Protectionist Trade Policy, Firm Performance, and Taxes

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Key Words: tariffs; US-China trade war; Section 301; tax payments

Data Availability: data collected from the indicated sources

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Abstract: This study investigates the effect of protectionist tariffs on firm performance, income tax payments, and shareholder payouts and investment. Using the US–China trade war and related Section 301 tariffs as a setting, I find that US firms impacted by these tariffs experience decreased firm performance while simultaneously increasing cash tax planning to presumably decrease their total cash burden to the government. I also find that impacted firms decrease shareholder payouts and acquisitions, but do not decrease other real investment activities that may negatively impact operating performance. Cross-sectional analyses confirm that these effects apply to domestic firms, do not appear to be driven by the retaliatory Chinese tariffs, and are more pronounced for those facing higher market competition or applying for exclusions from the protectionist tariffs.

1. *Introduction*

The current US–China trade war and related Section 301 China tariffs (hereafter, Section 301 tariffs) remain a topic of concern for the economy and in the media. Though many assumed that these restrictive tariffs implemented by the Trump administration would be eased under the Biden administration, the tariffs remain in place, with no indication as to when any change in trade policy will occur (Davis, 2021). As of March 2023, the US has collected $173.07 billion in Section 301 tariffs on imports from China (US Customs and Border Protection, 2023), with the US Court of International Trade upholding the applicability of the Section 301 tariffs following an ongoing lawsuit by US firms who import from China. While the US Trade Representative (USTR) is currently undertaking its first review of the tariffs and the effects they have had on the US economy, tax analysts suggest that the US–China trade war may have reduced the benefits to both companies and consumers initially reaped from the Tax Cuts and Jobs Act of 2017 (TCJA) (York, 2018). Furthermore, business groups have asked the Biden administration to remove the Section 301 tariffs to "help ease historic inflation" (Egan, 2021). Motivated by the large and ongoing impact of these Section 301 tariffs across two dissimilar presidential administrations, this study uses firm-level disclosures to examine the effects of tariffs on firm performance, income taxes, payouts, and investment, to better understand the implications of this protectionist trade policy.

A tariff is a tax imposed by the government and paid on classes of imports classified under the harmonized tariff system (HTS) codes. Tariffs serve as a source of revenue for the government, as well as a policy tool for taxing foreign products with the goal of protecting US domestic producers. Though tariffs are typically applied on agreed upon rates via trade agreements and the World Trade Organization most favored nation rates, recent years reflect more extreme and exogenous increases in protectionist tariffs. This trend is exemplified in the Section 301 tariffs,

imposed on products imported from a single country, China, with which the US conducts a significant amount of trade.

The Section 301 tariffs present a unique setting to study tariffs for two reasons. First, the tariffs are both exogenous in implementation and economically significant in magnitude: even the minimum 10 percent Section 301 tariff rate far surpasses the highest most-favored nation rate of 4 percent. Second, the tariffs apply *only* to products imported to the US from China. This feature allows for more within-industry variation across similar firms, rather than previous analyses that typically compare importing versus non-importing firms. Critically, this setting provides stronger identification by allowing other importing *and* non-importing firms in the same industry to serve as a natural control group.

Theory suggests that the impact of tariffs on home country prices and the greater economy depends upon the elasticity of foreign export supply and demand (Bickerdike, 1906; Horst, 1971; Johnson, 2016; Amiti, Redding, & Weinstein, 2019). Ideally, tariffs create a home country gain by driving down foreign exporter prices and transferring foreign producer surplus to the home country in the form of tariff revenue. Prior empirical research uses large reductions in US import tariff rates as an exogenous increase in competition to examine outcomes related to disclosure, innovation, and CEO pay (Ying Huang, Jennings, & Yu, 2017; Carter, Choi, & Sedatole, 2021; Glaeser & Landsman, 2021). In a seminal study, Jones (1991) presents an earnings management model based on a setting in which firms manage earnings downwards during import relief investigations by the US International Trade Commission (ITC) in hopes to increase tariffs and decrease import quotas in their respective industry. This latter finding suggests that tariffs affect the financial performance of companies and their competitors.

The Section 301 tariffs reflect the intent to curb imports from China. However, recent literature documents no changes in China exporter prices, suggesting the US economy bears the full burden of the tariff, with US importers either passing the tariff costs to consumers via price increases or absorbing costs into their margins (Fajgelbaum, Goldberg, Kennedy, & Khandelwal, 2020; Cavallo, Gopinath, Neiman, & Tang, 2021). This cost adjustment depends on the elasticity of demand and market structure, as firms facing higher levels of market competition may be less likely to pass on the cost incidence (Lerner, 1934). However, this adjustment can also depend on other internal and external factors, such as product mark-ups and the level of taxation (Weyl & Fabinger, 2013). As such, the effect of Section 301 tariffs on impacted firms is unclear *ex ante*. Though economic theory and empirical evidence suggest that some firms indeed pass the cost of tariffs to consumers (Amiti et al., 2019; Amiti, Redding, & Weinstein, 2020), firms also may absorb some of the costs of the tariffs in an effort to remain competitive (Cavallo et al., 2021).[1] Accordingly, I expect that firms affected by the exogenous increase in tariff costs must remain competitive by not passing *all* of these costs to customers. This leads to my first prediction that tariff paying firms experience negative impacts to their firm performance.

The primary direct benefit of tariffs to the home country is a source of revenue for the government. Accordingly, it is important to understand how firms bear the economic burden of increased cash payments to the same government. Recent literature suggests that firms facing high tax incidence can benefit from higher tax avoidance, with such avoidance opportunities even serving as a determinant of passing through costs to customers (Dyreng, Jacob, Jiang, & Müller,

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[1] For example, Summer Infant Inc. discloses in their 2020 Q2 10-Q: "*There is no assurance that any actions we take to mitigate tariffs will be successful, and any increase in pricing to allow us to maintain reasonable margins could adversely affect the demand for those affected products and may result in decreased profitability and lower sales, thereby having an adverse effect on our business, results of operations and financial condition.*"

2022; Jacob, Müller, & Wulff, 2022). Prior research also shows the tax avoidance decision is an important factor when generating internal cash flow (Mills, Erickson, & Maydew, 1998), especially when facing financial constraints (Edwards, Schwab, & Shevlin, 2016; Campbell, Goldman, & Li, 2021). Firms may also increase the level of risky tax planning that they are willing to accept, as the risk-to-reward trade-off becomes stronger as a firm facing increasing need for positive cash flows (Campbell et al., 2021). This leads to my second prediction that firms affected by the Section 301 tariffs decrease their *total* tax burden by increasing their *income* tax avoidance.

Finally, I examine whether impacted firms decrease payouts to shareholders and investments (DeAngelo, DeAngelo, & Skinner, 1992; Djankov, Ganser, McLiesh, Ramalho, & Shleifer, 2010; Campbell et al., 2021; Dyreng et al., 2022). These latter analyses are relevant, as both the protectionist tariffs and the concurrent TCJA were intended to boost US investment, yet firms may make cost adjustments that directly impact their shareholders as opposed to customers. My third prediction is that firms will decrease their payouts and investment when faced with rising input costs and decreasing performance.

I identify firms affected by Section 301 tariffs via (i) financial statement disclosures (i.e., 10-Ks, 10-Qs, and 8-Ks), (ii) USTR tariff exclusion requests from QuantGov, and (iii) the plaintiff list from the US Court of International Trade. I hand-collect detailed Section 301 tariff disclosure details, including tariff costs, tariff mitigation efforts, and the intent to pass the costs of the tariffs onto customers. I find that for disclosing firms, the Section 301 tariffs reflect almost $10 billion in additional required cash remittances to the government.

Using a difference-in-differences research design with firm and calendar-year fixed effects for 2015–2021, I find that US firms impacted by Section 301 tariffs exhibit relatively larger decreases in operating income and gross margin, consistent with expectations of reduced overall

firm performance (DeAngelo et al., 1992; Donohoe, Jang, & Lisowsky, 2022). The results are economically significant: for example, operating income decreases by 5.4 percent of total assets. I also find that impacted firms decrease their cash effective tax rate by 1.4 percentage points on average, relative to the treated period statutory rate of 21 percent. This result is consistent with firms decreasing the amount of income tax they pay when faced with unavoidable increases in other cash payments to the government. Finally, I find that impacted firms decrease both shareholder payouts and acquisitions, consistent with attempts to preserve positive cash flow due to negative financial performance impacts of the tariffs.

I alleviate concerns that my results are driven not by US tariffs on Chinese imports, but by retaliatory China tariffs on certain US exports. I do so by confirming results that domestic-only US firms exhibit decreased firm performance, cash taxes paid, and investment, including capital expenditures. Of note, these latter results contrast with the expressed rationale that the tariffs would protect domestic US firms. Further, I find that US firms with greater sales within China (i.e., a measure of China import intensity from the US) are not impacted, suggesting the retaliatory China tariffs are not driving my results. Additional cross-sectional tests document that firms facing higher levels of market competition experience incremental negative impacts to operating income and decreased cash tax payments; this result suggests that firms who are less inclined to pass the costs of the tariffs onto customers due to competition may absorb them into their margins and make cost adjustments to preserve cash flow. I also find that firms applying for USTR exclusions from the tariffs appear negatively impacted. Finally, using hand-collected disclosure data and linear probability models, I document the propensity of certain firms to disclose tariff-related details, apply for USTR exclusions from the tariffs, or join the US Court of International Trade case as a plaintiff to litigate against the tariffs. For example, I document that mitigation efforts against the

tariffs are primary drivers of firms' decisions to disclose detailed tariff costs and apply for a USTR exclusion, and that firms who mention mitigating the tariffs are also more likely to eventually stop reporting the effects of tariffs in their financial statements.

This study provides three contributions. First, it provides timely empirical evidence regarding how protectionist trade policy impacts tariff-paying US firms (Duehren, Hayashi, & Leary, 2022). During 2022, the USTR initiated a review of the Section 301 tariffs, as required by Section 307(c) of the Trade Act. The initial phase of the review concluded in September 2022, and resulted in an extension of the tariffs. The current phase of the review began on November 15, 2022, and involves the USTR seeking public comments regarding the effectiveness of the tariffs and impacts on the US economy. As such, this process is still ongoing, and formal studies have yet to be released. Leuz (2018) encourages research that informs evidence-based policy making in order to improve regulation. Various papers examine the effect of Section 301 tariffs on aggregate consumer prices, changes in import varieties, and impacts on the supply chain network. Other studies are limited to only identifying non-maritime trade. My study is the first to use granular firm-specific disclosure data for identification to examine firm-level outcomes related to the incidence of tariffs (Amiti et al., 2019; Flaaen & Pierce, 2019; Amiti, Redding, et al., 2020; Fajgelbaum et al., 2020).

Second, Dyreng & Maydew (2018) calls for research on the trade-offs between non-income taxes and income taxes. Consistent with Blouin et al. (2018), my results show that firms decrease income tax payments in response to an exogenous increase in non-income tax payments. Previous literature provides evidence regarding how income tax policy (such as recent tax holidays, reform, and rate reductions) impacts firm behavior, real activities, and even competitive outcomes (Blouin, Krull, & Robinson, 2012; Olson, 2019; Atwood, Downes, Henley, & Mathis, 2020; Beyer,

Downes, Mathis, & Rapley, 2021; Donohoe et al., 2022; Dyreng, Gaertner, Hoopes, & Vernon, 2023). My findings build on this literature by speaking to the role of protectionist trade policies on income tax payments and real activities of the firm.

Finally, this paper is the first to examine tariffs from a financial reporting and disclosure standpoint, identifying the extent and nature that firms report tariffs and provide investors with information regarding their actual and expected impacts on financial performance. My hand-collected disclosure data provides evidence on firm-level tariff factors and decisions not previously studied in the accounting or economics literature, including mitigation efforts, intent to pass to customers, and whether firms disclose the tariff costs to their investors. The data provide richer insights into the economically significant cost of tariffs on US firms.

Section 2 discusses the setting and hypotheses. Section 3 describes the sample and research design. Section 4 presents the main results. Section 5 presents additional tests, and Section 6 concludes.

2. Setting and Hypothesis

2.1 Section 301 China Tariffs

Tariffs are taxes that are levied by the government and applied as a percentage rate of the value, including freight and insurance, of certain classes of imported products. Recent decades reflect the impacts of increasing globalization of economies and supply chains, with the general trend towards lower tariffs and greater free trade. For example, Frésard & Valta (2016) estimates that the average US tariff rate decreased from 8.2 percent in 1974 to only 2.2 percent in 2005. The World Bank reports that by 2016, the average applied US tariff across all products was 1.6 percent. However, on August 14, 2017, President Trump wrote a memorandum instructing the Office of

the US Trade Representative to begin an investigation of China's trade practices under Section 301 of the Trade Act of 1974 (USTR 2017). This investigation was initiated to determine whether "China's acts, policies, and practices related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory and burden or restrict US commerce" (USTR 2017). On March 22, 2018, the USTR released its findings, citing that China supported policies of: (1) an unfair technology transfer regime, (2) discriminatory licensing practices, (3) cyber-enabled theft of intellectual property, and (4) state-funded strategic acquisition of US assets (USTR, 2018a; Congressional Research Services, 2022). The USTR concurrently announced impending actions to address the unfair trade practices, with President Trump signing an executive memorandum to enact tariffs on up to $60 billion of Chinese imports (USTR 2018b).

Following the March 2018 announcement of Section 301 tariffs, a costly and lengthy trade war ensued. The first wave of China-specific tariffs applied a 25 percent rate on $34 billion worth of annual goods, to be effective on July 6, 2018 (USTR, 2018b). An additional $16 billion of Chinese imports received a 25 percent tariff effective on August 23, 2018. Yet another wave applied 10 percent tariffs on an annual $200 billion worth of goods on September 24, 2018, with a plan to increase the rate to 25 percent on January 1, 2019; this latter increase was postponed to May 10, 2019 (USTR, 2018c, 2018d). On September 1, 2019, a final wave of 10 percent tariffs impacting an annual $300 billion went into effect (USTR, 2019). Note that not only are these Section 301 tariff rates exceptionally high (ranging from 10–25 percent), but are incremental to the most favored nation rates of approximately 3 percent. Therefore, the total tariff rates could reach levels as high as 28 percent of the value of imported goods. Throughout this trade war, China announced retaliatory tariffs on US exports to China.

Shortly after enacting the Section 301 tariffs, the USTR introduced a new policy allowing stakeholders to request "tariff exclusions" for imports subject to the new tariffs (Congressional Research Services, 2022). USTR guidelines specified tariff exclusion requests be made on a product-specific basis, requiring firms to apply for exclusion for each separate product. Through January 2020, the USTR received 52,746 product exclusion requests: only 13% were granted (Congressional Research Services, 2022). The USTR stated four considerations in its case-by-case evaluation of product exclusion requests: (1) availability of the product from non-Chinese sources; (2) pursuits by the importer to source the product from US or non-Chinese sources; (3) the extent to which the Section 301 tariffs could cause severe economic harm to the importer; and (4) the product's importance to the "Made in China 2025" program. Both stakeholders and policymakers raised concerns over the USTR's capabilities in choosing winners and losers in this process (Congressional Research Services, 2022).

