VAT and Trump's Tariffs: Implications for the EU, Germany, and Czechia

Antonia Eberl

28.05.2025

www.vsfs.cz

Outline

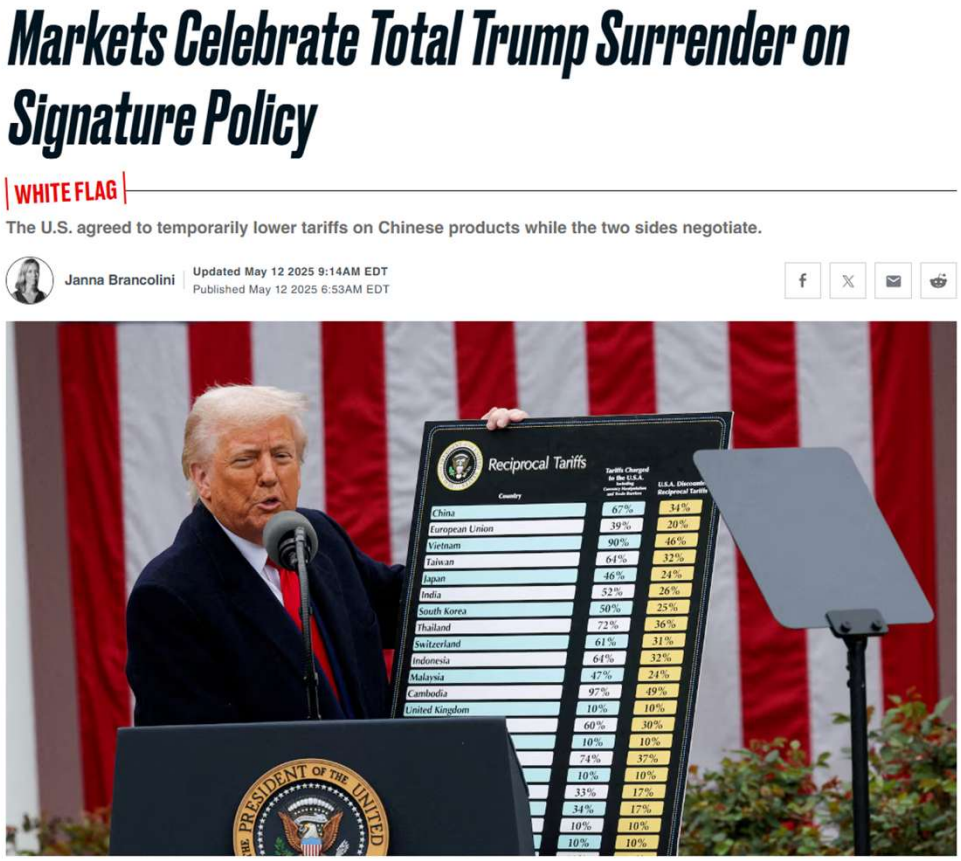
1. Trump’s Tariffs and the VAT Controversy
2. Transatlantic Tax System Differences
3. Economic Impact on Germany and Czechia
4. EU Fiscal and Political Response
5. Outlook for EU–U.S. Trade Relations

www.vsfs.cz

1. Trump's Tariffs and the VAT Controversy Introduction

In 2025, the Trump administration imposed aggressive tariffs on EU exports: initially 25% on cars and 20% on general industrial goods.

Just on May 12, 2025, these tariffs were temporarily reduced to 10% and implementation delayed (90 days) to allow for negotiations.



Markets Celebrate Total Trump Surrender on Signature Policy

WHITE FLAG

The U.S. agreed to temporarily lower tariffs on Chinese products while the two sides negotiate.

Janna Brancolini | Updated May 12 2025 9:14AM EDT | Published May 12 2025 6:53AM EDT

www.vsfs.cz

1. Trump’s Tariffs and the VAT Controversy
Trump's Tariff Justification

- Trump’s criticism of the EU VAT system: EU VAT refunds allegedly give exporters a hidden advantage.
- Goal: boost US manufacturing and reduce trade deficits, now under renewed diplomatic engagement.
- WTO confirms VAT is trade-neutral and not a subsidy.
- Focus today: Germany as direct exporter; Czechia as indirect supplier.
- Key question: How do these recent changes affect the EU, Germany, and Czechia?

