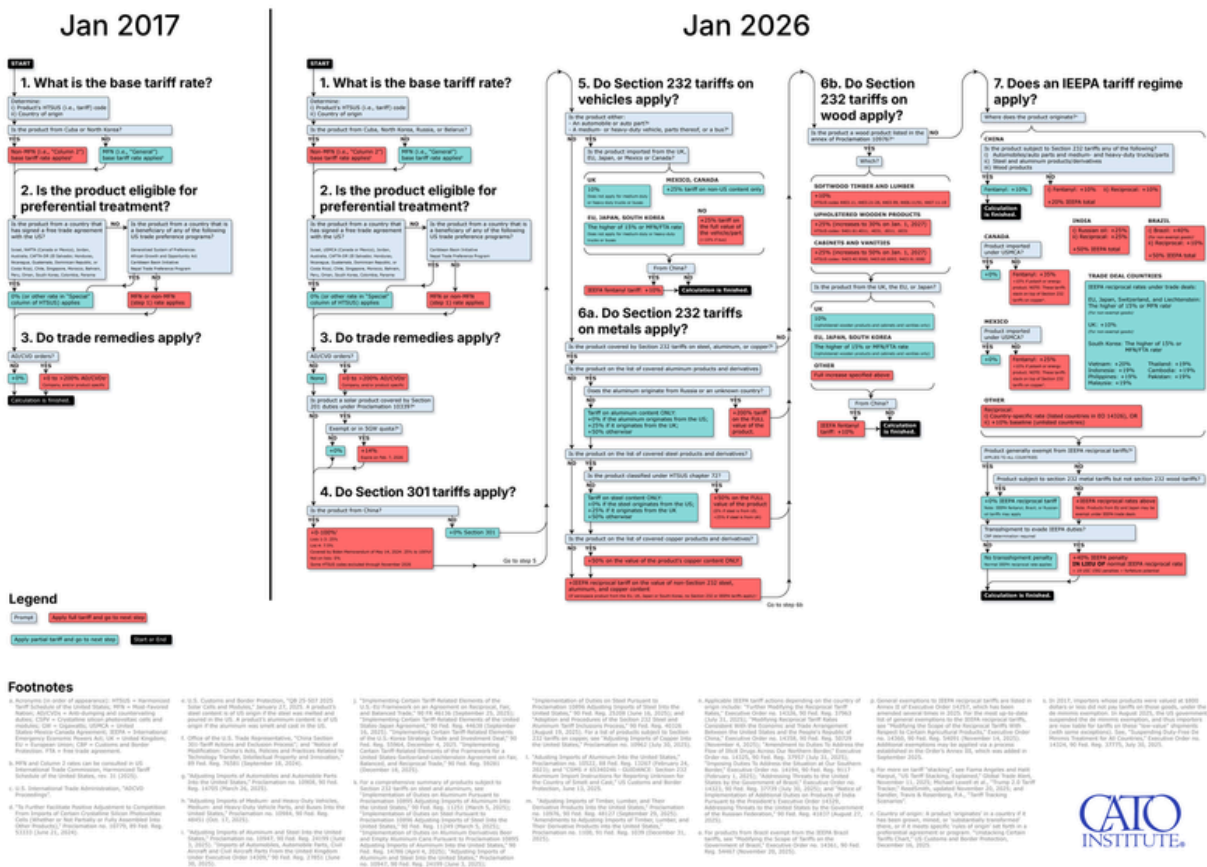
70 Sasha Rogelberg, Meet the Quiet Winners of the Supreme Court Tariff Ruling: Hedge Funds Creating a \$100 Billion Market Snapping Up Rights to Importers’ Tariff Refunds, FORTUNE (March 7, 2026). <https://fortune.com/2026/03/07/winners-supreme-court-tariff-ruling-hedge-funds-creating-100-billion-secondary-market-refunds-brandon-howard-lutnick/>

To understand the compliance burden, consider what a small importer must actually do to bring a shipment into the country. Every imported product must be classified under the Harmonized Tariff Schedule of the United States, which contains approximately 19,000 10-digit codes.⁷¹ The tariff rate depends on the product classification, country of origin, specific presidential proclamation under which the tariff was imposed (IEEPA, Section 232, Section 301, or Section 122), whether the product qualifies for an exemption, and whether the country of origin has a trade agreement with the United States. A single shipment containing components from multiple countries may be subject to multiple overlapping tariffs. The importer must file entry documents with CBP, including an entry manifest, evidence of right to make entry, a commercial invoice, and packing lists.⁷² Errors in classification or documentation can result in thousands of dollars in fines, penalties, or seizure of goods.