In September 2020, HMTX Industries LLC brought a lawsuit to the US Court of International Trade contending that the USTR violated procedural requirements by imposing the Section 301 tariffs and exceeded its statutory authority when imposing the tariffs (Hart & Murril, 2022). An unprecedented 3,600 importers followed HMTX by directly challenging the protectionist tariffs as plaintiffs in their own lawsuits. On April 2, 2022, the court issued its opinion on the HMTX "test case," ruling that the USTR had acted within its authority in implementing the tariffs. However, the court also ruled that the USTR failed to respond to public comments, including questions regarding its choice of products for implementation and increases in the Section 301 tariffs, and required that the USTR provide explanations by June 30, 2022 (Hart & Murril, 2022). In August 2022, the USTR responded to the court that it had satisfied its obligations under the Administrative Procedure Act, and on March 17, 2023, a three-judge panel of the US

Court of International Trade upheld the Section 301 tariffs on certain imported goods from China. The plaintiffs have already stated their intention to appeal.

2.2 Tariff and Tax Theory

Traditional tariff theory reflects a partial equilibrium model in a perfectly competitive market structure. Figure 1 illustrates the quantity of domestic imports on the horizontal axis (Q), with prices (P) and on the vertical axis (Amiti et al., 2019). With free trade, markets clear at an equilibrium price P_0 and quantity Q_0. To reduce demand of foreign imports for domestic consumers, a government can implement a tariff (t) on imports. This raises the price of the import for domestic consumers to P_t, and the quantity demanded by domestic consumers and supplied by foreign exporters is reduced to Q_t. The tariff acts as a wedge between the foreign exporter price (P_{t^*}) and the price paid by domestic consumers. The home government collects Regions A and C in tariff revenue, with Region A the domestic consumer welfare loss and Region B the deadweight loss. If Region C is larger than Region B, then the home country gains by driving down foreign exporter prices and transferring the foreign producer surplus to the home government via tariff revenue. Region D represents the deadweight loss.

Relevant to the Section 301 tariffs, which were portrayed as a tool to hurt China-based producers by driving down their export prices, the sign on Region C less Region B depends on the slope, or elasticity, of the foreign export supply curve. For perfectly elastic foreign export supply curve (S^*), Region C disappears because foreign prices are not driven down, thus the home country is a price taker and domestic consumers fully carry the tariff incidence and bear the welfare loss. If the foreign export supply curve were perfectly inelastic, then China-based exporters would absorb the tariff without impacting US consumer prices. A similar assumption applies to the import

demand curve: if demand is perfectly elastic, then the producer bears the full burden; if demand is perfectly inelastic, consumers bear the full burden.

Although this conventional model presents a simple supply and demand framework, it is important to understand how tariff incidence, and in a similar framework tax incidence, can impact not only domestic end consumers, but also domestic firms. Domestic firms become price-takers if foreign exporter prices are relatively unaffected by protectionist trade policy. If a firm faces elastic demand from customers, it is less likely to pass the tariff cost to consumers to remain competitive, thus lowering margins and reducing its producer surplus (Lerner, 1934). In contrast, inelastic demand enables full pass-through of the tariff cost, thus raising prices and reducing consumer surplus. According to the industrial organizations literature, tax incidence depends on price elasticity, market structure, mark-ups, and tax rates (Weyl & Fabinger, 2013): e.g., in monopoly markets, firms shift the tax burden to the consumer, with the shift magnitude dependent in part on the tax rate.[2] As for internal factors, firms with low mark-ups may shift the tax burden to customers more quickly (Weyl & Fabinger, 2013). This places firms in the position to decide how a tariff will trickle down to domestic retail consumers, and whether it will pass the new tariff cost onto the consumer or absorb it, where the latter would negatively impact margins and performance unless offsetting adjustments to costs occur.

2.3 Prior Literature and Hypothesis Development

Several economics studies examine the effects of the US-China trade war, finding that the Section 301 tariffs increased goods prices, changed the supply chain network, and reduced import varieties (Amiti et al., 2019; Flaaen & Pierce, 2019; Amiti, Redding, et al., 2020; Fajgelbaum et al., 2020) . Amiti et al. (2019) and Amiti, Redding, et al., (2020) both document that the incidence

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[2] This theory extends to oligopolistic markets, where margins and mark-ups are lower than those for monopolists due to competition, and firms may even overpass taxes to consumers.

of the tariffs is born by domestic consumers (at least in the short-term), with increases in final goods prices in impacted industries. Cavallo et al., (2021) similarly demonstrates that the incidence of the Section 301 tariffs is absorbed primarily by the US with an asymmetric fall in prices for Chinese exporters. Fajgelbaum et al. (2020) supports this finding, implying that one cannot reject a horizontal export supply curve due to the lack of change in foreign exporter prices. However, Cavallo et al., (2021) provides mixed evidence of increased retail prices, suggesting many US retailers reduced profit margins on affected goods. Descriptively, my sample of Section 301 tariff-related disclosures indicates less than one third of impacted firms (28 percent) intend to pass the costs of the tariffs onto their customers, with a small number even disclosing their intent to not pass along any of the tariff costs (see details in Section 4 and Appendix C).

Other studies examining Section 301 tariff impacts on specific US sectors (e.g., manufacturing) provide evidence that the positive effect of import protection is offset by decreased employment and increased input costs (Flaaen & Pierce, 2019; Handley, Kamal, & Monarch, 2020). Amiti, Kong, & Weinstein (2020) uses stock market data in an event study, documenting that US and China tariff announcements result in $1.7 trillion decrease in market value for sample firms. Yi, Lin, Liu, & Tang (2020) similarly finds that US importing firms experience larger declines in stock returns when the tariffs were announced.

Studies in both accounting and economics investigate the impact of changed tariffs on competitive effects, prices, production, employment, and disclosure either in aggregate or at the industry level (Pierce & Schott, 2016; Ying Huang et al., 2017; Amiti et al., 2019; Amiti, Redding, et al., 2020; Fajgelbaum et al., 2020; Flaaen & Pierce, 2020; Glaeser & Landsman, 2021). As a result, little evidence exists on the impacts of tariff increases on *firm level* performance. The conventional tariff models (see the previous Section 2.2) explain why the tariff price impact falls

largely on the US market with tariff revenue being collected by the US government, while tax incidence theory predicts why firms may or may not pass the tariff costs onto consumers. This makes US firms buying goods and inputs from China the gatekeepers regarding how the tariffs trickle down into the economy, either directly borne by consumers via pass-through increases in retail prices, or by firms and shareholders via decreases in margins, income, dividends, and investment.

The Section 301 tariffs provide a strong setting to examine the effects of tariff and trade policy on firms as these unique tariffs are exogenous in nature, economically significant in their impact (i.e., affecting a wide range of products at a high tariff rate), and also provide strong identification among firms facing similar economic circumstances (i.e., by comparing the treatment of firms importing from China to the control of firms importing from other unaffected countries). As such, I first examine the impact of Section 301 tariffs on firm performance. Theory suggests that in a perfectly competitive market structure, firms facing competition and demand elasticity are less likely to pass-through the tariff costs to consumers to remain competitive against non-Chinese importing peer firms. Related, impacted firms may exhibit decreased demand compared to non-Chinese importing peer firms due to higher prices (Irwin, 2019). This leads to my first hypothesis:

> H1: *Firms subject to Section 301 China tariffs experience decreased firm performance relative to non-impacted firms.*

Note, however, that firms facing varying demand elasticity may pass all or some tariff costs onto their customers and exhibit no changes in market demand, or may be more likely to pass the tariff costs onto customers due to the historically high rate (Weyl & Fabinger, 2013). Related, such firms may find ways to mitigate the tariff impacts. Such effects would lead against finding my predicted effect.

Since a primary benefit of tariffs is the provision of government revenue paid by importers on the selected goods, it is important to understand how firms bear the economic burden of increasing government payments. Levinsohn & Slemrod (1993) highlights that tax policy and trade policy are similar: each impacts trade patterns, and industry level tariff policy can be combined with domestic tax policy to efficiently target incentives. Regarding such possible tax payment trade-offs, Robinson (2012) argues that revenue from non-income tax sources (e.g., sales and excise taxes) may be easier for the government to collect and enforce as compared to income tax. This argument extends to tariff collection, as customs border collections are relatively straightforward compared to income-tax collections. Further, in an examination of the trade-offs and coordination efforts between transfer pricing and tax minimization via customs duties, Blouin et al. (2018) uses affiliate-level Bureau of Economic Analysis data, finding that US multinational foreign affiliates actively trade-off income tax savings for customs duty savings.

In settings reflecting a sharp increase in costs via payments to the same government, firms may benefit from making certain cost adjustments to income tax payments in an effort to decrease their total tax burden. Dyreng et al. (2022) highlights that managers facing high taxes can make cost adjustment choices to capital, labor, and tax avoidance; the paper provides evidence that firms avoid more taxes when they bear the burden of corporate tax incidence. In particular, though the marginal benefit of tax avoidance declines when firms experience lower pre-tax profits due to firm performance impacts, firms can still benefit from avoiding taxes and undertake lower costs of avoidance due to reduced firm scale, public scrutiny, and attention from the tax authority. The opportunity to avoid taxes provides an important determinant of price pass-through choices by firms (Jacob et al., 2022). Even firms passing the new costs onto consumers (and thus not bearing the tax incidence) can improve their financial situation by avoiding taxes.

Other recent papers examine whether financially-constrained firms increase cash tax planning, and how these firms use their cash tax savings for real investment. Edwards, Schwab, & Shevlin (2016) provides evidence that such firms increase their cash tax planning. The paper notes cash generated from tax savings represents a theoretical financing source; it also notes that decreasing cash spent on taxes is less likely to negatively impact firm performance compared to decreasing cash on operating activities such as R&D, employees, capital expenditures, or advertising. Campbell, Goldman, & Li (2021) documents the causal effect of financing constraints on cash tax planning, finding that firms impacted by the Pension Protection Act of 2006 decrease their cash effective tax rate (ETR) compared to non-impacted firms, while choosing not to decrease discretionary expenses including advertising, R&D, and selling, general, and administrative expenses. Guenther, Njoroge, & Williams (2019) finds that firms tend to save more of their cash flow freed up by not paying taxes due to the risk of potential repayment to the government.

Whether firms subject to increased tariff payments decrease their tax payments through income tax avoidance remains an open question. Firms impacted by tariffs in general, and Section 301 tariffs in particular, face significant increased total cash payments remitted to the US government; such firms may be more inclined to adjust cost in other areas they have control over, such as income tax avoidance, and increase the level of risk they are willing to take in regards to tax planning. This leads to my second hypothesis:

> H2: *Firms subject to Section 301 tariffs increase their cash tax planning relative to non-impacted firms.*

However, affected firms may be unable to immediately implement changed tax planning strategies, or may deem such strategies unbeneficial due to anticipated decreases in performance (Edwards et al., 2016; Dyreng et al., 2022). Such effects would work against the above prediction.

Finally, I turn to the consequences of tariff increases for firm payout and investment activities. DeAngelo et al., (1992) documents that payouts to investors decrease as firm performance degrades. Regarding investment, previous literature provides evidence that changes in tax policy can have significant effects on the levels and timing of investment decisions (Hall & Jorgenson, 1967; Cummins, Hassett, & Hubbard, 1996) . For example, Zwick & Mahon (2017) documents changes in investment in response to changes in depreciation rules, and Djankox, Ganser, McLiesh, Ramalho, & Shleifer (2010) documents the adverse effect corporate taxes can have on corporate investment and entrepreneurship. More recent economics studies show that US firms decrease capital expenditures in response to tariff *decreases* and Chinese import penetration (Frésard & Valta, 2016; Hombert & Matray, 2018). However, little is known regarding how US importing firms respond to tariff *increases*. While these firms may not produce all (or any) of their products domestically, they likely have investment and employment within the US economy. If these tariffs increase input costs, decrease performance, and lead to negative supply-chain effects, I predict that impacted firms will decrease payout and investment activities following tariff increases. My third hypothesis is:

> H3: *Firms subject to Section 301 tariffs decrease payouts and investment relative to non-impacted firms.*

As tension, firms may lack the flexibility to change their payout policy to save cash (Hoberg, Phillips, & Prabhala, 2014), and less likely to cut other discretionary investment expenses that may impact operating performance, such as R&D and advertising expense (Roychowdhury, 2006; Edwards et al., 2016; Campbell et al., 2021).

3. *Research Design*

3.1 Data and Sample Selection

To identify firms impacted by the Section 301 tariffs, I use three sources of data. First, I run a Python script to search and extract paragraphs including the word "tariff" reported in firms' Forms 10-K, 10-Q, and 8-K from 2015– 2021. Figure 2, Panels A and B show the time-trend increase in filings and firms discussing tariffs in general, with a sharp increase seen in 2018, continuing into 2019. Figure 2, Panel C shows that the tariff-related disclosures increased by over 100 words on average, with disclosures averaging 350 words in 2017 and over 450 words by 2019. This represents a substantial increase, within a compact time period, in the amount of text within the 10-K dedicated to tariff-related discussions. Within these tariff-related disclosures, I then search for the words "China" and "Section 301" within the extracted paragraphs. Appendix B presents the results of my Section 301 tariff-related disclosure collection. In this process, I identify 3,573 distinct filings discussing the Section 301 tariffs, including 1,431 10-Ks, 1,521 10-Qs, and 620 8-Ks throughout the sample period, and 582 distinct firms.

After identifying and collecting the Section 301 tariff related disclosures from firm filings, I then hand-collect detailed information from these disclosures. First, I ensure that the filings discussing the Section 301 tariffs discuss actually being subject to the tariffs, rather than disclosing possible future risks or high level market information. Once I have removed the firm filings that do not discuss being directly impacted, I collect information regarding whether or not firms disclose their actual cost of the Section 301 tariffs. Collecting this information via automated textual analysis would likely result in errors, as firms disclose values within the text in non-standard formats and across various periods of time. As reported in my Disclosure and Identification Statistics in Table 1 Panel A, 108 of the 582 firms who discuss being subject to the

Section 301 tariffs also disclose the dollar costs of the tariffs in the financial statements. The total of the costs disclosed over the period of 2018 – 2021 is equal to approximately $10 billion, with an average cost per disclosing firm of approximately $91 million. However, it is important to note that this average is skewed, with the highest cost disclosed by a firm (Ford Motor Company) equaling $750 million, and the median equaling $17.2 million.

I hand-collect other detailed information from the disclosures that is likely related to how firm performance is impacted by the Section 301 tariffs, and how firms may choose to respond. I identify 224 of my 582 firms that disclose making efforts to mitigate the impacts of the Section 301 tariffs.[3] Next, I identify 164 firms that directly disclose their intent to pass the costs of tariffs onto their customers.[4] I further identify 54 firms that discuss the TCJA in conjunction with the Section 301 tariffs, and 54 firms that disclose their efforts to apply for and receive an exclusion from the tariffs.