2. Transatlantic Tax System Differences
What is VAT – and how does it differ from U.S. taxation?

- VAT (Value-Added Tax) is applied at each stage of production and refunded on exports.
- U.S. sales tax is charged only at the final sale and is not refunded on exports.
- VAT refunds are standard practice worldwide and comply with WTO rules.
- Misunderstandings of VAT refunds have led to incorrect claims of unfair trade advantages.

www.vsfs.cz

2. Transatlantic Tax System Differences
Is VAT actually causing the disadvantage?

According to the U.S. Chamber of Commerce (2025), European VAT systems do not constitute unfair trade practices. VAT and U.S. sales taxes are both consumption-based and destination-oriented. VAT refunds on exports are standard practice to prevent double taxation—not subsidies.

- Imposing tariffs in response to VAT systems is economically unfounded. VAT does not discriminate between domestic and imported goods and has no impact on investment or production decisions.
- Such tariffs disrupt trade, harm U.S. businesses, and distract from real economic challenges.
- Americans bear the cost of tariffs: The New York Federal Reserve found that 2018 U.S. tariffs were fully passed through to domestic import prices —> confirming that U.S. consumers ultimately pay the price —> Increase inflation in the U.S.

2. Transatlantic Tax System Differences
Structural Drivers of U.S. Trade Imbalances

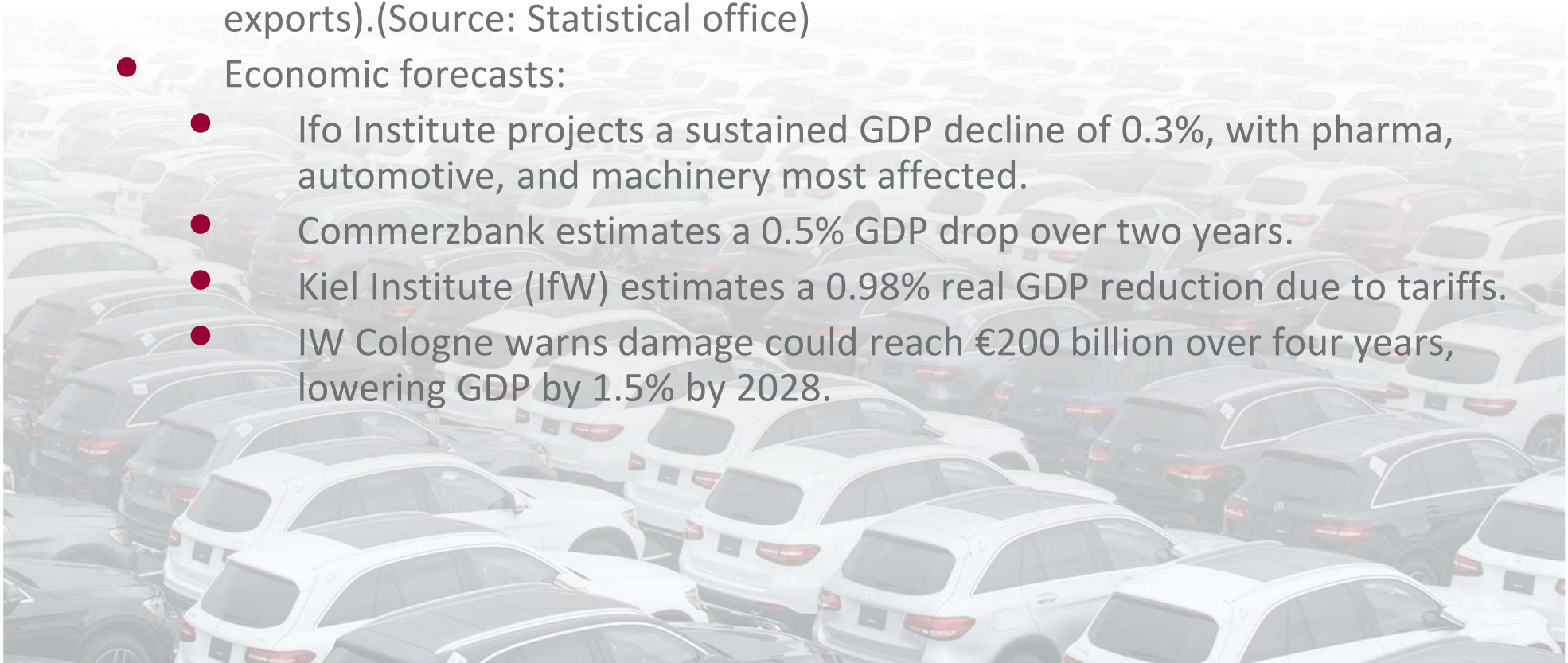
- U.S. manufacturing decline and trade deficits stem largely from automation and productivity gains, not mainly from EU trade practices or tariffs.
- U.S. fiscal deficits (government budget deficits) are a key driver of trade imbalances, not just trade with the EU or others.
- China and EU trade surpluses contribute but are only part of a broader macroeconomic picture.
- The U.S. spends more than it produces; trade deficits reflect this internal imbalance rather than unfair EU policies.