The CATO Institute recently published a flow chart that documents the growing complexity of the trade system for importers, albeit before IEEPA tariffs were struck down by the Supreme Court. See below:

New U.S. tariff policies have exploded complexity and liability for American importers

Recent executive branch tariff actions have created a labyrinth of overlapping rules that US importers must apply before determining what they owe the government. Even unintentional miscalculation of tariff amounts owed can result in steep penalties. This flowchart provides a step-by-step look at the tariff calculation framework in both January 2017 (before unilateral tariffs became common) and today. The actual process for calculating tariff liability in 2026, however, is even more complicated and opaque than what's shown here, and the rules are subject to change again at any time.



71 U.S. CENSUS BUREAU, Exporting with Import Class Numbers (July 2018). <https://www.census.gov/newsroom/blogs/global-reach/2018/07/exporting-with-import-class-numbers.html>
 72 U.S. DEPT OF HOMELAND SEC., Find Import/Export Forms, <https://www.dhs.gov/find-importexport-forms>

As you can tell, the complexity for complying with tariffs has increased dramatically over the past decade, but primarily over the past year. Most small firms, however, don't do this labor themselves, instead, they rely heavily on customs brokers — licensed professionals who classify goods, calculate duties, and file entry paperwork on behalf of importers. However, the surge in demand from small firms for broker services in 2025 drove fees sharply higher. Generally, broker fees are charged per HTS code, which typically ranged from \$4 to \$7, but increased by as much as \$1 to \$5 per code.⁷³ Regardless of whether they rely on customs brokers or choose to navigate the import documentation process themselves, small importing companies are bearing the cost of complexity as well.

This problem is also compounded by the elimination of the de minimis exemption, which allowed imports valued at under \$800 to enter the country without formal customs processing. This exemption was eliminated on August 29, 2025, by executive order under IEEPA, but additionally ended in statute by the One Big Beautiful Bill Act. While correctly scrutinized for allowing the increasing prevalence of Chinese direct-to-consumer brands like Shein and Temu in the U.S., and allowing many counterfeit or unsafe products to reach U.S. shores, the de minimis exemption was also a major source of value for small businesses who bought low value inputs for their products. The American Action Forum estimates the cost of ending de minimis for small businesses is between \$4.3 and \$16.3 billion, largely due to the increased administrative and processing fees, which can range from \$2 to more than \$20 per package.⁷⁴ They also estimate that 2025 tariffs applied to these packages will cost small businesses approximately \$2.9 billion, and the estimated regulatory burden is between \$265 million and \$1.3 billion.⁷⁵

It's worth noting that these compliance costs don't necessarily scale with firm size. The paperwork to classify a \$5,000 shipment is essentially the same as for a \$5 million shipment. The broker fee per HTS code is the same regardless of the value of the goods behind it. Altogether, direct tariff costs, uncertainty, and compliance are regressive – disproportionately harming small firms and weakening their ability to compete with larger firms.

Market Power and Competition

Throughout the report, a central asymmetry is repeatedly found: tariffs impose costs that large firms can manage and small firms cannot. This is the defining competitive dynamic of the tariff regime. Tariffs raise barriers to entry, reward scale over innovation, and accelerate decades-long trends toward market consolidation, which has already eroded competition across the U.S. economy. The outcome is worse for consumers and businesses alike: larger corporations with market power can charge higher prices and pay lower wages, profits are more likely to be distributed to shareholders than be reinvested in manufacturing capacity or innovation, leaving consumers with fewer choices for worse products. Small businesses and startups support competition, which counterbalances profit optimization by large corporations. But if they are disproportionately impacted by tariffs and unable to weather the storm, the economy will be left with fewer firms with greater market power, able to extract more from U.S. consumers for less effort.