Some firms, though impacted by the Section 301 China tariffs, may be less likely to disclose them in their financial statements, or less likely to disclose them in the short term (Kothari, Shu, & Wysocki 2009). As such, I use a second source of data to identify impacted firms. In particular, I obtain a list of firms applying for Section 301 tariff exclusions via QuantGov, an open

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[3] For example, in their 2019 Form 10-K, iRobot Corporation disclosed
  "We outsource the manufacturing of our consumer products to four contract manufacturers with plants in Southern China. In late 2019, we added additional manufacturing capacity in Malaysia with one of our existing contract manufacturers and we anticipate that a second contract manufacturer will be qualified for production in Malaysia in 2020. We expect that manufacturing volumes in Malaysia will ramp up in 2020, including potential production of an additional Roomba model. We believe that manufacturing our products in Malaysia will help mitigate our exposure to current and prospective tariffs on products imported from China."

[4] For example, in their 2021 Form 10-K, The Eastern Company disclosed:
  "In recent years, the US government imposed tariffs on certain products imported into the United States and the Chinese government imposed tariffs on certain products imported into China, which have increased the prices of many of the products that the company purchases from its suppliers. The tariffs, along with any additional tariffs or trade restrictions that may be implemented by the US, China or other countries, could result in further increased prices. While the company intends to pass price increases on to its customers, the effect of tariffs on prices may impact sales and results of operations."

source policy analytics platform that provides data for researchers and policymakers. Specifically, QuantGov publishes a dataset that includes the name of the firm, date of exclusion request, HTS product code for requested exemption, and status of exclusion (approved, denied, or pending). I match the firms applying for Section 301 tariff exclusion by name, as no other identifier is available. I identify 204 firms, matched via Compustat company name, applying for Section 301 tariff exclusion, confirming that these companies are in fact being impacted. It is important to note that because companies apply for tariff exclusions on a per product basis, thus making multiple requests, and only 13 percent of exclusion requests are granted, once a company receives an approval for an exclusion request it is not moved into the control group because it typically has other products that continue to be subject to the Section 301 tariffs.

In developing a third data source, I gather company names from the plaintiffs of International Trade, In RE Section 301 Cases, Court No. 21-00052 and match them to firms in my sample, as it can be inferred that firms joining the case as a plaintiff are impacted by the Section 301 tariffs. I identify 61 firms, matched via Compustat company name, who join the lawsuit as a plaintiff. Because of the small number of firms who are only identified as affected via sources other than the financial statements (99 total), it is clear from my identification method that the significant majority of firms in my sample (approximately 85 percent) choose to disclose the risk and impacts of the Section 301 tariffs to investors.

It is important to caveat that because I infer treated firms through firm disclosure, as well as my two supplemental data sources, there is a risk that I could misclassify a firm as not impacted by the Section 301 tariffs, when it actually is. This misclassification would result from a firm choosing not to disclose the Section 301 tariffs in the financial statements, not to apply for an exclusion from the tariffs, and not to join the United States Court of International Trade case as a

plaintiff. Additionally, these non-disclosing firms may be less likely to undergo material impacts to performance, as materiality thresholds may require firms to disclose information regarding the tariffs. Such misclassification would place impacted (i.e., treated) firms into my control group and thus reduce my ability to find a treatment effect.

My study is the first to identify tariff impacted firms via financial statement disclosures, offering a new way to identify treated firms with a well-known and publicly available dataset. The number of firms I identify via financial statements is similar to other studies in economics including Yi Huang et al. (2020) and Amiti, Weinstein, & Kong (2022), who use bill of lading data to identify US firms that import from China. Flaaen et al. (2021) note that some of the limitations of the bill of lading data include missing or redacted data (by company request) and lack of information on non-maritime trade, which represented 34 percent of imports from China in 2018. Recent literature uses granular product-level Nielsen Retail Scanner data to examine firm outcomes (Asay, Hoopes, Thornock, & Wilde, 2022). This could be a fruitful avenue for future research when examining tariffs.

Once I have identified all of my treated firms via financial statement disclosures, QuantGov data, or United States Court of International Trade data, I merge with Compustat data and match by NAICS industry code so that my control group only contains firms within the same NAICS industry as my treated firms. My industry match allows me to compare the Section 301 tariff treated firms to industry peers that may import from countries other than China, thus differentiating the effect of the Section 301 tariffs versus other general tariffs on imports. I exclude financial services firms (SIC 6000-6900) and public utility firms (SIC 4900-4999) because they are highly regulated, as well as mining, oil, and gas firms (SIC 1000 – 1400) and refinery firms (2990 and 2911), because these firms are subject to a different subset of both tariffs and operating

environment. I further restrict my analysis to firms incorporated and headquartered in the US, drop

all observations missing data to construct variables of interest or control variables, and require

each firm to have, at a minimum, data for both 2018 and at least one year of post data. Table 1

Panel B provides a complete description of my sample selection process. My final sample consists

of 14,366 firm-year observations for 2,312 unique firms. Table 1 Panel C reports the number of

treated and control firms by two-digit NAICS industry codes.

3.2 Empirical Strategy

My primary analysis uses a difference-in-differences design to evaluate the effect of the

Section 301 tariffs on impacted firms:

$$Y_{i,t} = \beta_0 + \beta_1 China\ Tariff_i * Post_t + \beta_2 Size_{i,t} + \beta_3 ROA_{i,t} + \beta_4 Leverage_{i,t} + \beta_5 Loss_{i,t} + \beta_6 NOL_{i,t}$$

$$+ \beta_7 Foreign_{i,t} + \beta_9 Cash_{i,t} + \beta_{10} PPE_{i,t} + \beta_{11} INTAN_{i,t} + \beta_{12} Capex_{i,t} + \beta_{113} HHI_{i,t} + Firm\ FE +$$

$$Year\ FE + \varepsilon \qquad\qquad (2)$$

China Tariff is an indicator variable equal to one for firms impacted by the Section 301 tariffs and

zero otherwise. *Post* is an indicator variable equal to one for years 2019, 2021, and 2021, and zero

for years 2015 – 2018. Though three of the four waves of Section 301 tariffs became effective by

the fourth quarter of 2018, I apply my post period to calendar year 2019 in order to examine the

effect outside of an overlapping TCJA change period.[5]

I run separate regressions for each independent variable of interest with $Y_{i,t}$ being outcomes

related to my three hypotheses. In testing *H1*, how the Section 301 tariffs affect firm performance,

I use *Operating Income* and *Gross Margin* as my primary measures of firm performance (Donohoe

et al., 2022). *Gross Margin* captures the most direct impact of firm's decision regarding how to

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[5] My results are robust to using quarterly data and a generalized difference-in-differences design based on quarter of impact. However, my sample size is significantly reduced due to the lack of populated CashETR variable in Compustat Quarterly data.

share the burden of the tariff via increased prices, while *Operating Income* captures broader cost adjustment impacts and how these may flow down to shareholders. In order to test *H2*, whether the Section 301 tariffs affect cash tax planning, I examine the firm's Cash ETR (*CashETR*) and GAAP ETR (*GAAPETR*) (Dyreng, Hanlon, & Maydew, 2008; Edwards et al., 2016). In my tax planning regressions, not only do I control for profitability (*ROA*), but *CashETR* (*GAAPETR*) is also calculated as cash taxes paid (book taxes paid) divided by pretax book income, which directly controls for a reduction in tax payments due to declines in firm performance (Edwards et al., 2016). Finally, to test *H3*, whether firms subject to the Section 301 tariffs decrease payouts or investment, I examine dividend and share repurchases (*Payout*), capital expenditures (*Capex*), acquisitions (*ACQ*), research and development expense (*RD*), and advertising expenses (*Adexp*) (DeAngelo et al., 1992; Edwards et al., 2016; Campbell et al., 2021; Donohoe et al., 2022).

In all of my specifications I include controls for firm characteristics. I include firm size (*Size*), profitability (*ROA*), and losses (*Loss*), to control for economic activity, and *Leverage* to control for the firm's capital structure (Edwards et al., 2016). I include an indicator variable equal to one if the firm reports a net operating loss (*NOL*). *Foreign* is an indicator variable equal to one if the firm has foreign operations, because these firms may be more likely to be subject to the Section 301 tariffs and have more opportunities for tax planning. I include *Cash* to control for the firm's cash holdings and property, plant, and equipment (*PPE)* to control for both firm operating environment and capital asset tax planning opportunities (Edwards et al., 2016). I further include controls for both intangible assets (*INTAN*) and capital expenditures (*Capex*). Finally, I include a control for industry competition (*Competition*). *Competition* (i.e., the Herfindahl-Hirschman Index (HHI)) is calculated as the sum of the squared market share of all firms in an industry. I measure market share using the variable SALE from Compustat and include all firms, not limited to those

in my sample. I use 1-HHI such that the measure increases with competition intensity (Chen, Matsumura, Shin, & Wu, 2015). All regressions include firm fixed effects to control for time-invariant sources of heterogeneity unique to each firm, and calendar-year fixed effects to control for time-series variation. My main variable of interest is my difference-in-differences interaction term, *China Tariff$_i$*Post$_t$*, which captures the difference between the change in the outcome for the treatment group and the change in the outcome for the control group before and after the Section 301 tariffs implementation, or the difference-in-differences impact of the Section 301 tariffs, controlling for other firm and time effects.

3.3 Summary Statistics and Entropy Balancing

To construct all variables of interest and control variables discussed in Section 4.2, I use Compustat data. For a full description of all variables, see Appendix A. Table 2, Panel A presents descriptive statistics for variables used in all specifications for my full sample of 14,366 observations, and Table 2, Panel B provides univariate analysis for treated observations and control observations. I observe significant differences in the means for my two groups for the variables used in my analyses. From Table 2, Panel B, I observe that treated firms tend to be larger firms with higher firm performance and are more likely to have foreign operations. To mitigate concerns over pre-treatment differences in my treatment and control group, I implement entropy balancing (based on the pre-period) on the first, second, and third moments (Hainmueller, 2012; Mcmullin & Schonberger, 2020). Entropy balancing weights control sample observations and provides a quasi-matched sample ensuring covariate balance between the treatment and control group, and allows me to preserve use of my entire treated group. Descriptive statistics for all covariates after implementing entropy balancing can be found in Table 2 Panel C. Each difference-in-differences

regression specification uses the entropy balancing weights.[6] Table 3 reports my pairwise correlations.

4. Results

Table 4 summarizes the difference-in-differences estimation results of *H1*, which predicts that US firms impacted by the Section 301 tariffs experience decreases in firm performance. In column (1), I report the results excluding firm and year fixed effects and control variables in order to report the standalone coefficients on my separate interaction terms. Without firm fixed effects, the estimated coefficient on the *China Tariff* variable indicates whether the treatment firms exhibited a different *Operating Income* than control firms in the pretreatment period. The treatment firms had higher *Operating Income* during the pretreatment period. The estimated coefficient on *Post* represents the change in the outcome of the control firms from the pre-periods to post-periods. In column (1), the positive and significant coefficient on *Post* indicates a significant increase in *Operating Income* for my control group in the post period, which agrees with traditional tariff theory and previous literature in which domestic and non-China importing firms may experience increases in performance due to reduced demand for their China importing peer firm products. Further, column (1) reports a negative and significant coefficient on *China Tariff*Post*, indicating that treated firms experience incremental declines in operating income relative to control firms.

I report a similar result for *China Tariff*Post*, including firm and year fixed effects, and excluding control variables, in column (2). Finally, the negative and significant coefficient on the difference-in-differences estimator, *China Tariff*Post* (p<0.01) reported in column (3), includes firm and year fixed effects and control variables. In terms of economic significance, the enactment

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[6]   My results are robust to excluding the entropy balanced covariates.

of the Section 301 tariffs results in approximately a 5.4 percentage point reduction in *Operating Income* for treated firms. I report my regression results for outcome variable Gross Margin in columns (4), (5), and (6). I find a negative and significant coefficient across all three columns with varying fixed effects and controls. In column (6), the negative and significant coefficient estimate on *China Tariff*Post* (p<0.01) indicates that treated firms also experience incremental declines in gross margins relative to control firms. Both of these results support *H1* which predicts that firms who import targeted products from China and face significant increases in tariffs immediately experience decreasing firm performance relative to controls firms who either (1) do not import from China or (2) import from China but do not import impacted products.

Hypothesis 2 predicts that firms impacted by the Section 301 tariffs decrease their income tax payments in an effort to decrease their total tax burden and increase positive cash flow. In Table 5, column (1) reports my results excluding firm and year fixed effects as well as control variables. Without firm fixed effects, the positive estimated coefficient on the *China Tariff* variable indicates the treatment firms had higher *CashETR* during the pretreatment period. The estimated negative coefficient on *Post* indicates a significant decrease in *CashETR* for my control group in the post period. However, the estimated negative and significant coefficient on my interaction term, *China Tariff*Post* (p<0.01) in column (1) indicates that my treatment firms experience an incremental decrease in *CashETR* relative to my control firms in the post treatment period. I report a similar result on my interaction term in column (2), which includes firm and year fixed effects but excludes control variables.

Further, in Table 5, column (3), which includes firm and year fixed effects and control variables, I report a negative and significant coefficient estimate on *China Tariff*Post* (p<0.05), indicating that impacted firms decrease their cash tax payments (i.e., increase cash tax planning)

following the enactment of the Section 301 tariffs, likely in an effort to reduce their total increasing tax burden caused by the tariffs, increase their economic surplus, and free up positive cash flow in the face of declining firm performance (Edwards et al., 2016; Blouin et al., 2018; Campbell et al., 2021; Dyreng et al., 2022). In terms of economic significance, treated firms decrease *Cash ETR* by approximately 1.4 percentage points relative to control firms. Interestingly, I do not find significant results for *GAAPETR* across columns (4), (5). And (6). This lack of significance indicates that treated firms prioritize decreasing their total tax burden through a reduction in cash tax payments, rather than focusing on a reduction in their tax expense reported in their financial statements. The lack of result also further supports the notion that my result for *CashETR* is not driven by a decline in firm performance, as if this were the case, I would expect a significant reduction for both *CashETR* and *GAAPETR* in the treatment group relative to the control group. Overall, treated firms appear to decrease their tax incidence through an increase in cash tax planning, without a strong focus on the financial statement expense impact.

I present my results for *H3*, whether impacted firms decrease shareholder payouts and investments, in Table 6. Per column (1), the positive and significant coefficient on *China Tariff* shows my treatment firms had higher payouts in the pre-period relative to my control firms, and the insignificant coefficient on *Post* shows my control firms exhibit no change in *Payouts* around the treatment event. The negative and significant coefficient estimates on the interaction term, *China Tariff*Post,* in columns (1), (2), and (3) (p<0.10), suggest that impacted firms decrease their total payouts to shareholders relative to control firms. This result indicates that some of the planned corporate actions following the Tax Cuts and Jobs Act of 2017 (TCJA) could have been muddled by the impacts of the Section 301 tariffs (York, 2018; Hanlon, Hoopes, & Slemrod, 2019; Bennett

& Wang, 2021) . However, I do not find a significant result on my interaction term in columns (4), (5), and (6) for capital expenditures (*Capex*).