(Obstfeld, M. (2023))

www.vsfs.cz

3. Impact on Germany and Czechia
Germany – Direct Economic Exposure

- Germany is heavily impacted by U.S. tariffs due to its export-oriented economy.
- The U.S. is Germany's top trade partner, ahead of China and the Netherlands.
- In 2024, goods worth €253 billion were traded between Germany and the U.S.; German exports to the U.S. totaled €161 billion (~10% of all exports).(Source: Statistical office)
- Economic forecasts:
  - Ifo Institute projects a sustained GDP decline of 0.3%, with pharma, automotive, and machinery most affected.
  - Commerzbank estimates a 0.5% GDP drop over two years.
  - Kiel Institute (IfW) estimates a 0.98% real GDP reduction due to tariffs.
  - IW Cologne warns damage could reach €200 billion over four years, lowering GDP by 1.5% by 2028.



3. Impact on Germany and Czechia
Czechia – Indirect Exposure via Supply Chains

- Czechia is a highly export-dependent economy (72.7% of GDP), with a strong focus on automotive & engineering industries.
- Germany is Czechia's main trade partner (32.2% of exports in 2024), the U.S. is the largest non-EU export market after the UK. (Source: Statistical office)
- Czechia's economy is vulnerable due to its openness and automotive sector reliance; indirect effects via Germany and China also amplify impact.

3. Impact on Germany and Czechia
Impact of Tariffs on Prices

In the USA

U.S. importers face higher costs due to tariffs on German and Czech goods.

These costs are usually passed on to American consumers as higher retail prices.

Higher prices in the U.S. reduce consumer purchasing power and demand

In Germany / Czechia

Reduced U.S. demand lowers exporters' sales volumes in Germany and Czechia.

Exporters may lower prices to remain competitive, reducing revenues and profits.

Disrupted supply chains can increase production costs and operational challenges.

www.vsfs.cz

4. EU Fiscal and Political Response

- EU has initiated measures to counteract U.S. tariffs, including retaliatory tariffs on select American goods - these will target approximately €18 billion worth of goods
  - total value of the EU measures corresponds to the increased value of trade impacted by the new US tariffs (European Commission, 2025).
- Support packages launched to aid affected sectors, especially automotive and machinery industries (European Parliament, 2025).
- Limited Scope for Fair Agreements: The EU cannot accept US tariff levels above 10% while maintaining its own at 2%. It should pursue WTO action and resist bilateral deals that undermine multilateral principles (Bruegel, 2025).
- Calls for strengthened EU trade defense instruments and accelerated diversification of supply chains away from the U.S. (Bruegel, 2025).
- Increased political dialogue with the U.S. to resolve trade disputes through negotiations and WTO mechanisms (OECD, 2025).

www.vsfs.cz

5. Outlook for EU–U.S. Trade Relations

- The EU's VAT system is often blamed for U.S. trade deficits, but structural factors (e.g., productivity, supply chains, industrial base) are the true drivers.
- VAT is border-adjusted and neutral in trade terms — unlike U.S. tariffs, which distort prices.
- Germany and Czechia still face economic strain as the ongoing 10% U.S. tariffs on key exports weigh on trade and growth, though the impact has moderated compared to initial shocks.
- EU must continue combining legal, diplomatic, and fiscal strategies.