⁷³ Arriana McLymore and Nicholas P. Brown, U.S. Importers Turn to Brokers to Navigate Trump-Era Tariffs, At a Cost, REUTERS (June 11, 2025), <https://www.reuters.com/business/retail-consumer/us-importers-turn-brokers-navigate-trump-era-tariffs-cost-2025-06-11/>

⁷⁴ Supra note 61.

⁷⁵ Id.

The trend toward consolidation is long-running. Since the late 1990s, over 75% of U.S. industries have seen increasing levels of concentration, and the market shares of the four largest firms in most industries has grown substantially.⁷⁶ The establishment entry rate – the rate at which new businesses are created – declined from 15.1% in 1978 to 11.6% in 2022, an overall decline despite a surge in new business applications post-COVID.⁷⁷ A 2018 study from the SBA Office of Advocacy found a consistent decline in small business share of GDP between 1998 and 2014, although this has not been updated for more recent data.⁷⁸ And the outcomes show what would be expected. According to one study, markups by firms have surged alongside their market power, from 21 percent above cost in 1980 to 61 percent in 2020.⁷⁹ Another found that the ratio of after tax corporate profits to value added has risen from an average of 7% the period of 1970 to 2002 to an average of 10% in the period since.⁸⁰ At the same time, firms reinvest less of what they earn: businesses used to reinvest roughly 30 cents of each dollar of profit; now they invest only 20 cents.⁸¹ The loss of small business' share of the economy correlates with greater extraction by large corporations.

Unfortunately, tariffs further accelerate consolidation in several ways. Large businesses have greater cash reserves, warehousing capabilities, and access to capital than small businesses. In other words, they have greater resources to wait out uncertainty, to cope with surprise tariff-related charges, or stock up on lower-cost goods, keeping prices lower for longer to capture market share. Moreover, their buying power gives them the ability to put pressure on overseas suppliers to absorb some of the costs of tariffs through renegotiation. Large retailers like Walmart, Target, and Home Depot were reported to have put pressure on Chinese suppliers to absorb large shares of tariff costs.⁸² Upon the onset of tariffs last April, grocery giant Albertsons sent a letter to suppliers saying they will not accept cost increases due to tariffs.⁸³ For small firms who make up a small part of the supplier's business, that is simply not an option. Moreover, it could cause what is known as the waterbed effect, where suppliers extract higher prices from smaller firms to subsidize the lower costs from large buyers.⁸⁴

Large corporations also have lobbyists with direct contact to the White House and are able to use their contacts to secure exemptions that are simply unavailable to small businesses. Companies like Apple secured tariff exemptions by committing to build manufacturing facilities in the United States—investments worth tens of billions of dollars that no small business could match.⁸⁵ In 2025, lobbying firms reported earning more than \$14.6 million in tariff bill lobbying, up from \$2.1

76 Gustavo Grullon, Yelena Larkin, Roni Michaely, Are US Industries Becoming More Concentrated? REVIEW OF FINANCE, VOL. 23, ISSUE 4 (July 2019) <https://doi.org/10.1093/rof/rfz007>

77 CONG. RSCH. SERV., IF12792, Is U.S. Entrepreneurship Declining? (Oct. 23, 2024). <https://www.congress.gov/crs-product/IF12792>

78 Kathryn Kobe & Richard Schwinn, Small Business GDP, 1998-2014, U.S. SMALL BUS. ADMIN. OFF. OF ADVOCACY (Dec. 2018). <https://advocacy.sba.gov/wp-content/uploads/2018/12/Small-Business-GDP-1998-2014.pdf>

79 Jan De Loeker, Jan Eeckhout, Gabriel Unger, The Rise of Market Power and the Macroeconomic Implications, QUARTERLY JOURNAL OF ECONOMICS, V. 135, Issue 2 (May 2020). <https://doi.org/10.1093/qje/qjz041>

80 Thomas Phillipon, The Economics and Politics of Market Concentration, NAT'L BUREAU OF ECON. RSCH., NBER Reporter No. 4 (2019). <https://www.nber.org/reporter/2019number4/economics-and-politics-market-concentration>