In columns (7), (8), and (9) of Table 6, I find that impacted firms significantly decrease their acquisition activity relative to control firms. In Table 6, column (10), I find a positive and significant coefficient on my interaction term for research and development expenses (*RD*) when excluding firm and year fixed effects and controls ($p<0.10$). However, I do not report significant results for *RD* in columns (11) or (12), which include firm and year fixed effects and controls, respectively. I also do not find significant results for my interaction term for advertising expenses (*Adexp*) in columns (13), (14), or (15). The lack of result for *Capex, RD, and Adexp* is in line with recent literature that has found that firms facing decreasing cash flows decrease more discretionary expenses such as cash tax payments and payouts, compared to real investment expenses that are more likely to have impacts on their operating performance (Campbell et al., 2021). Overall, this evidence sheds new light on the impact of protectionist trade policy decisions on US firm's performance, tax planning, and payout and investment activities.[7]

5. *Additional Analysis*

5.1 Domestic Firm Analysis

During the Section 301 tariff enactments and resulting US and China trade war, China imposed retaliatory tariffs focused on agricultural and seafood products as well as auto exports, though the auto tariffs only lasted for a short duration (Brown, 2021). In order to alleviate concerns that my results are driven by the China retaliatory tariffs as opposed to the US Section 301 tariffs, I conduct two tests. First, I restrict my analysis to domestic treatment and control firms by

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[7] All of my results hold when excluding especially sensitive industries including lumber, steel, and solar panels.

identifying firms in which *Foreign* is equal to zero (i.e., zero or missing pretax foreign income) in calendar year 2018. Overall, I identify 176 out of my 681 firms impacted by the Section 301 tariffs that are considered domestic only firms. I compare these firms to 938 domestic control firms for a total of 1,114 firms in the analysis. My results are reported in Table 7. Overall, I report consistent results for my domestic only treatment versus control group. In addition to negative and significant coefficient estimates on *Operating Income*, *Gross Margin*, *CashETR*, *Payout*, and *Acquisition* in columns (1) through (3), column (5) and column (7); I also report a negative and statistically significant coefficient estimate on *Capex* (p<0.05) in column (6). These results suggest that the Section 301 tariffs have negative impacts on purely domestic operating US firms, though they were portrayed as intended to protect these exact firms. Otherwise, the results from my primary tests hold, and I do not find a significant coefficient estimate on my interaction term for *GAAPETR*, *RD*, and *Adexp* in columns (4), (8), and (9), respectively.

5.2 China Exporter Analysis

The goal of my second test is to rule out that my results are due to the retaliatory tariffs on US imports into China, rather than the Section 301 tariffs on Chinese imports into the US. The idea is that if Section 301 tariffs rather than the retaliatory tariffs underpin the results, then the empirical effects should not manifest in firms that have relatively greater operations already within China. If the retaliatory tariffs underpin the results, then the effects will manifest in firms with greater operations within China, as inputs from the US would be subject to the retaliatory tariffs.

With these expectations in mind, I follow Amiti et al. (2022) to identify US firms who likely export from the US to China using Compustat geographic segment data.[8] I construct "*China Rev Share*" by identifying geographic segments of US firms with the description "China," "PRC"

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[8] Merging with Compustat Segment data causes a loss of approximately half of my observations.

(People's Republic of China), "Hong Kong," and "Macao," and excluding segment descriptions that reference Taiwan or include phrases "except China" or "excluding China." I then construct my variable as the portion of sales attributable to the China segment in 2017, relative to total geographic segment sales. Firms that do not report segment data for China are deemed to have no material sales there. Further, I drop treatment (i.e., Section 301 tariff-affected) firms with zero sales in China from my control group.

Results are reported in Table 8. I do not find significant results for *Operating Income* or *Gross Margin*. The results suggest that my main results are *not* driven by multinational firms with large exports and/or subsidiaries in China that are subject to the China retaliatory tariffs.

5.3 Cross-Sectional Test for Firms Facing High Market Competition

I conduct a cross-sectional analysis to test whether the results vary for firms facing different levels of market competition. Firms facing higher competition might have more severe impacts to firm performance, as they likely have more elastic demand and are less inclined to fully pass on increasing costs to customers in an effort to remain competitive (Cavallo et al., 2021). Additionally, they may be more pressured to decrease cash tax payments, payouts, and investment in order to smooth their bottom line and retain earnings similar to peer firms. To test my conjecture, I create an indicator variable, *High Competition*, equal to 1 for firms facing higher (above median) market competition and 0 otherwise. I then interact *High Competition* with *China Tariff*Post*, creating a triple interaction that measures the differential impact of Section 301 tariffs on firms facing higher levels of market competition, compared to firms facing lower levels of market competition.

Table 9 presents the results. In column (1) the coefficient on *China Tariff*Post* is negative and significant ($p<0.01$), demonstrating that firms facing low levels of market competition

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experience a decrease in operating income, but the coefficient on *China Tariff*Post*High Competition* is also negative and significant (p<0.05). This result suggests that impacted firms facing high and low levels of market competition experience decreases in operating competition relative to control firms, but, firms facing higher levels of market competition experience an additional negative impact. I do not find significant results for my triple interaction term in column (2), which reports *Gross Margin* as my outcome variable. Additionally, in column (3), I find that firms facing higher levels of market competition drive my results for decreases in cash tax payments. I do not find significant results for my triple interactions in columns (4), (5), (6), or (7) for *GAAPETR*, *Payout*, *Capex*, or acquisitions (*ACQ*). However, in column (8) I find that impacted firms facing higher competition appear to increase their research and development expenditures (p<0.10). This result is consistent with Kim, Nessa, & Wilson (2021) who find that US firms facing increased levels of competition due to decreases in foreign country tax rates increase investment in research and development. I do not find significant results on my triple interaction in column (8) for advertising expenses. Overall, my results suggest that firms facing higher market competition may suffer from more severe firm performance outcomes from the Section 301 tariffs.

5.4 Cross-Sectional Test for Impacted Firms Applying for USTR Tariff Exclusions

Next, I examine whether firms that apply for USTR Section 301 tariff exclusions experience additional impacts to firm performance, tax payments, payouts, and investment compared to treated firms that do not apply for an exclusion from the tariffs. In this case, I cannot include a triple interaction with *China Tariff*Post* because there is no variation in my cross-sectional variable of interest, *Exclusion*, as all firms applying for an exclusion are in the treatment group. As such, I use the interaction term *Exclusion*Post*, removing my non-exclusion-applying treated firms from the control group. To mitigate concerns over pre-treatment differences in my

treatment and control group, as well as self-selection bias for firms choosing to apply for a Section 301 tariff exclusion, I implement new entropy balancing (based on the pre-period) on the first, second, and third moments (Hainmueller, 2012; Mcmullin & Schonberger, 2020).

In Table 10, I find that firms applying for Section 301 tariff exclusions experience negative impacts to *Operating Income*, *Gross Margin*, and *Cash ETR*, with columns (1), (2), and (3) reporting negative and significant coefficients with $p<0.01$, $p<0.05$, and $p<0.05$, respectively. I do not find significant results for *GAAPETR* or *Payout* in columns (4) or (5). I report a negative and significant coefficient for acquisitions (*ACQ*) in column (6) ($p<0.01$), but no result for *RD*, *Adexp*, or *Capex* in columns (7), (8), and (9), which is similar to my main results. These results are consistent with firms applying for tariff exclusions being especially negatively impacted by the tariffs.

5.5 Parallel Trends

A key identifying assumption in my difference-in-differences analysis is that, prior to the Section 301 tariffs becoming effective, treated firms exhibit parallel trends in the outcome variables of interest compared to control firms. Though there may be differences in treated and control firms, the parallel trends assumption requires that these differences remain constant in the pre-treatment period, only changing following the enactment of the Section 301 tariffs (i.e., pre-period differences would remain constant in the post-period absent treatment). To examine whether there are differences in firm performance, cash taxes, and payout and investment outcomes between my treatment and control groups, I estimate a modified version of equation (1) in which I replace my *Post* variable with a separate indicator variable for calendar years 2015 through 2021. I next plot the coefficients of the interaction terms 2015*China Tariff through

2021*China Tariff in Figure 3 Panels A through C. The coefficients from my estimation are plotted with a 90% confidence interval, and 2018 (time *t-1*) serves as the benchmark period.

Figure 3 Panel A shows that the trends for treatment and control firms are consistent for both *Operating Income* and *Gross Margin* in the pre-period. Both figures indicate that *Operating Income* and *Gross Margin* significantly decline more in the post period for treatment than for control firms. In Figure 3 Panel B, the trends are generally consistent for *CashETR*, though there is a significant difference in 2015. However, this difference between treatment and control firms is insignificant in years 2016 and 2017, with a significant differential decline for treatment firms in *Cash ETR* in years 2019 and 2020. Figure 3 Panel C reports parallel trends for both *Payout* and *Acquisitions* in the pre-period, followed by significant differential declines for treatment firms in the post period. Overall, the parallel trends assumption holds in the pre period for the sample.

To further mitigate concerns surrounding the overlap of the Section 301 tariffs enactment and the first year of the TCJA (2018), which may have affected income tax rates and payout policies, I conduct a placebo test in which I use a pseudo-event window so that my post period of interest is shifted back one full calendar year. If the parallel trends assumption were violated, and there are different factors between my treated firms, control firms, and the TCJA period that are driving my results, then I would expect to document the same sign and statistical significance on the variables of interest as in the main results. The results for this analysis are shown in Table 11. The absence of statistical significance in the predicted directions confirms that the parallel trends assumption is not violated, and that the TCJA did not drive varying outcomes for my treated and control groups. Thus, the main difference-in-differences results are indeed driven by the enactment of the Section 301 tariffs, rather than explained by pre-period trends.

5.6 Linear Probability Models

In the final analyses, I provide more descriptive evidence about the firms impacted by the Section 301 tariffs. Each of my unique data sources and financial statement hand-collection efforts provide information about impacted firms that is otherwise not readily available, and allow me to explore links between firm disclosures and actions taken in response to the tariffs. Regarding firm actions related to the tariffs, I create an indicator variable called *Exclusion*, which is equal to one for firms who apply for a USTR Section 301 tariff exclusion, and zero otherwise. The information for this variable is gathered from the QuantGov dataset used to identify impacted firms. I also create an indicator variable called *Plaintiff*, which is equal to one for firms who join the US Court of International Trade case as a plaintiff, and zero otherwise. This information comes from the list of plaintiffs used in my identification method.

As for my hand-collected firm disclosure variables, I create a variable called *Mitigate*, which is an indicator variable equal to one for firms who mention mitigation efforts in their Section 301 tariff-related disclosures in their financial statements. The variable *Pass to Customer* also comes from financial statement disclosures, and is an indicator variable equal to one for firms who mention passing the costs of the Section 301 tariffs onto their customers. *Disclose Cost* is an indicator variable equal to one for firms who disclose the cost of the Section 301 tariffs in their financial reports, and zero otherwise. Finally, I create a variable called *Stops Reporting*, which is an indicator variable equal to one for firms that initially report the tariffs but stop reporting them in their financial statements at a point before the end of the sample period.

In general, I am interested in how my firm action variables, *Exclusion* and *Plaintiff*, and firm disclosure variables, *Mitigate*, *Pass to Customer*, *Disclose Cost*, and *Stops Reporting*, interact with each other and firm level determinants such as size and profitability. For example, my dataset

allows me to investigate whether firms who disclose mitigating the tariffs to their investors are also more likely to take certain actions, including applying for a formal exclusion from the tariffs.

In order to conduct this analysis, I use the following linear probability model[9]:

$$Y_{i,t} = \beta_0 + \beta_1 Exclusion_i + \beta_2 Plaintiff_i + \beta_3 Mitigate_i + \beta_4 Pass\ to\ Customer_i + \beta_5 Disclose\ Cost_i +$$

$$\beta_6 Stops\ Reporting_i + \beta_7 Size_{i,t} + \beta_8 ROA_{i,t} + \beta_9 Leverage_{i,t} + \beta_{10} Loss_{i,t} + \beta_{11} NOL_{i,t} + \beta_{12} Foreign_{i,t}$$

$$+ \beta_{13} Cash_{i,t} + \beta_{14} PPE_{i,t} + \beta_{15} Capex_{i,t} + \beta_{16} INTAN_{i,t} + \beta_{17} RD_{i,t} + \beta_{18} ACQ_{i,t} + \beta_{19} Adexp_{i,t} +$$

$$\beta_{20} Competition_{i,t} + Firm\ FE + Year\ FE + \varepsilon \qquad (1)$$

$Y_{i,t}$ captures the firm action and disclosure variables including *Exclusion*, *Plaintiff*, *Mitigate*, *Pass to Customer*, *Disclose Cost, and Stops Reporting*. I separately regress each of these variables onto my other firm action and disclosure variables, excluding the independent variable of interest. I additionally include various firm-level variables in order to study the characteristics of firms and their tariff-related decision making. I use a linear probability estimation due to the inclusion of firm and year fixed effects.

I report the results from this exploratory analysis in Table 12.[10] In column (1) I regress *Exclusion* onto *Plaintiff*, *Mitigate*, *Disclose Cost*, *Pass to Customer*, *Stops Reporting*, and other firm determinants including but not limited to *Size* and *ROA*. I find that firms who apply for a USTR Section 301 tariff exclusion are also likely to be those firms who also join the US Court of International Trade case as a plaintiff, with a positive and significant coefficient on *Plaintiff* ($p<0.01$). Additionally, firms applying for exclusion requests are more likely to be those firms who disclose both mitigating the costs of the tariffs as well as those who disclose the actual costs of the tariffs, with positive and significant coefficient estimates on both *Mitigate* and *Disclose Cost* ($p<0.01$ and $p<0.01$, respectively). Interestingly, I do not find evidence that these firms are more

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[9] I do not tabulate a logit regression due to the lack of reliability when using firm and year fixed effects.
[10] All variable descriptions can be found in Appendix A.

likely to disclose passing tariff costs onto customers, as the coefficient on *Pass to Customer* is insignificant, possibly because they choose to take aggressive mitigation efforts by filing for exclusions, rather than increasing prices in the short term. Additionally, firms who apply for USTR tariff exclusions are likely to be smaller firms (*Size*) with lower *ROA*, and more intangible assets (*INTAN*) and research and development expenses (*RD*). These results indicate that small, highly impacted firms may more aggressively pursue relief from the tariffs and disclose the real impacts of the tariffs to their investors, without the intent of passing all of the costs onto their customers.

In column (2), I regress *Plaintiff* on my firm action, disclosure, characteristic variables. I find that firms who join the US Court of International Trade case as a plaintiff are more likely to also file an exclusion request (agreeing with column (1)), as the reported coefficient for *Exclusion* is positive and significant ($p<0.01$). However, the coefficient on *Mitigate* is negative but insignificant, indicating that firms who join the case as a plaintiff are not more likely to disclose mitigation efforts. Overall, firms that join the case as a plaintiff may also apply for formal exclusion from the tariffs, but may be less likely to disclose mitigation efforts if they believe the court case will overturn the applicability of the tariffs.