www.vsfs.cz

References

- Bruegel. (2024). Economic impact of Trump's tariffs on Europe: An initial assessment. https://www.bruegel.org/analysis/economic-impact-trumps-tariffs-europe-initial-assessment
- European Commission. (2025, April 2). Q&A: EU response to US tariffs. Retrieved May 16, 2025, from https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_750
- European Commission. (2024). Greening freight transport: A European approach to increase efficiency and reduce emissions – Action Plan [COM(2023) 707 final].
- European Parliament. (2025). The impact of trade policies on the EU economy (Study No. 764382). https://www.europarl.europa.eu/RegData/etudes/IDAN/2025/764382/ECTI_IDA(2025)764382_EN.pdf
- ifo Institut. (2025, April 3). Trump tariffs could reduce GDP – automotive and mechanical engineering sectors particularly hard hit. https://www.ifo.de/en/press-release/2025-04-03/trump-zoelle-koennten-bip-reduzieren#:~:text=The%20tariffs%20announced%20by%20the,would%20be%20particularly%20hard%20hit.
- IfW Kiel. (o. J.). *Kiel Trade and Tariffs Monitor*. Institut für Weltwirtschaft. https://www.ifw-kiel.de/topics/kiel-trade-and-tariffs-monitor/
- KPMG Germany. (2025). US tariffs and German export strategy. https://kpmg.de
- Manager Magazin. (2024). Autoindustrie: Deutsche Exporte steigen 2024 – USA wichtigster Absatzmarkt. https://www.manager-magazin.de/unternehmen/autoindustrie/autoindustrie-deutsche-exporte-steigen-2024-usa-wichtigster-absatzmarkt-a-7979343e-2485-4fe0-8668-6349f19475f9Obstfeld, M. (2023). *Why does the US have a trade deficit?* Brookings Institution. https://www.brookings.edu/articles/why-does-the-us-have-a-trade-deficit/
- Manager Magazin. (2024). *Donald Trumps Zollpolitik: Auswirkungen auf deutsche Wirtschaft analysiert*. https://www.manager-magazin.de/politik/weltwirtschaft/donald-trumps-zollpolitik-auswirkungen-auf-deutsche-wirtschaft-analysiert-a-e99de674-b109-481f-9380-503abc524cc3
- OECD. (2025). OECD Economic Surveys: Czechia 2025. OECD Publishing. https://doi.org/10.1787/7a70af5c-en
- S&P Global. (2025, March 3). US tariffs will likely dent growth prospects in Central Europe, S&P Global says. Reuters. https://www.reuters.com/markets/europe/us-tariffs-will-likely-dent-growth-prospects-central-europe-sp-global-says-2025-03-03/Tax Foundation. (2024). Understanding VAT in global trade. https://taxfoundation.org
- Statista. (o. J.). Wichtigste Exportländer für Tschechien. https://de.statista.com/statistik/daten/studie/263172/umfrage/wichtigste-exportlaender-fuer-tschechien/

References

- U.S. Chamber of Commerce. (2025). Comments on reviewing and identifying unfair trade practices and initiating all necessary actions to investigate harm from non-reciprocal trade arrangements (Federal Register Docket No. USTR-2025-0001). Retrieved May 2025, from https://www.uschamber.com/international/u-s-chamber-comments-re-reviewing-and-identifying-unfair-trade-practices-and-initiating-all-necessary-actions-to-investigate-harm-from-non-reciprocal-trade-arrangements-federal-register-docket-number-ustr-2025-0001
- U.S. Chamber of Commerce. (2024). How broad-based tariffs put U.S. growth & prosperity at risk. Retrieved May 16, 2025, from https://www.uschamber.com/international/how-broad-based-tariffs-put-u-s-growth-prosperity-at-risk
- WTO. (2023). VAT refund systems: principles and practice. https://wto.org
- Wolff, G. B., & Midões, C. (2024, November 28). What should the European Union aim for in a trade deal with Trump? Bruegel. https://www.bruegel.org/first-glance/what-should-european-union-aim-trade-deal-trump