TARIFFS AND APPRAISALS

By Joel Hassler, CGA

I think you'd be hard-pressed to find someone not affected by or confused by tariffs and their effects. Appraisers are not immune to their impact either.

This brief article is not going to cover all the nuances, semantics, and nitty-gritty details of what a tariff is or does. However, I would like to touch on just a couple of basics.

- Investopedia defines a tariff as: "a tax imposed by one country on the goods and services imported from another country to influence it, raise revenues, or protect competitive advantages."
- A tariff is traditionally paid by the original importer, on the landed declared cost of the product.
- It ***may*** be passed on, in full or in part, to the end consumers via increased prices.
- The more layers of trade from the port of entry to the ultimate consumer, the more impact it will have on how that tariff translates to the end selling price.
- A tariff is ***not*** an automatic percentage added to the ultimate price paid by a consumer (e.g., A new 20% tariff from "Country A" does not automatically mean the price of the finished product sold to the consumer is going to be 20% higher at retail).

What this means is that when performing the most common appraisal assignment you're likely to encounter (i.e., an appraisal to determine the retail replacement value of an item to secure insurance coverage), you still must look at the current market activity for the item you are appraising. Unless the appraisal assignment calls for a hypothetical future value, what ***might*** happen at a future point in time due to a potentially unsettled tariff has no impact on the value you are assigning today. What is the value of the item today?

Even if you are doing a "cost-based" appraisal, it can't be a simple percentage increase added for tariffs due to the possibility of different countries of origin and differing tariffs.

Retailers make macro decisions about the final selling prices of their products based on various cost factors. Yes, the wholesale cost of the product is a key factor, and often the largest one. Shipping costs, packaging, insurance, payroll, etc., are all included when the final selling price is set. We are currently seeing a surge in popularity of "credit card surcharges" being applied to different product categories. A retailer may find ways to reduce other costs in order to keep the final selling price the same.

It is almost certain that you will encounter blanket sweeping price increases to a product, whether it be a line item increase on an invoice from a vendor, or just a "surcharge" on a receipt in your daily life as a consumer.

Yes, tariffs are confusing. Yes, tariffs can be a headache. Yes, tariffs may have an impact on the future selling price of an item. However, if you apply what you have learned as an appraiser and research **current** market activity on the item you are appraising, you'll find that it is not as complicated as it might seem.