In column (3), I regress *Mitigate* on my firm action, disclosure, and characteristic variables. I report that firms who disclose Section 301 tariff mitigation efforts are also more likely to disclose the actual costs of the tariffs, as well as the intent to pass tariff costs onto customers, as the reported coefficient on *Disclose Cost* is positive and significant ($p<0.01$) and the coefficient on *Pass to Customer* is positive and significant ($p<0.01$). This may be a result of certain firms offering better disclosure information to investors in general, or firms reassuring investors that they are taking action to mitigate the negative impacts of the tariffs and their impacts on customer prices. Interestingly, I also find that the firms who disclose mitigation efforts are also more likely to stop

reporting the tariffs during the sample period, as the coefficient on *Stops Reporting* is positive and significant (p<0.01), possibly due to firms experiencing decreasing impacts from the tariffs due to successful mitigation efforts.

In column (4), *Pass to Customer* becomes my independent variable of interest. I report that firms who disclose passing the tariff costs onto customers are more likely to join the court case as a plaintiff also disclose the costs of the tariffs, with a positive and significant coefficient on *Plaintiff* (p<0.10). These firms are also more likely to disclose the costs of the tariffs, as I report a positive and significant coefficient on *Disclose Cost* in column (4). Further, these have lower profitability (*ROA*), which could be a result of firms explaining to customers the need for passing on tariff costs as a result of decreased performance.

My results for when *Disclose Cost* is my independent variable of interest are reported in column (5), in which I find that firms who disclose the costs of the tariffs are more likely to apply for an exclusion, disclose mitigation efforts, disclose passing the tariffs onto customers, and more likely to stop reporting the tariffs during the sample period. This could be a result of firms who disclose detailed information to investors such as the actual cost of the tariffs have a better and more transparent information environment in general.

My results for regressing *Stops Reporting* on my firm action, disclosure, and characteristic variables are shown in column (6). Firms who stop reporting the tariffs during the sample period are more likely to disclose mitigating the tariffs, as the estimated coefficient on Mitigate is positive and significant (p<0.01), and more likely to disclose the cost of the tariffs. Overall, the results from these firm tariff action and disclosure models offer new and compelling details about how and why firms 1) mitigate impacts of tariffs and 2) communicate information on tariff increases and impacts to investors.

6. Conclusion

Using a unique identification strategy and hand-collected disclosure data, I investigate the effect of the Section 301 tariffs on US firms' financial performance, income tax paying behavior, and shareholder payouts and investment. Supporting my main hypotheses, I find that firms impacted by the Section 301 tariffs experience negative financial performance via decreases in operating income and gross margin. I also find that impacted firms appear to decrease their cash tax payments, likely in an effort to mitigate their total tax burden paid to the government and free up cash flow by paying less income taxes. Further, I document that impacted firms decrease shareholder payouts and acquisitions, but do not decrease real investment activities such as capital expenditures, research and development, and advertising expenses, as these may have more negative impacts on their operating performance.

In cross-sectional tests, I provide evidence that domestic-only US firms are especially impacted by the Section 301 tariffs, and that US firms who likely have greater exports of US goods to China are unaffected, alleviating concerns that my results are driven by China's retaliatory tariffs during the trade war. I also document that firms facing higher levels of market competition undergo additional negative impacts to firm performance, and are more likely to decrease their cash tax payments. Finally, I demonstrate that those firms applying for USTR tariff exclusions are also especially likely to experience significant negative impacts to operating income, and to decrease their cash ETR. Additionally, I provide new evidence on the role of tariffs in financial reporting, including tariff mitigation efforts, the intent of certain firms to pass tariff costs to customers, and the disclosure of tariff costs. Importantly, I report that the cost of the Section 301 tariffs to disclosing firms in my sample is approximately $10 billion.

I contribute to the literature by documenting the effects of tariffs on US firm performance and provide evidence on the underexplored area regarding the trade-off between cash payments to the government using firm-level data. My study is the first to examine tariffs from a financial reporting and disclosure standpoint, in which I uncover detailed firm expectations and impacts of the Section 301 tariffs. Given recent decisions including both the US Court of International Trade motion to uphold the applicability of the tariffs, as well as the USTR's extension of the tariffs during the first phase of its four-year review, my study informs policymakers by providing the first firm-level assessment of the Section 301 tariffs in advance of the USTR's formal review of the tariffs, which is currently ongoing. My study provides timely and relevant information for firms, practitioners, and policymakers alike, especially at a point in time when increasing prices and supply chain issues continue to threaten the US economy, and the tariffs largely remain in effect.

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Figure 1

Illustration of Conventional Tariff Theory
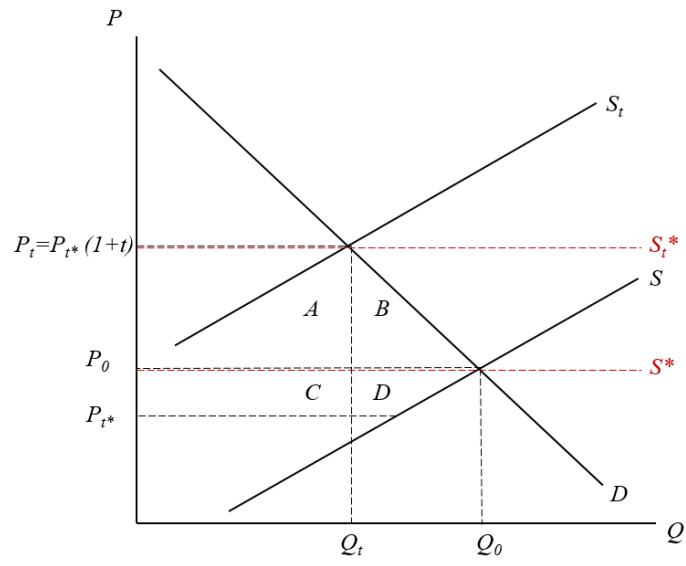
Figure 2
Time-Trend Disclosure Graphs

Panel A
Number of Filings Discussing Tariffs

Panel B
Number of Firms Discussing Tariffs
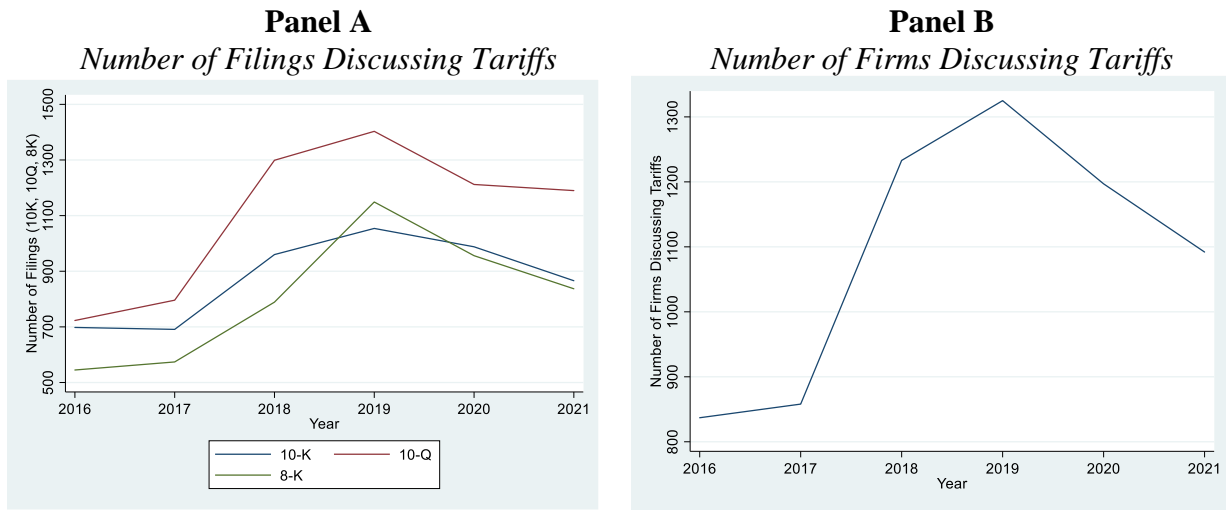
Panel C
Length of Tariff-Related Disclosures Over Time
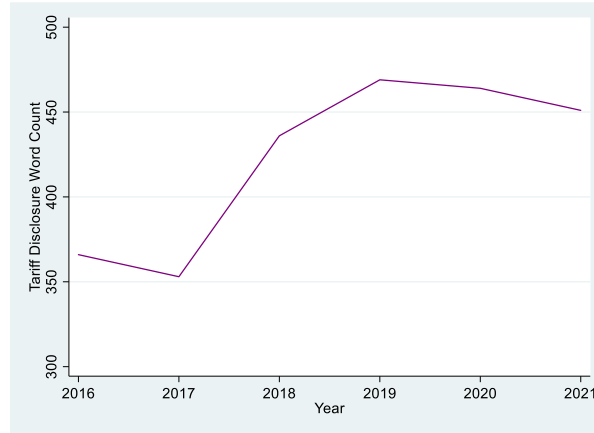
Figure 3
Parallel Trends Analysis
The figures provide visual representations of changes in firm performance, cash tax payments, and payouts and investment. The coefficients are plotted along with a 90% confidence interval and calculated based on standard errors clustered at the industry level. 2018 (time *t-1*) serves as the benchmark period.

Panel A: *Firm Performance*

Operating Income

Gross Margin

Panel B: *Taxes*

CashETR
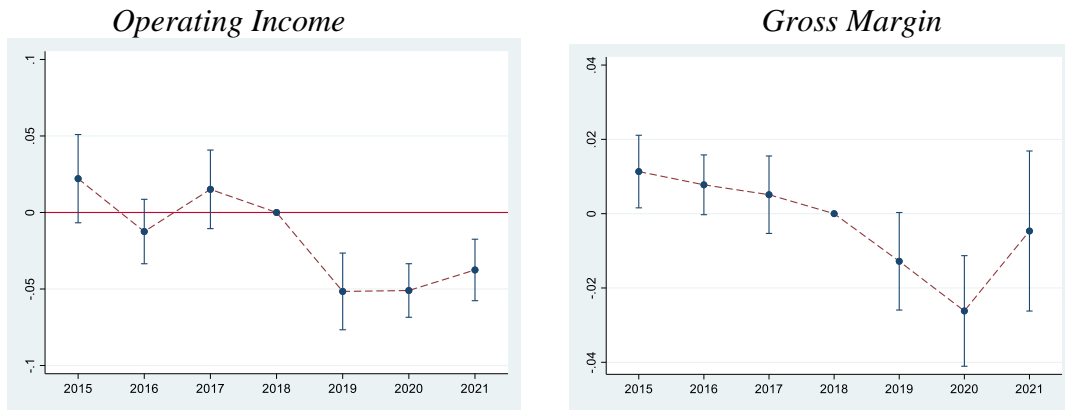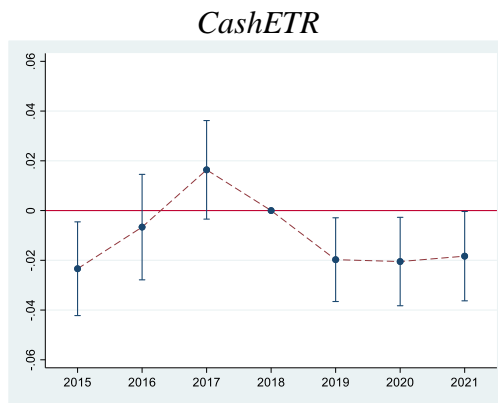
Panel C: *Payouts and Acquisitions*

Payout

Acquisitions
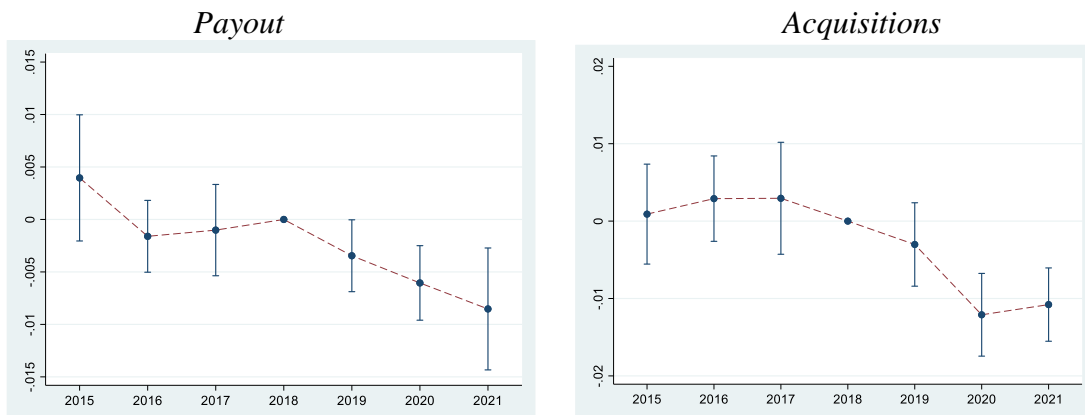
Table 1
Sample Selection

Panel A: *Disclosure and Identification Statistics*

Firms Disclosing Section 301 Tariffs	582
Firms Disclosing Cost of Section 301 Tariffs	108
Firms Disclosing Tariff Mitigation Efforts	224
Firms Disclosing Intent to Pass Tariff Costs to Customers	164
Firms Discussing the TCJA in Conjunction with Section 301 Tariffs	54
Firms Disclosing Exclusion Efforts	54
Firms Applying for Exclusions	204
Firms listed as Plaintiff in Court Dockett	61
Total Unique Firms Identified as Impacted by Section 301 Tariffs	681
Total Section 301 Tariffs Costs Disclosed	$ 9,871,905,792
Average Cost per Disclosing Firm	$ 91,406,536
Median Cost per Disclosing Firm	$ 17,200,000
Highest Cost Disclosed	$ 750,000,000

Panel B: *Sample Selection*

	Firm-Year Observations
Observations identified as impacted by the Section 301 Tariffs	793
Observations matched with within-industry Compustat data (excluding firms in Mining, Oil and Gas, Refining, Financial Firms, and Utilities Firms)	18,190
Observations missing necessary variables	(1,319)
Firms with less than two observations in sample	(427)
Firms missing data in 2018 and firms with no post years data	(2,078)
	14,366

Panel C: *Treated and Control Firms by Two-Digit NAICS Industry Codes*

Industry	Number Treated Firms	Number Control Firms
11 – Agriculture, Forestry, Fishing and Hunting	3	0
23 – Construction	5	18
31 – Manufacturing	40	28
32 – Manufacturing	94	581
33 – Manufacturing	363	394
42 – Wholesale Trade	34	61
44 – Retail Trade	41	38
45 – Retail Trade	25	27
48 – Transportation and Warehousing	20	27
49 – Transportation and Warehousing	1	2
51 – Information	32	334

53 – Real Estate Rental and Leasing	4	4
54 – Professional, Scientific, and Technical Services	8	58
56 – Administrative Support, Waste, and Remediation Services	5	18
61 – Educational Services	1	1
71 – Arts, Entertainment, and Recreation	1	6
72 – Accommodation and Food Services	1	14
99 – Non-classifiable	3	20

Notes: This table presents the sample selection. Panel A presents the disclosure and identification statistics. Panel B presents the sample selection. Panel C presents the treated and control firms industry distribution.

