

Manufacturing Tax Outlook: Tariffs, Federal Incentives, and SALT Complexity

Key Manufacturing Findings from
the 2026 *BDO Tax Strategist Survey*

Today's manufacturing tax leaders are working hard to do more with less.

Squeezed margins, tight working capital, and deferred investment decisions now define the 2026 operating environment, leaving tax departments to navigate pressure across multiple fronts. Ongoing tariff volatility, federal tax reform, and growing state and local tax (SALT) complexity are also contributing to one of the most demanding compliance environments in recent years.

The [2026 BDO Tax Strategist Survey](#) polled manufacturing tax executives on the challenges, priorities, and near-term decisions shaping their function in 2026.

Read on to dive deeper into the top findings for the manufacturing industry.

Interested in a deeper dive into the data?



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Key Finding #1: Tariffs and Customs Duty Management Are Now a Strategic Tax Consideration

Manufacturing tax departments at a glance



86%

Cited customs and trade compliance and planning, including changes to U.S. tariffs, as a significant or moderate challenge for their organization in the next 12 months



18%

Said their companies will pursue duty drawback strategies in response to tariff changes



38%

Rate the level of collaboration (e.g., integrated data strategy, established processes, regular communication) between the tax department and operations functions within their organization as highly collaborative

Tariff volatility has become a material operational risk, not only because policies are shifting rapidly, but because court decisions, refund pathways, and compliance obligations are simultaneously in flux. While companies are taking action, their responses skew heavily defensive. The most common steps — finding new suppliers (44%), reviewing tariff classifications (42%), and raising prices (36%) — are short-term measures aimed at relieving immediate cost pressures rather than building a durable, proactive strategy.

This near-term focus suggests companies may be underutilizing more powerful strategic levers. Adoption of foreign-trade zones (FTZs) (34%), customs valuation strategies (34%), and duty drawback (18%) remains comparatively low — even though duty-drawback alone can allow manufacturers to recover import duties, including tariffs already paid.

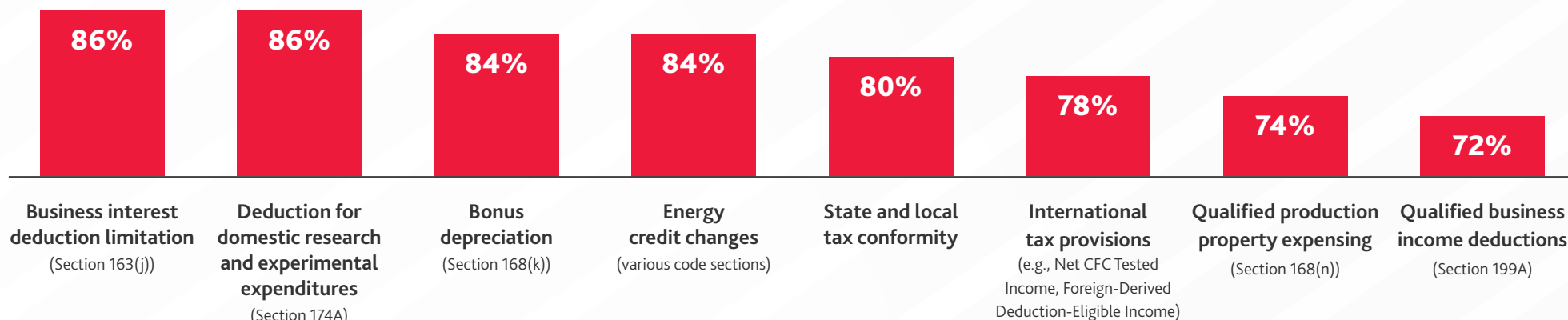
Capturing the full value of these strategies typically requires cross-functional coordination between tax, operations, procurement, and supply chain coordination that many manufacturers have not yet formalized. To unlock available tax-saving opportunities, manufacturers need clear governance structures and a defined tax strategy that converts visibility into action.

Internal alignment has been further strained by the numerous and frequently shifting tariffs imposed by the Trump administration under the “America First” policy. The administration relied on multiple statutory authorities to levy the tariffs, including Sections 122 and 301 of the Trade Act of 1974 and the International Emergency Economic Powers Act (IEEPA). These tariffs shortened planning horizons and made it difficult to justify the upfront investment required for drawback programs and FTZs.

Importantly, survey responses were collected before the U.S. Supreme Court’s February 2026 decision holding the IEEPA-based tariffs unlawful — a ruling that has since created a pathway for potential refunds of previously paid duties though the pathway now faces uncertainty following a shift in U.S. Customs and Border Patrol position. The Section 122 10% global tariffs have likewise been declared unlawful, though the relevant Court of International Trade decision is on hold pending a government appeal. At the same time, recently released determinations of Section 301 investigations into 60 economies’ enforcement of prohibitions on the importation of goods produced with forced labor have resulted in recommendations for additional tariffs of 10% or 12.5%. And the administration’s ongoing review of Section 232 national security tariffs on steel and aluminum adds yet another layer of unpredictability for manufacturers that rely on metal-intensive products or components.

