Baker McKenzie.

# Luxury, Fashion and Cosmetics


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# The latest on the impact of the Trump administration on Luxury, Fashion and Cosmetics companies

Below we outline the potential impact of the new US administration's policies on Luxury, Fashion and Cosmetics companies in the consumer goods and retail (CG&R) sector.

## Tariffs

The Trump administration's recent tariff policies and executive orders (EOs) are likely to significantly impact the luxury, fashion, and cosmetics industries. New tariffs on imports from key trading partners could lead to retaliative tariffs as well as increased costs for companies relying on materials from those markets. The tariffs on Canada and Mexico proceeded on 4 March 2025 and then were again paused as of 7 March at midnight. The Chinese tariffs increased from 10% to 20% and remain there (for now). Tariffs against Mexico and Canada could lead to retaliatory measures affecting US goods like perfume, clothing, and shoes. Tariffs against the EU and other trading partners could similarly result in retaliatory measures against the US. China has already imposed retaliatory tariffs, including on cotton imported from the US.

Additionally, certain products entering the US such may no longer be eligible to be imported duty-free under the de minimis exemptions for low-value (less than USD 800) shipments. This could significantly affect the retail sector, including e-commerce retailers who depend on low-value shipments for fast delivery. The fashion industry might face higher costs and supply chain disruptions.

## Taxes

President Trump continues to prioritize making permanent many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) set to expire at the end of 2025. This includes key business deductions, like immediate R&D expensing, and the 20% pass-through business income deduction, which could impact small and mid-size businesses in the supply chain if it expires.

The new administration has also proposed lowering the base corporate tax rate to 20%, with an additional reduction to 15% for companies manufacturing goods within the United States. Trump opposes the OECD's two-pillar tax approach to address tax avoidance and promote a transparent global tax environment, and Congressional Republicans have proposed a retaliatory tax on foreign countries enacting discriminatory taxes. Separately, orders to impose increased tariffs on specific countries or classes of goods will likely impact the price of foreign goods (and parts thereof) and possibly affect the valuation of those goods for purposes of transfer pricing and indirect taxes.

The expected impact of these tax proposals on luxury, fashion, and cosmetics companies:

- Tax policy has long influenced business decisions for companies in the sector, especially regarding the location of operations.
- Cosmetic companies are particularly interested in Congress restoring immediate expensing for R&D expenses.
- Companies with international operations could face increased material and operation costs due to retaliatory taxes, which could prompt them to reconsider their supply chain strategies.

## M&A

The Trump administration's recent policies may create a favorable environment for mergers and acquisitions (M&A) in the luxury, fashion, and cosmetics sectors. By reducing regulatory hurdles, the administration could facilitate faster approvals for mergers, making it easier for companies to pursue strategic deals.

The administration may also streamline reviews for foreign investors from aligned countries, but scrutiny may increase for investors from countries with strained relations with the US.

## ESG

Environmental impact and sustainability credentials are increasingly critical for luxury, fashion, and cosmetics businesses. While the EU and UK are advancing ESG policies, the Trump administration is expected to adopt a less aggressive approach, potentially halting, or reversing planned pro-ESG policies. Despite this, the sector has made significant strides in ESG, driven by consumer demand and international regulations, particularly from the EU. Multinationals operating globally will likely continue investing in ESG initiatives, reporting, and accountability.

Secretary of State Marco Rubio is expected to continue Trump's stringent policies on China, including banning imports made with forced labor under the Uyghur Forced Labor Prevention Act, which he co-authored. This could significantly disrupt the fashion industry, which relies heavily on textiles and clothing from China.

## Employment

President Trump has signed EOs imposing stringent immigration requirements, which may result in a reduction in the workforce of luxury, fashion, and cosmetics companies. This is especially true for roles that require specialized skills or creative talent often sourced from abroad. Consequently, this could lead to higher labor costs and potential delays in production and innovation.

New EOs on diversity, equity, & inclusion (DEI) aim to dismantle federal diversity programs and direct companies to end "illegal DEI discrimination". This could lead to reduced emphasis on diversity in hiring and promotion practices, affecting the luxury, fashion, and cosmetics sectors' ability to attract and retain diverse talent. Companies with multinational operations may need to content with competing DEI regulations and adopt different strategies for different regions.

## How can we help?

Our consumer goods and retail experts in trade, tax, M&A and ESG are here to help advise you and your business on reviewing the potential impact of these policies and advising on next steps.

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