Table 2
Descriptive Statistics

Panel A: *Full Sample* (N = 14,366)

Firms: 2,312	Mean	P25	Median	P75	SD
Operating Income	-0.176	-0.245	0.072	0.146	0.585
Gross Margin	0.073	0.164	0.355	0.569	1.197
CashETR	0.148	0.000	0.038	0.239	0.211
GAAPETR	0.313	0.000	0.168	0.403	0.379
Payout	0.029	0.000	0.000	0.026	0.070
ACQ	0.031	0.000	0.000	0.004	0.101
Capex	0.036	0.008	0.021	0.044	0.048
RD	0.188	0.000	0.030	0.172	0.459
Adexp	0.016	0.000	0.000	0.008	0.045
Size	5.920	4.091	6.099	7.799	2.611
ROA	-0.262	-0.314	0.003	0.088	0.649
Leverage	0.225	0.004	0.153	0.342	0.275
Loss	0.491	0.000	0.000	1.000	0.500
NOL	0.795	1.000	1.000	1.000	0.404
Foreign	0.532	0.000	1.000	1.000	0.499
Cash	0.299	0.060	0.178	0.484	0.296
PPE	0.194	0.047	0.122	0.257	0.213
INTAN	0.240	0.003	0.121	0.381	0.320

Panel B: *Univariate Analysis*

	Control Obs	Treated Obs	Mean Control	Mean Treated	Diff	*t*-stat	*p*-value
Operating Income	9,892	4,474	-0.289	0.074	-0.363	-36.00	0.00
Gross Margin	9,892	4,474	-0.050	0.345	-0.394	-18.50	0.00
CashETR	9,892	4,474	0.123	0.201	-0.077	-20.70	0.00
GAAPETR	9,892	4,474	0.347	0.237	0.110	16.20	0.00
Payout	9,892	4,474	0.024	0.041	-0.017	-13.35	0.00
ACQ	9,892	4,474	0.030	0.036	-0.007	-3.75	0.00
Capex	9,892	4,474	0.034	0.040	-0.006	-6.85	0.00
RD	9,892	4,474	0.246	0.060	0.187	23.00	0.00
Adexp	9,892	4,474	0.013	0.021	-0.007	-8.30	0.00
Size	9,892	4,474	5.344	7.194	-1.850	-41.60	0.00
ROA	9,892	4,474	-0.383	0.005	-0.388	-34.55	0.00
Leverage	9,892	4,474	0.217	0.244	-0.028	-5.65	0.00
Loss	9,892	4,474	0.582	0.292	0.289	33.30	0.00
NOL	9,892	4,474	0.828	0.724	0.104	14.40	0.00
Foreign	9,892	4,474	0.435	0.745	-0.309	-35.95	0.00
Cash	9,892	4,474	0.356	0.171	0.185	36.35	0.00
PPE	9,892	4,474	0.173	0.240	-0.068	-17.80	0.00
INTAN	9,892	4,474	0.236	0.251	-0.015	-2.65	0.01

Panel C: *Entropy Balanced Sample Descriptive Statistics*

	China Tariff			Control		
	Mean	Variance	Skewness	Mean	Variance	Skewness
Size	7.045	4.386	-0.338	7.045	5.402	-0.305
ROA	0.006	0.090	-5.438	0.006	0.069	-5.054
Leverage	0.230	0.051	1.737	0.230	0.058	1.991
Loss	0.270	0.197	1.036	0.270	0.197	1.036
NOL	0.724	0.200	-0.999	0.827	0.143	-1.725
Foreign	0.740	0.193	-1.092	0.424	0.244	0.307
Cash	0.172	0.034	1.802	0.354	0.103	0.651
PPE	0.226	0.040	1.673	0.161	0.045	2.230
INTAN	0.248	0.078	2.226	0.235	0.118	2.506
Competition	0.527	0.076	-0.572	0.710	0.033	-1.863

Note: This table presents descriptive statistics. Panel A presents those for the full sample. Panel B presents univariate comparisons across the treatment and control samples. Panel C presents descriptive statistics for the entropy balanced samples.

Table 3
Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
China Tariff (1)	1.000									
Operating Income (2)	0.288***	1.000								
Gross Margin (3)	0.153***	0.350***	1.000							
CashETR (4)	0.170***	0.340***	0.185***	1.000						
GAAPETR (5)	-0.134***	-0.256***	-0.262***	-0.088***	1.000					
Payout (6)	0.111***	0.221***	0.125***	0.133***	-0.080***	1.000				
ACQ (7)	0.031***	0.118***	0.091***	0.063***	-0.057***	-0.012	1.000			
Capex (8)	0.057***	0.014*	0.071***	0.033***	-0.050***	0.007	0.055***	1.000		
RD (9)	-0.189***	-0.663***	-0.261***	-0.225***	0.230***	-0.126***	-0.066***	0.038***	1.000	
Adexp (10)	0.069***	-0.008	0.103***	0.005	-0.054***	0.046***	0.013*	0.157***	-0.029***	1.000
Size (11)	0.328***	0.624***	0.217***	0.292***	-0.173***	0.237***	0.131***	0.075***	-0.355***	-0.030***
ROA (12)	0.277***	0.956***	0.314***	0.329***	-0.224***	0.219***	0.079***	-0.020**	-0.643***	-0.017**
Leverage (13)	0.047***	0.100***	0.075***	0.025***	-0.072***	0.067***	0.087***	0.034***	-0.083***	0.013
Loss (14)	-0.268***	-0.552***	-0.294***	-0.340***	0.189***	-0.305***	-0.088***	-0.079***	0.323***	-0.013
NOL (15)	-0.119***	-0.192***	-0.118***	-0.158***	0.036***	-0.138***	-0.015*	-0.056***	0.156***	0.001
Foreign (16)	0.287***	0.359***	0.202***	0.178***	-0.188***	0.115***	0.087***	-0.020**	-0.197***	-0.006
Cash (17)	-0.290***	-0.485***	-0.389***	-0.308***	0.316***	-0.121***	-0.168***	-0.142***	0.422***	-0.045***
PPE (18)	0.147***	0.137***	0.091***	0.083***	-0.102***	0.048***	0.079***	0.632***	-0.094***	0.067***
INTAN (19)	0.022***	0.152***	0.175***	0.092***	-0.102***	-0.005	0.529***	-0.054***	-0.127***	0.004

	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Size (11)	1.000							
ROA (12)	0.612***	1.000						
Leverage (13)	0.212***	0.049***	1.000					
Loss (14)	-0.518***	-0.570***	-0.054***	1.000				
NOL (15)	-0.137***	-0.188***	-0.018**	0.275***	1.000			
Foreign (16)	0.501***	0.344***	0.072***	-0.258***	0.071***	1.000		
Cash (17)	-0.398***	-0.425***	-0.253***	0.433***	0.224***	-0.215***	1.000	
PPE (18)	0.196***	0.099***	0.208***	-0.153***	-0.158***	-0.040***	-0.343***	1.000
INTAN (19)	0.258***	0.101***	0.126***	-0.142***	-0.004	0.175***	-0.374***	-0.085***

Notes: This table presents the correlations for the variables. ***, **, * represent significance at the 1%, 5% and 10% levels, respectively.

Table 4
Section 301 Tariffs Impact on Firm Performance

Variables	Predicted Sign	Dependent Variable:					
		Operating Income			*Gross Margin*		
		(1)	(2)	(3)	(4)	(5)	(6)
China Tariff		0.389***			0.134*		
		(0.111)			(0.072)		
Post		0.062***			–0.024***		
		(0.018)			(0.007)		
China Tariff*Post	–	**–0.063***	**–0.074***	**-0.054***	**–0.017***	**–0.021***	**-0.021***
		(0.016)	**(0.025)**	**(0.014)**	**(0.008)**	**(0.010)**	**(0.007)**
Size				0.100***			-0.035**
				(0.022)			(0.016)
Leverage				-0.065***			-0.036
				(0.014)			(0.022)
Loss				-0.121***			-0.108***
				(0.022)			(0.019)
NOL				0.007			-0.010
				(0.010)			(0.008)
Foreign				0.047***			0.007
				(0.011)			(0.009)
Cash				-0.254***			-0.005
				(0.066)			(0.037)
PPE				-0.236***			0.138**
				(0.072)			(0.053)
INTAN				-0.097**			0.143***
				(0.048)			(0.030)
Capex				-0.669***			0.520***
				(0.214)			(0.081)
Competition				0.074**			0.058*
				(0.036)			(0.034)
Constant		–0.314**	–0.090***	-0.570***	0.278***	0.336***	0.499***
		(0.121)	(0.005)	(0.107)	(0.084)	(0.002)	(0.091)
Observations		14,366	14,366	14,366	14,366	14,366	14,366
Adjusted-R^2		0.120	0.819	0.837	0.042	0.803	0.831
Fixed Effects		None	Firm, Year	Firm, Year	None	Firm, Year	Firm, Year

Notes: This table presents the results of a difference-in-differences estimation examining the effect of the Section 301 tariffs on firm performance. The sample consists of firms impacted by the Section 301 tariffs (treatment firms), and industry-matched firms (control firms) for years 2015–2021. The dependent variable of firm performance is measured with two proxies: *Operating Income*, and *Gross Margin*. *China Tariff* is a time-invariant indicator variable equal to one for impacted firms, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2019–2021, and zero otherwise. *China Tariff*Post* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 5
Section 301 Tariffs Impact on Cash and GAAP ETR

Variable	Predicted Sign	Dependent Variable:					
		CashETR			*GAAPETR*		
		(1)	(2)	(3)	(4)	(5)	(6)
China Tariff		0.085***			-0.106*		
		(0.022)			(0.058)		
Post		–0.036***			-0.006		
		(0.006)			(0.007)		
China Tariff*Post	–	**–0.017*****	**–0.017****	**–0.014****	**-0.007**	**-0.005**	**–0.006**
		(0.006)	**(0.007)**	**(0.007)**	**(0.008)**	**(0.006)**	**(0.007)**
Size				0.009***			-0.013
				(0.003)			(0.009)
ROA				0.015***			-0.009
				(0.005)			(0.012)
Leverage				0.002			-0.006
				(0.009)			(0.017)
Loss				–0.006			-0.022**
				(0.010)			(0.009)
NOL				–0.028***			-0.086***
				(0.009)			(0.020)
Foreign				0.017			-0.141***
				(0.011)			(0.027)
Cash				-0.023**			-0.049**
				(0.011)			(0.022)
PPE				-0.008			-0.047**
				(0.022)			(0.022)
INTAN				0.020*			-0.006
				(0.011)			(0.014)
Capex				-0.014			0.217***
				(0.046)			(0.072)
Competition				0.002			0.059
				(0.025)			(0.050)
Constant		0.138***	0.166***	0.126***	0.349***	0.293***	0.511***
		(0.027)	(0.001)	(0.024)	(0.067)	(0.001)	(0.072)
Observations		14,366	14,366	14,366	14,366	14,366	14,366
Adjusted-R^2		0.043	0.300	0.301	0.024	0.610	0.618
Fixed Effects		None	Firm, Year	Firm, Year	None	Firm, Year	Firm, Year

Notes: This table presents the results of a difference-in-differences estimation examining the effect of the Section 301 tariffs on cash ETR and GAAP ETR. The sample consists of firms impacted by the Section 301 tariffs (treatment firms), and industry-matched firms (control firms) for years 2015–2021. *China Tariff* is a time-invariant indicator variable equal to one for impacted firms, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2019–2021, and zero otherwise. *China Tariff*Post* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 6
Section 301 Tariffs Impact on Payout and Investment

Variable	Predicted Sign	Payout			Capex			ACQ		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
China Tariff		0.019***			0.006*			0.011*		
		(0.005)			(0.003)			(0.006)		
Post		–0.002			-0.007***			-0.002		
		(0.002)			(0.001)			(0.003)		
China Tariff*Post	**–**	**–0.006****	**–0.006***	**–0.005***	**-0.001**	**-0.001**	**-0.002**	**-0.010****	**-0.010****	**-0.011*****
		(0.003)	**(0.003)**	**(0.003)**	**(0.001)**	**(0.001)**	**(0.001)**	**(0.004)**	**(0.004)**	**(0.003)**
Size				-0.004**			-0.001			-0.006***
				(0.002)			(0.001)			(0.002)
ROA				0.002			-0.011***			0.018***
				(0.002)			(0.001)			(0.003)
Leverage				0.008			-0.020***			0.034***
				(0.006)			(0.004)			(0.009)
Loss				-0.009***			-0.008***			0.010***
				(0.002)			(0.001)			(0.003)
NOL				-0.007**			-0.002			-0.003
				(0.003)			(0.001)			(0.004)
Foreign				0.011***			-0.001			0.006
				(0.003)			(0.002)			(0.005)
Cash				-0.002			0.003			0.053***
				(0.004)			(0.003)			(0.009)
PPE				-0.036***			0.152***			0.099***
				(0.011)			(0.016)			(0.015)
INTAN				-0.008**			0.000			0.287***
				(0.003)			(0.004)			(0.035)
Capex				0.043						0.009
				(0.026)						(0.040)
Competition				0.020*			0.018**			0.010
				(0.012)			(0.007)			(0.013)
Constant		0.025***	0.033***	0.055***	0.037***	0.037***	0.006	0.030***	0.035***	–0.048**
		(0.005)	(0.001)	(0.015)	(0.00)	(0.000)	(0.013)	(0.006)	(0.001)	(0.019)
Observations		14,366	14,366	14,366	14,366	14,366	14,366	14,366	14,366	14,366
Adjusted-R^2		0.015	0.500	0.507	0.011	0.513	0.642	0.003	0.228	0.500
Fixed Effects		None	Firm, Year	Firm, Year	None	Firm, Year	Firm, Year	None	Firm, Year	Firm, Year

Notes: This table presents the results of a difference-in-differences estimation examining the effect of the Section 301 tariffs on firm payout and investment. The sample consists of firms impacted by the Section 301 tariffs (treatment firms), and industry-matched firms (control firms) for years 2015–2021. The dependent variable of payout and investment is measured with five proxies: *Payout, Capex, ACQ, RD, and Adexp*. *China Tariff* is a time-invariant indicator variable equal to one for impacted firms, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2019–2021, and zero otherwise. *China Tariff*Post* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 6 (continued)

Section 301 Tariffs Impact on Payout and Investment

Variables	Predicted Sign	Dependent Variable:					
		RD			Adexp		
		(10)	(11)	(12)	(13)	(14)	(15)
China Tariff		-0.202**			0.007		
		(0.091)			(0.005)		
Post		-0.053**			–0.002**		
		(0.026)			(0.001)		
China Tariff*Post	–	**0.038***	**0.051**	**0.013**	**–0.001**	**–0.001**	**-0.001**
		(0.022)	**(0.032)**	**(0.011)**	**(0.001)**	**(0.001)**	**(0.001)**
Size				-0.030***			-0.002**
				(0.010)			(0.001)
ROA				-0.469***			-0.003
				(0.130)			(0.002)
Leverage				-0.027			-0.002
				(0.026)			(0.001)
Loss				-0.096**			-0.002***
				(0.037)			(0.001)
NOL				-0.013			0.002
				(0.009)			(0.002)
Foreign				-0.010			0.002
				(0.009)			(0.002)
Cash				0.042*			0.004
				(0.023)			(0.004)
PPE				0.192***			0.007*
				(0.050)			(0.004)
INTAN				-0.003			0.007***
				(0.014)			(0.003)
Capex				0.520***			0.059***
				(0.165)			(0.016)
Competition				-0.067**			0.005
				(0.028)			(0.004)
Constant		0.268***	0.141***	0.285***	0.014***	0.017***	0.020***
		(0.100)	(0.007)	(0.063)	(0.004)	(0.000)	(0.006)
Observations		14,366	14,366	14,366	14,366	14,366	14,366
Adjusted-R^2		0.0557	0.615	0.727	0.0557	0.615	0.727
Fixed Effects		None	Firm, Year	Firm, Year	None	Firm, Year	Firm, Year