Key Finding #2: OBBBA: The Baseline Reset

Percentage of manufacturing respondents that said the following OBBBA tax provisions will have a significant/moderate impact on their business



Manufacturing tax leaders anticipate that new provisions in the [One Big Beautiful Bill Act](#) (OBBBA) will have significant, wide-ranging impacts on their business — but they have yet to change their tax reporting behavior in response. The three provisions most commonly cited as having “significant” or “moderate” impact on tax planning are Section 174A (domestic R&E expensing) (86%), bonus depreciation under Section 168(k) (84%), and energy credits (84%). These responses are not surprising, as manufacturers were watching these areas closely in the run-up to the bill’s passage. When OBBBA restored these provisions, manufacturers treated them as a restoration of the status quo, not as new opportunities to build around.

In practice, these provisions function as cash flow tools, governing how manufacturers manage taxable income rather than driving new investment decisions. The expected tax relief, however, is being partially offset by a drag on taxable income for 2025-2026. Previously capitalized R&E costs from 2022-2024 are now hitting income statements all at once under the new rules, making it difficult to isolate the true benefit of the new provisions.

Eighty-four percent of manufacturing tax executives say energy credits will have significant or moderate impact, a figure largely driven by exposure to electric vehicle (EV) markets and concern over upcoming credit phaseouts. On the other side of the market, manufacturers producing qualifying clean energy components can generate credits of their own and sell them to third-party buyers through the transferable credit market. For manufacturers, energy credits represent both a risk management consideration and a potential revenue opportunity.

Section 168(n) is another standout variable. The provision offers near-100% expensing of new U.S. facility costs, which could unlock substantial tax savings for manufacturers planning domestic expansion. Since most expansion plans predate OBBBA and were funded before this provision existed, many companies had not accounted for any potential savings. For plans being made today, the 168(n) benefit is only part of the equation — workforce availability and other operational constraints are still exerting their own pressures. Notably, inbound foreign manufacturers investing in new U.S. production facilities stand to benefit from 168(n) as much as domestic operators, given that they may be making greenfield investments rather than expanding existing footprints.

Eighty-four percent of manufacturing tax leaders say **implementing tax provisions in OBBBA is a challenge.**

Key Finding #3: SALT Complexity is Growing and Manufacturers Are Not Adjusting Fast Enough

Excluding federal income taxes, which one of the following types of taxes account for the largest overall portion of your organization's tax liabilities?

State and local income and franchise taxes

46%

Indirect taxes

24%

Employment taxes

12%

Domestic and global tariffs (duty spend)

10%

Property taxes

6%

Excise taxes

2%

Non-U.S. income taxes

0%

State and local income and franchise tax obligations are the largest non-federal tax burden for nearly half of manufacturers (46%), and the compliance environment is only becoming more aggressive. Two issues are driving today's heightened SALT complexity: [OBBBA decoupling](#) and evolving nexus interpretations under Public Law 86-272. Many states are no longer conforming to the federal treatment under Sections 168(k) and 168(n). As a result, this creates challenges in determining how much income is taxable in each state. The second issue — Public Law 86-272 — sets the threshold for when out-of-state sellers of tangible goods are subject to state income tax. As states implement more aggressive filing requirements based on sales and distribution activity, sales and use tax determinations have become more difficult on both the buy- and sell-sides. The added difficulty is driving some manufacturers to consider restructuring to limit profit exposure in those states.

In response to rising SALT complexity and challenges, 64% of manufacturers plan to explore potential legal structure changes in the next 12 months as a way of managing state tax exposure and reducing their compliance burden across jurisdictions. However, only 22% say they have begun acting on those changes, indicating a gap between intent and execution. Many manufacturers are also turning to technology to manage SALT compliance burdens: 60% of respondents have already upgraded SALT compliance systems, and 54% plan to do so. For manufacturers, compliance technology investments will address compliance errors and volume, but structural and nexus exposure will require a more comprehensive long-term response.

Thirty-four percent of manufacturers cite that **SALT conformity to OBBBA will have a significant impact on their business**, more than any other industry surveyed.

Looking Ahead

Addressing these issues requires treating tax as a strategic function, not solely a compliance arm.

Here are several key areas where manufacturers can take meaningful action:

- ▶ **Build a dedicated cross-functional tax strategy to help capture tariff and duty opportunities.** Most manufacturers have some level of collaboration between tax and operations in place, but the opportunity lies in strengthening and formalizing it. Shared visibility into sourcing, import activity, and goods movement can help unlock cost-saving opportunities in areas such as first sale, duty drawback, FTZ utilization, and IEEPA refunds. Manufacturers that embed tax strategy into broader business planning, rather than treating it as a separate compliance function, are better positioned to drive down total tax costs and help improve net cash flow.
- ▶ **Model federal incentives into facility and equipment decisions before they reach the board.** Most current expansion plans predate OBBBA and weren't built around provisions like 168(n) and 168(k), meaning the after-tax economics of domestic investment look different today. Manufacturers need to establish modeling infrastructure and capabilities to run scenario analysis against specific facilities, equipment, infrastructure, and timelines before investment decisions are finalized.
- ▶ **Leverage technology to strengthen SALT compliance and mitigate risk.** Most manufacturers are already upgrading or planning to upgrade their SALT compliance systems. However, as state audit activity increases and decoupling from federal statutes adds further complexity, technology implementation becomes imperative in reducing tax liability and managing growing compliance risks.

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