81 Id.

82 Hannah Miao and Sarah Nassauer, Big Retailers' Hardball Tariff Playbook: Haggle, Diversify, Raise Prices, WALL ST. JOURNAL (March 16, 2025). <https://www.wsj.com/business/retail/tariffs-walmart-target-home-depot-china-negotiations-c2de9436>

83 David Dayen, How the Trump Tariffs Assist Monopoly, THE AM. PROSPECT (April 15, 2025).

<https://prospect.org/2025/04/15/2025-04-15-how-trump-tariffs-assist-monopoly/>

84 Id.

85 Kif Leswing, Apple Regains \$3 Trillion Market Cap After Trump Exempts Tariffs on iPhones, CNBC, (April 14, 2025).

<https://www.cnbc.com/2025/04/14/apple-regains-3-trillion-market-cap-after-trump-exempts-iphone-tariff.html>

million in 2024, a sevenfold increase.⁸⁶This level rose alongside in-house lobbying tied to tariffs, and an overall 80 percent increase in total lobbying revenue tied to trade, totaling \$137.4 million in 2025.⁸⁷ Small business simply don't have that kind of access to power. The power of this kind of lobbying is not theoretical: Fotak et al., 2025 analyzed 7,015 exemption applications filed with the USTR during President Trump's first term and found that only 1,022 were approved. Those approved originated from firms with greater campaign contributions and greater lobbying expenditures compared to the 5,993 rejected applications.⁸⁸ Moreover, it found that a 1-standard-deviation increase in contributions to Republican candidates increases the probability of approval by nearly 4 percentage points, while a similar increase in contribution to Democratic candidates decreased the probability of the approval by 3.4 percentage points.⁸⁹ Another study on the 2018 tariffs found that trade lobbying for lower tariffs is simply more effective for large firms than small firms.⁹⁰

Finally, large companies have much easier access to high quality accounting firms and trade lawyers that can utilize and engineer loopholes to lower tariff expenses. One way they do that is by reducing the reported value of goods companies bring to the U.S. While American importers typically declare the value of an imported good based on the value they pay for it, some companies can dig deeper into the supply chain to report what was paid in the "first sale."⁹¹In other words, setting the value on which the company pays the tariff based on the price charged by the original foreign manufacturer, rather than the foreign middle man they bought it from.⁹²But this method is costly and administratively burdensome. Since suddenly lowering the value of an import can attract scrutiny from CBP officials wary of fraud, there are strict paperwork requirements, such as proving that, in the initial sale of the good, the product was intended to be sold in the U.S.⁹³ In a recent annual filing, Target noted its use of first sale methodology, saying, "[w]e generally pay duties based on the price Target pays its vendors for goods, and later seek refunds for qualifying transactions by filing first sale claims, a significant portion of which have processing and payment cycles that extend beyond one year."⁹⁴ Smaller firms likely lack the sophistication to pursue such refund strategies because of the administrative burden of doing so, placing them at another competitive disadvantage to larger retailers.

86 LEGISTORM, Tariff Bill Lobbying Surges to Record Level (2025), https://www.legistorm.com/pro_news/4378/tariff-bill-lobbying-surges-to-record-levels.html

87 Id.

88 Jiri Fotak et al., The Political Economic of Tariff Exemption Grants, JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS (Sep. 2025). <https://www.cambridge.org/core/services/aop-cambridge-core/content/view/6777AC0EB32328B3E45A617F9B3E07E5/S0022109024000437a.pdf/the-political-economy-of-tariff-exemption-grants.pdf>

89 Id.

90 Ayse Eldes, Jieun Lee, and Iain Osgood, Trade Lobbying Works (For Big Firms): Evidence from the China Trade War, BUSINESS AND POLITICS (2025). <https://www.cambridge.org/core/services/aop-cambridge-core/content/view/EBB8B8BE7F9466180F0F2C740264DF9F/S1469356925000138a.pdf/trade-lobbying-works-for-big-firms-evidence-from-the-china-trade-war.pdf>

91 Jon Emont, How U.S. Business Are Shaving Billions off Their Tariff Bills, WALL ST. JOURNAL (Feb. 28, 2026) <https://www.wsj.com/economy/trade/tariff-bills-importers-first-sale-4e4a5e75>