Notes: This table presents the results of a difference-in-differences estimation examining the effect of the Section 301 tariffs on firm payout and investment. The sample consists of firms impacted by the Section 301 tariffs (treatment firms), and industry-matched firms (control firms) for years 2015–2021. The dependent variable of payout and investment is measured with five proxies: *Payout, Capex, ACQ, RD, and Adexp*. *China Tariff* is a time-invariant indicator variable equal to one for impacted firms, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2019–2021, and zero otherwise. *China Tariff*Post* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 7

Domestic Firms

Variable	Predicted Sign	Operating Income	Gross Margin	CashETR	GAAPETR	Payout	Capex	ACQ	RD	Adexp
		Dependent Variable:								
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
China Tariff*Post	–	**-0.061*****	**-0.026****	**-0.024****	**-0.021**	**-0.012*****	**-0.006****	**-0.017*****	**0.019**	**-0.003**
		(0.016)	**(0.011)**	**(0.010)**	**(0.021)**	**(0.004)**	**(0.003)**	**(0.005)**	**(0.023)**	**(0.002)**
Size		0.118***	-0.014	0.011**	-0.025*	-0.005**	0.001	-0.003	-0.033**	-0.001
		(0.027)	(0.008)	(0.005)	(0.014)	(0.002)	(0.001)	(0.003)	(0.013)	(0.001)
ROA				0.017***	-0.006	0.002	-0.010***	0.010***	-0.455***	-0.004*
				(0.006)	(0.012)	(0.002)	(0.001)	(0.003)	(0.134)	(0.002)
Leverage		-0.074***	-0.027*	0.002	-0.016	0.004	-0.018***	0.016*	-0.018	0.001
		(0.021)	(0.015)	(0.011)	(0.029)	(0.007)	(0.005)	(0.009)	(0.036)	(0.002)
Loss		-0.174***	-0.144***	0.015	-0.025	-0.008**	-0.010***	0.009*	-0.155**	-0.002
		(0.035)	(0.032)	(0.015)	(0.016)	(0.004)	(0.002)	(0.004)	(0.062)	(0.001)
NOL		0.028	-0.009	-0.043***	-0.050**	-0.010	-0.003	0.003	0.002	0.001
		(0.022)	(0.012)	(0.011)	(0.022)	(0.006)	(0.002)	(0.004)	(0.017)	(0.002)
Foreign		0.026	-0.003	0.026	-0.037	0.013***	-0.004	0.013	-0.004	-0.006
		(0.027)	(0.017)	(0.019)	(0.042)	(0.004)	(0.004)	(0.008)	(0.025)	(0.004)
Cash		-0.316***	-0.003	-0.025*	-0.030	0.006	0.012**	0.035***	0.032	0.003
		(0.080)	(0.031)	(0.013)	(0.027)	(0.006)	(0.005)	(0.009)	(0.033)	(0.006)
PPE		-0.320***	0.117**	0.007	-0.013	-0.027**	0.156***	0.081***	0.220***	0.009*
		(0.089)	(0.047)	(0.019)	(0.026)	(0.013)	(0.017)	(0.015)	(0.062)	(0.005)
INTAN		-0.160**	0.133***	0.030**	-0.009	-0.001	0.002	0.203***	-0.024	0.008
		(0.067)	(0.035)	(0.012)	(0.026)	(0.004)	(0.004)	(0.035)	(0.028)	(0.005)
Capex		-0.693***	0.340***	0.046	0.210**	0.032		0.013	0.495**	0.058***
		(0.195)	(0.073)	(0.040)	(0.082)	(0.028)		(0.042)	(0.216)	(0.020)
Competition		0.092	0.073	-0.030	0.103	0.022	0.019	0.005	-0.136***	0.012*
		(0.067)	(0.045)	(0.048)	(0.066)	(0.021)	(0.013)	(0.023)	(0.050)	(0.007)
Constant		-0.617***	0.334***	0.119***	0.480***	0.049***	-0.009	-0.034	0.314***	0.007
		(0.105)	(0.042)	(0.038)	(0.085)	(0.018)	(0.012)	(0.022)	(0.074)	(0.008)
Observations		6,636	6,636	6,636	6,636	6,636	6,636	6,636	6,636	6,636
Adjusted-R^2		0.849	0.846	0.509	0.745	0.570	0.468	0.755	0.823	0.687
Fixed Effects		Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year
Number of Firms		1,114	1,114	1,114	1,114	1,114	1,114	1,114	1,114	1,114

Notes: This table presents the results of a difference-in-differences estimation examining the effect of the Section 301 tariffs on domestic firms. The sample consists of domestic firms impacted by the Section 301 tariffs (treatment firms), and domestic industry-matched firms (control firms) for years 2015–2021. The dependent variable of firm performance is measured with two proxies: *Operating Income* and *Gross Margin*. The dependent variable of ETR is measured with two proxies: *Cash ETR* and *GAAP ETR*. The dependent variable of payout and investment is measure with five proxies: *Payout, Capex, ACQ, RD, and Adexp*. *China Tariff* is a time-invariant indicator variable equal to one for impacted firms, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2019–2021, and zero otherwise. *China Tariff*Post* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 8

China Revenue Share

Variable	Predicted Sign	Dependent Variable	
		Operating Income	*Gross Margin*
		(1)	(2)
China Rev Share*Post	–	**-0.060**	**0.008**
		(0.040)	**(0.050)**
Constant		-0.461***	0.521***
		(0.065)	(0.126)
Observations		7,118	7,118
Adjusted-R^2		0.818	0.814
Controls		Yes	Yes
Fixed Effects		Firm, Year	Firm, Year

Notes: This table presents the results of a difference-in-differences estimation examining the effect of US-China trade war on firms impacted by the Section 301 China tariffs with revenue in China. The sample consists of firms impacted by the Section 301 tariffs who have revenue in China, identified via Compustat Segment data (following Amiti et a. 2022) (treatment firms), and industry-matched firms (control firms) for years 2015–2021. The dependent variable of firm performance is measured with two proxies: *Operating Income* and *Gross Margin*. *China Rev Share* a time-invariant continuous variable equal to the portion of a firm's revenue sourced from China, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2019–2021, and zero otherwise. *China Rev Share *Post* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 9

Triple Difference Test for Firms Facing High Competition

Variable	Predicted Sign	Dependent Variable:								
		Operating Income	*Gross Margin*	*CashETR*	*GAAPETR*	*Payout*	*Capex*	*ACQ*	*RD*	*Adexp*
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
China Tariff*Post		-0.034***	-0.014*	-0.003	-0.013	-0.003	-0.002	-0.008**	-0.005	0.001
		(0.010)	(0.007)	(0.007)	(0.010)	(0.003)	(0.002)	(0.003)	(0.010)	(0.001)
Post*High Competition		0.036	0.013	0.012	-0.003	0.006**	0.000	0.005	-0.031	0.003
		(0.023)	(0.012)	(0.009)	(0.008)	(0.003)	(0.002)	(0.004)	(0.022)	(0.002)
China Tariff*Post*High Competition	–	**-0.032****	**-0.013**	**-0.027****	**0.025**	**-0.001**	**0.000**	**-0.005**	**0.032***	**-0.004**
		(0.016)	**(0.013)**	**(0.013)**	**(0.015)**	**(0.004)**	**(0.003)**	**(0.006)**	**(0.018)**	**(0.002)**
Constant		-0.566***	0.500***	0.124***	0.515***	0.057***	0.007	-0.048**	0.283***	0.020***
		(0.103)	(0.089)	(0.022)	(0.072)	(0.015)	(0.013)	(0.019)	(0.066)	(0.006)
Observations		14,366	14,366	14,366	14,366	14,366	14,366	14,366	14,366	14,366
Adjusted-R^2		0.864	0.858	0.415	0.680	0.587	0.700	0.501	0.772	0.871
Controls		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects		Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year

Notes: This table presents the results of a triple difference-in-differences estimation examining the effect of the Section 301 tariffs on firms facing above median market competition. The sample consists of firms impacted by the Section 301 tariffs (treatment firms), and industry-matched firms (control firms) for years 2015–2021. The dependent variable of firm performance is measured with two proxies: *Operating Income* and *Gross Margin*. The dependent variable of ETR is measured with two proxies: *Cash ETR* and *GAAP ETR*. The dependent variable of payout and investment is measure with five proxies: *Payout, Capex, ACQ, RD, and Adexp*. *China Tariff* is a time-invariant indicator variable equal to one for impacted firms, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2019–2021, and zero otherwise. *High Competition* is a time-invariant indicator variable equal to one for firms facing above median market competition, and zero otherwise. *China Tariff*Post*High Competition* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 10

Economics Impacts for Firms Filing for Tariff Exclusions

Variable	Predicted Sign	Operating Income	Gross Margin	CashETR	GAAPETR	Payout	ACQ	RD	Adexp	Capex
		Dependent Variable:								
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Exclusion*Post	–	-0.060***	-0.017**	-0.024**	-0.006	-0.002	-0.011***	0.020	-0.002	-0.002
		(0.013)	(0.006)	(0.010)	(0.010)	(0.005)	(0.004)	(0.014)	(0.001)	(0.002)
Size		0.111***	-0.025	0.012***	-0.014	-0.004**	-0.003	-0.031**	-0.001*	-0.000
		(0.023)	(0.016)	(0.004)	(0.011)	(0.002)	(0.002)	(0.012)	(0.001)	(0.001)
ROA				0.014***	0.001	0.001	0.015***	-0.468***	-0.004*	-0.011***
				(0.004)	(0.014)	(0.002)	(0.004)	(0.128)	(0.002)	(0.001)
Leverage		-0.072***	-0.021	0.003	0.014	-0.001	0.026***	-0.023	-0.001	-0.020***
		(0.017)	(0.024)	(0.007)	(0.016)	(0.003)	(0.009)	(0.030)	(0.001)	(0.004)
Loss		-0.146***	-0.121***	-0.002	-0.025*	-0.007***	0.009**	-0.115**	-0.001*	-0.007***
		(0.032)	(0.030)	(0.011)	(0.014)	(0.002)	(0.004)	(0.052)	(0.001)	(0.001)
NOL		0.003	-0.008	-0.032***	-0.094***	-0.004	-0.000	-0.007	0.004	-0.001
		(0.016)	(0.009)	(0.011)	(0.018)	(0.003)	(0.004)	(0.012)	(0.003)	(0.002)
Foreign		0.059***	0.015	0.017**	-0.110***	0.007***	0.006	0.008	0.002	0.002
		(0.016)	(0.010)	(0.009)	(0.030)	(0.002)	(0.006)	(0.010)	(0.002)	(0.002)
Cash		-0.318***	0.006	-0.016	-0.026	0.002	0.048***	0.051*	0.001	0.008
		(0.064)	(0.044)	(0.012)	(0.024)	(0.005)	(0.009)	(0.027)	(0.004)	(0.005)
PPE		-0.313***	0.118*	0.015	-0.053**	-0.028***	0.099***	0.244***	0.005	0.167***
		(0.073)	(0.065)	(0.015)	(0.025)	(0.009)	(0.019)	(0.065)	(0.004)	(0.013)
INTAN		-0.159***	0.129***	0.017*	-0.008	-0.008**	0.246***	-0.000	0.004**	-0.003
		(0.048)	(0.034)	(0.009)	(0.015)	(0.003)	(0.034)	(0.013)	(0.002)	(0.004)
Capex		-0.785***	0.454***	-0.045	0.199**	0.031	-0.014	0.587**	0.070***	
		(0.262)	(0.077)	(0.045)	(0.076)	(0.023)	(0.036)	(0.240)	(0.021)	
Competition		0.044	0.099**	0.006	0.003	0.008	0.014	-0.086*	0.010**	0.007
		(0.049)	(0.039)	(0.031)	(0.056)	(0.010)	(0.017)	(0.043)	(0.005)	(0.006)
Constant		-0.602***	0.370***	0.089***	0.558***	0.055***	-0.065**	0.285***	0.009**	0.004
		(0.102)	(0.068)	(0.023)	(0.090)	(0.015)	(0.025)	(0.055)	(0.004)	(0.009)
Observations		11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250
Adjusted-R^2		0.856	0.845	0.446	0.729	0.577	0.488	0.768	0.837	0.701
Fixed Effects		Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year

Notes: This table presents the results of a difference-in-differences estimation examining the effect of the Section 301 tariffs on firms applying for USTR tariff exclusions. The sample consists of firms impacted by the Section 301 tariffs (treatment firms), and industry-matched firms (control firms) for years 2015–2021. The dependent variable of firm performance is measured with two proxies: *Operating Income* and *Gross Margin*. The dependent variable of ETR is measured with two proxies: *Cash ETR* and *GAAP ETR*. The dependent variable of payout and investment is measure with five proxies: *Payout, Capex, ACQ, RD, and Adexp. Exclusion* is a time-invariant indicator variable equal to one for firms applying for USTR tariff exclusion, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2019–2021, and zero otherwise. *Exclusion*Post* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 11

Falsification Test for Cash ETR, GAAPETR, and Payout

Variable	Dependent Variable:		
	CashETR	*GAAPETR*	*Payout*
	(1)	(2)	(3)
China Tariff*Post	**-0.009**	**-0.003**	**-0.004**
	(0.009)	**(0.009)**	**(0.003)**
Size	0.010***	-0.012	-0.004**
	(0.003)	(0.009)	(0.002)
ROA	0.015***	-0.009	0.002
	(0.005)	(0.012)	(0.002)
Leverage	0.003	-0.006	0.009
	(0.009)	(0.017)	(0.006)
Loss	-0.006	-0.022**	-0.009***
	(0.011)	(0.009)	(0.002)
NOL	-0.028***	-0.086***	-0.007**
	(0.009)	(0.020)	(0.003)
Foreign	0.017	-0.141***	0.011***
	(0.011)	(0.027)	(0.003)
Cash	-0.023**	-0.050**	-0.003
	(0.011)	(0.022)	(0.004)
PPE	-0.008	-0.047**	-0.036***
	(0.022)	(0.022)	(0.011)
INTAN	0.020*	-0.006	-0.008**
	(0.011)	(0.014)	(0.003)
Capex	-0.012	0.218***	0.043*
	(0.045)	(0.073)	(0.026)
Competition	0.002	0.059	0.020*
	(0.025)	(0.050)	(0.012)
Constant	0.124***	0.510***	0.055***
	(0.021)	(0.071)	(0.016)
Observations	14,366	14,366	14,366
Adjusted-R^2	0.415	0.680	0.585
Fixed Effects	Firm, Year	Firm, Year	Firm, Year

Notes: This table presents the results of a placebo difference-in-differences estimation examining the effect of the Section 301 tariffs on *CashETR, GAAPETR*, and *Payout*. The sample consists of firms impacted by the Section 301 tariffs (treatment firms), and industry-matched firms (control firms) for years 2015–2021. *China Tariff* is a time-invariant indicator variable equal to one for impacted firms, and zero otherwise; *Post* is an indicator variable equal to one for calendar years 2018–2021, and zero otherwise. *China Tariff*Post* is the interaction term and variable of interest. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Table 12

Firm Determinants and Characteristics of Tariff-Related Mitigation and Disclosure

	Dependent Variable:					
Variable	*Exclusion*	*Plaintiff*	*Mitigate*	*Pass to Customer*	*Disclose Cost*	*Stops Reporting*
	(1)	(2)	(3)	(4)	(5)	
Exclusion		0.125***	0.123***	0.014	0.082***	0.040
		(0.026)	(0.030)	(0.026)	(0.027)	(0.032)
Plaintiff	0.365***		-0.054	0.075*	0.036	0.010
	(0.066)		(0.048)	(0.046)	(0.046)	(0.055)
Mitigate	0.152***	-0.023		0.363***	0.228***	0.160***
	(0.037)	(0.020)		(0.037)	(0.034)	(0.042)
Disclose Cost	0.166***	0.025	0.374***	0.140***		0.171***
	(0.053)	(0.032)	(0.050)	(0.050)		(0.058)
Pass to Customer	0.020	0.037	0.425***		0.100***	0.015
	(0.038)	(0.023)	(0.041)		(0.037)	(0.046)
Stops Reporting	0.030	0.003	0.098***	0.008	0.063***	
	(0.025)	(0.014)	(0.027)	(0.024)	(0.023)	
Size	-0.010**	-0.004*	-0.005	0.000	-0.003	-0.010**
	(0.004)	(0.002)	(0.004)	(0.004)	(0.003)	(0.005)
ROA	-0.006**	-0.001	-0.003	-0.005*	0.002	-0.014***
	(0.003)	(0.001)	(0.003)	(0.003)	(0.002)	(0.004)
Leverage	-0.011	0.001	-0.002	0.003	-0.003	-0.008
	(0.007)	(0.005)	(0.007)	(0.006)	(0.006)	(0.009)
Loss	0.001	-0.004	0.008	-0.006	0.007	-0.002
	(0.005)	(0.003)	(0.006)	(0.005)	(0.005)	(0.007)
NOL	-0.014	0.004	0.009	-0.019**	0.009	0.013
	(0.011)	(0.005)	(0.010)	(0.009)	(0.008)	(0.010)
Foreign	-0.001	-0.005	0.001	0.003	0.001	0.014
	(0.009)	(0.007)	(0.013)	(0.012)	(0.010)	(0.016)
Cash	0.003	-0.005	0.003	0.008	0.005	-0.002
	(0.009)	(0.005)	(0.010)	(0.011)	(0.008)	(0.014)
PPE	-0.004	0.006	0.041**	0.038**	0.002	-0.024
	(0.018)	(0.010)	(0.019)	(0.018)	(0.014)	(0.023)
Capex	0.009	0.004	-0.099**	-0.025	-0.005	-0.055
	(0.053)	(0.023)	(0.047)	(0.042)	(0.031)	(0.060)
INTAN	0.012*	0.003	0.009	0.001	0.002	0.009
	(0.007)	(0.004)	(0.008)	(0.007)	(0.005)	(0.008)
RD	0.005**	0.001	-0.000	-0.002	0.002	0.006*
	(0.002)	(0.001)	(0.002)	(0.002)	(0.001)	(0.003)
ACQ	-0.018	0.001	-0.020	-0.016	0.002	-0.021
	(0.015)	(0.008)	(0.015)	(0.014)	(0.009)	(0.018)
Adexp	-0.033	-0.016	-0.011	-0.046	-0.089	-0.054
	(0.058)	(0.031)	(0.056)	(0.061)	(0.063)	(0.091)
Competition	-0.045	0.027	-0.011	0.044	0.025	-0.052
	(0.042)	(0.036)	(0.037)	(0.033)	(0.029)	(0.051)
Constant	0.121***	0.012	0.033	-0.011	-0.010	0.119***
	(0.036)	(0.023)	(0.033)	(0.030)	(0.025)	(0.045)
Observations	14,416	14,416	14,416	14,416	14,416	
Adjusted-R^2	0.535	0.487	0.644	0.592	0.564	
Fixed Effects	Firm, Year	Firm, Year	Firm, Year	Firm, Year	Firm, Year	

Notes: This table presents the results of the linear probability estimation. The sample consists of firms impacted by the Section 301 tariffs (treatment firms), and industry-matched firms (control firms) for years 2015–2021. *Exclusion, Plaintiff, Mitigate, pass to Customer, Disclose Cost, and Stops Reporting* are time-invariant indicator variables equal to one or zero. All variables are defined in Appendix A. Standard errors are reported in parentheses and are clustered by industry. *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, using the indicated one- or two-tailed tests.

Variable	Description	Source
Dependent Variables		
Exclusion	An indicator variable equal to 1 if a firm applies for a tariff exclusion request, and 0 otherwise.	QuantGov
Plaintiff	An indicator variable equal to 1 if a firm joins the United States Court of International Trade, In RE Section 301 Cases, Court No. 21-00052 as a plaintiff, and 0 otherwise.	USCIT
Mitigate	An indicator variable equal to 1 if a firm discusses mitigation of Section 301 tariff impacts, and 0 otherwise.	10-K, 10-Q, 8-K
Pass to Customer	An indicator variable equal to 1 if a firm discusses passing some of their tariff costs onto customers through raising prices, and 0 otherwise.	10-K, 10-Q, 8-K
Disclose Cost	An indicator variable equal to 1 if a firm discloses the cost of the tariffs, and 0 otherwise.	10-K, 10-Q, 8-K
Stops Reporting	An indicator variable equal to 1 if a firm stops disclosing the tariffs before the end of the sample period, and 0 otherwise.	10-K, 10-Q, 8-K
Operating Income	Operating income divided by total assets [OIBPD/AT].	Compustat
Gross Margin	Sales minus cost of goods sold divided by sales [(SALE – COGS)/SALE]	Compustat
CashETR	Total taxes paid divided by pretax book income minus special items [TXPD/(PI-SPI)].	Compustat
Payout	Cash dividends plus stock repurchase divided by total assets, where stock repurchase is defined as the change in treasury stock. [(DVC + (TSTKC$_t$ – TSTKC$_{t-1}$))/AT]. If treasury stock is 0, then stock repurchase equals the purchase of common and preferred stock minus the sale of common and preferred stock [PRSTKC – SSTK].	Compustat
Capex	Capital expenditures divided by total assets [CAPX/AT].	Compustat
ACQ	Acquisitions divided by total assets [ACQ/AT].	
RD	Research and development expenditures divided by sales [XRD/SALE]. RD = 0 if missing in Compustat.	Compustat
Adexp	Advertising expense divided by total assets [XAD/AT].	Compustat
Independent Variables		
China Tariff	An indicator variable equal to 1 if the firm is considered impacted by the Section 301 Tariffs, and 0 otherwise.	10-K, 10-Q, 8-K, QuantGov, USCIT
Report10K	An indicator variable equal to 1 if a firm only discloses the tariffs in Form 10K, and 0 otherwise.	10-K, 10-Q, 8-K
Report 10Q	An indicator variable equal to 1 if a firm only discloses the tariffs in Form 10Q, and 0 otherwise.	10-K, 10-Q, 8-K
Report 8K	An indicator variable equal to 1 if a firm only discloses the tariffs in Form 8K, and 0 otherwise.	10-K, 10-Q, 8-K
No Disclosure		10-K, 10-Q, 8-K, QuantGov, USCIT

Post	An indicator variable equal to 1 for years 2019 - 2021, and 0 for years 2015 – 2018.	
Size	The natural log of total assets ln[AT].	Compustat
ROA	Return-on-assets calculated as pretax income divided by total assets [PI/AT].	Compustat
Leverage	Long-term debt divided by total assets [DLTT/AT].	Compustat
Loss	An indicator variable equal to one if the firm has incurred a loss in the current year (PI<0), and 0 otherwise.	Compustat
NOL	An indicator variable equal to one if the firm has incurred an NOL balance in the current year (TLCF>0), and 0 otherwise.	Compustat
Foreign	An indicator variable equal to one if pretax foreign income (PIFO) is non-zero and non-missing.	Compustat
Cash	Cash divided by total assets [CHE/AT].	Compustat
PPE	Property, Plant, and Equipment divided by total assets [PPENT/AT].	Compustat
INTAN	Intangible assets divided by total assets [INTAN/AT].	Compustat
Capex	Capital expenditures divided by total assets [CAPX/AT].	Compustat
Competition	The Herfindahl-Hirschman Index calculated as the sum of the squared market share of all firms in industry k in year t. As HHI decreases with the intensity in industry-level competition, I use 1 – HHI such that the measure increases with competition intensity (Chen et al., 2015).	Compustat

Appendix B
Summary of Filings Discussing Section 301 Tariffs

Form 10-K	1,431
Form 10-Q	1,521
Form 8-K	620
Total	**3,573**

Appendix C

Panel A: *Section 301 Tariff Disclosure Examples*

Company	Filing	Period	Section	Disclosure Type	Disclosure Details
IROBOT Corp	10-K	December 28, 2019	Item 1A Risk Factors	Pass to Customer	*The U.S. government has indicated its intent to alter its approach to international trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements and treaties with foreign countries. Effective September 24, 2018, the U.S. government implemented a 10% tariff on certain goods imported from China, which include the majority of those imported by the Company. These tariffs were increased to 25% on May 10, 2019 and were slated to further increase to 30% in October 2019 until a last-minute interim deal was reached between the United States and China. Although the United States and China signed a new trade agreement in January 2020, most of the previously-implemented tariffs on goods imported from China remain in place (including the tariffs described above), and uncertainty remains as to the short-term and long-term future of economic relations between the United States and China. **These tariffs, and other governmental action relating to international trade agreements or policies, have directly or indirectly adversely impacted demand for our products, our costs, customers, suppliers, distributors, resellers and/or the U.S. economy or certain sectors thereof and, as a result, have adversely impacted, and we expect will continue to adversely impact, our business, financial condition and results of operations**. The already-implemented, and any additional or increased, tariffs have caused and **may in the future cause us to further increase prices to our customers which we believe has reduced, and in the future may reduce, demand for our products**. The increased tariffs are a contributing cause for lowering our margin on products sold, and we expect a reduced margin going forward due to continuing tariffs.*
IROBOT Corp	10-K	December 28, 2019	Item 1A Risk Factors	Mitigate	*In late 2019, we added additional manufacturing capacity in Malaysia with one of our existing contract manufacturers and we anticipate that a second contract manufacturer will be qualified for production in Malaysia in 2020. We expect that manufacturing volumes in Malaysia will ramp up in 2020, including potential production of an additional Roomba model. **We believe that manufacturing our products in Malaysia will help mitigate our exposure to current and prospective tariffs on products imported from China.***
Dollar Tree, Inc.	10-Q	August 3, 2019	Item 2 MD&A	Mitigate	*On August 23, 2019, the USTR announced that tariffs on List 1, 2, and 3 products would increase from 25% to 30% on October 1, 2019, tariffs on List 4A products would increase from 10% to 15% on September 1, 2019, and tariffs on List 4B products would increase from 10% to 15% on December 15, 2019. **We estimate that without mitigation List 4 and the additional 5% tariff on Lists 1, 2 and 3 will cost the Company approximately $26 million in additional tariffs between September 1, 2019 and December 15, 2019 and approximately $14.7 million between December 15, 2019 and January 31, 2020. We are now implementing actions that may mitigate all List 1, 2,***

					3, and 4 tariffs. We will continue to assess the future impact of those tariffs. We are not able to accurately predict that impact of mitigation until we can estimate the success of our current efforts. We can give no assurances as to the final scope, duration, or impact of any existing or future tariffs. The List 1, 2, 3, and 4 tariffs could have a material adverse effect on our business and results of operations next year if we do not mitigate their impact.
Lovesac Co.	10-Q	November 3, 2019	Item 2 MD&A	Cost	*Gross margin decreased to 50.7% of net sales in the thirty-nine weeks ended November 3, 2019 from 54.4% of net sales in the thirty-nine weeks ended November 4, 2018.* **The decrease in gross margin percentage of 3.8% was driven primarily by the impact of 25% China tariffs.**
Williams Sonoma, Inc.	10-Q	November 3, 2019	Item 2 MD&A	Cost	**Gross profit in the third quarter of fiscal 2019 decreased to 35.9% of revenues versus 36.5% in the third quarter of fiscal 2018, primarily driven by the incremental impact from the China tariffs** *.....We have been executing against an aggressive tariff mitigation plan which includes cost reductions from vendors, moving production out of China to South East Asia and to the United States, cost savings in other areas of the business, as well as select price increases.*
Crocs, Inc.	8-K	June 11, 2019		Cost	*We currently import approximately 30% of our U.S. product from China. Assuming a 25% tariff takes effect on August 1, 2019,* **we estimate the 2019 impact at approximately $5 million.**
FITBIT, Inc.	10-K	April 25, 2020	Item 7 MD&A	Cost	*Cost of revenue increased $98.7 million, or 11%, from $908.4 million for 2018 to $1.0 billion for 2019.* **The increase was primarily due to $21.3 million in tariff costs related to products manufactured in China that went into effect on September 1, 2019**
FITBIT, Inc.	10-K	April 25, 2020	Item 1A Risk Factors	Cost	*We began exploring possibilities to mitigate the impact of tariffs in 2018, in response to the Trump Administration's concerns regarding China and the ongoing tariff threat.* **We have made and continue to seek to make additional changes to our supply chain and manufacturing operations that we believe will significantly reduce our exposure to the tariffs on Chinese-origin products.** *Based on the progress we have made to date, we do not expect these tariffs to have a substantial ongoing impact on our operations in 2020.* **We have also taken opportunities to mitigate the impact of these tariffs for both past and future imports, including by petitioning for an exclusion from Section 301 duties for our products.** *However, if we are not successful in mitigating the effects of the tariffs or any related counter-measures that may be taken by China, our revenue, gross margins, and operating results may be adversely affected.*

Panel B: Cost Disclosure Statistics

Cost Quartile	Company	Amount
1	American Eagle Outfitters Inc.	4,000,000
1	Vera Bradley, Inc.	3,400,000
2	Crocs, Inc.	10,000,000
2	Steven Madden, LTD.	17,200,000
3	Yeti Holdings, Inc.	63,121,780
3	La-Z-Boy Inc.	51,300,000
4	NIKE, Inc.	420,000,000
4	IROBOT Corp	307,800,000
4	Stanley Black & Decker, Inc.	550,000,000