92 MILLER & CHEVALIER, Using the First Sale Rule to Reduce Tariffs (April 10, 2025). <https://www.millerchevalier.com/publication/using-first-sale-rule-reduce-tariffs>

93 Supra note 91.

94 TARGET CORP., Annual Report (Form 10-K) (filed March 11, 2026).

<https://app.quotemedia.com/data/downloadFiling?>

webmasterId=101533&ref=319861639&type=PDF&symbol=TGT&cdn=54f50b8faf437e93d3ae0d0d37649677&companyName=Target+Corporation&formType=10-K&dateFiled=2026-03-11

Another apparent strategy of mitigation is tariff engineering, in which global manufacturers rethink their production design to alter materials, dimensions, or composition to change the HTS code under which an item is imported.⁹⁵For instance, Columbia sportswear added small zippered pockets below the waist on women’s shirts, allowing them to be exempted from higher duties;⁹⁶ Converse adds fuzzy-felt fabric to the soles of All Stars sneakers so they will be categorized as slippers rather than athletic shoes, allowing them to avoid tariffs; Snuggies (a blanket with sleeves) halved its tariff costs by classifying as a blanket rather than an item of clothing.⁹⁷ While this method may be more accessible for a small firm, it requires coordination across product design, legal, logistics, and customs operations, which are more commonly features of a larger company.



The Administration’s tariff regime delivers another method of competitive advantage for larger firms over their smaller counterparts. Not only does it reward companies with greater scale and access to capital which tend to be larger, but it establishes methods by which larger firms can leverage their sophistication to game the system, lobby policymakers, or corruptly bargain directly with the president. As a result, the economy will continue, and perhaps accelerate its trend toward consolidation, breeding monopoly power that extracts from consumers and workers, and limits pathways toward the upward mobility community resilience that small businesses provide.

95 Anniek Bao, Tariff Engineering is Making a Comeback As Businesses Employ Creative Ways to Skirt High Duties, CNBC (June 18, 2025). <https://www.cnbc.com/2025/06/18/businesses-tweak-products-to-qualify-for-lower-tariffed-categories-.html>

96 Id.

97 Id.

Conclusion

The evidence in this report leads us to an undeniable conclusion: President Trump's tariff regime has been a disaster for small businesses and the American economy. It is a true betrayal of many of the people that voted for him and constitutes a national suicide— weakening our relationships with our allies, raising prices in the midst of a cost-of-living crisis, and further consolidating an already excessively unequal and concentrated economy.

Over the span of a year, tariffs have cost small businesses over \$83 billion in direct import taxes. They have contributed to a year of manufacturing job losses, a surge in small business bankruptcies, and the largest surge in uncertainty since the financial crisis and the COVID-19 pandemic. They have raised consumer prices on goods that lower-income Americans depend on the most, compressed the margins of small businesses, and done so without producing a single meaningful trade agreement, reduction in the trade deficit, or sustained increase in domestic production. Every stated goal of the tariff regime has failed on its own terms.

Small business repeatedly appeared in front of the Small Business Committee over the past year, pleading for relief and shining a light on the uncertainty caused by the President's incoherent policies. Business owners like Haley Pavone of Pashion Footwear saw a \$20 unit-profit turn into a \$40 loss overnight; Sarah Wells and Rico Macareg were hit with \$15,000 and \$30,000 surprise charges, respectively; and Jesse Appell lost over a quarter of a million in sales in the summer of 2025. But this was not just limited to a few small business owners who showed up in front of the Committee – this crisis was widespread, costing small importers hundreds of thousands of dollars in direct costs over the past year.

Now, most of those tariffs have been ruled illegal by the Supreme Court. The Court of International Trade has ordered refunds, but the federal government cannot yet process them. Over the next several months, the President will use section 122 tariffs that are likely illegal to buy time for more trade investigations that undoubtedly have a pre-determined outcome and will further raise tariffs on our largest trading partners. After a year of chaos, tariffs remain and uncertainty continues. Congress must act to suspend all active tariffs, expedite the refund of all illegally collective IEEPA tariffs directly to the businesses that paid them, and reassert Congressional authority over trade policy so that no president—of either party—can weaponize tariffs against the businesses and workers they are supposed to protect.