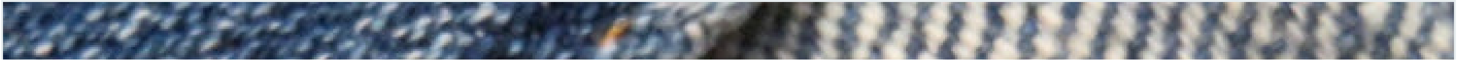
CPA Practice Advisor

take months to fulfill internationally can be ordered, altered, and delivered within weeks.

May. 17, 2023



Made in USA label, manufactured by Cruz Label (Los Angeles). https://cruzlabel.com

By Dawn Moser.

American manufacturing has been a hot-button issue for decades. Many think of U.S.-based manufacturing as a relic of the mid-1900s. And while there had been some decline in the ’70s, ’80s, and ’90s, it was really during the first two decades of the millennium that saw a sharp decrease in the industry as a portion of U.S. jobs or a percentage of gross domestic product.

Rebuilding a strong American manufacturing sector has been a kitchen-table issue for policymakers for some time. Then, the pandemic hit, laying bare many systemic shortcomings of the global supply chain.

Suddenly, what seemed like an esoteric, third-tier debate topic became evident in

How supply chain woes led to an American manufacturing boom

With everything feeling sluggish and slow to recover from the COVID-19 pandemic, it may surprise you to learn that at the end of 2022, American manufacturing grew at a higher rate than manufacturing growth for the rest of the world.

It wasn't a huge percentage, but it's not the amount that's necessarily a big deal; it's the fact the U.S. outpaced the world at all. That hasn't happened in decades.

The reasons are varied and include:

The Russia-Ukraine war
The Russian invasion of Ukraine has affected energy imports across Europe. The reduced supply has drastically raised oil prices, resulting in slowdowns in both the production and transportation of goods.

In addition, the lack of Ukrainian grain exports has had knock-on effects for food producers around the world, who are struggling to find alternative suppliers.

Growth in U.S. energy markets
The United States is a leading producer of several renewable energy infrastructure components. With a global effort to increase reliance on renewable energy sources, these manufacturers are well positioned for strong domestic and global sales.

And in the wake of the European energy crisis, the United States has also seen an increase in demand for good, old-fashioned oil.

China's COVID-19 policies
When China implemented its zero-COVID policies, cities and industries ground to a halt. Workers weren't going into factories; resources weren't being mined, created, or

produced; the transportation sector slowed to a crawl. The effects reached consumers

willingness to purchase online, it's never been easier for manufacturers to cut out the intermediary and sell their products more profitably.

Why small businesses also benefit from U.S. manufacturing

One of the main reasons companies switched to manufacturers outside the U.S. was the bottom line; goods were just plain cheaper to produce in places like China, Taiwan, and Mexico. But those savings aren't worth it if the factories shut down for three months or your goods get stuck in a 200-boat traffic jam in the Suez Canal.

The farther from home your goods are made, the more likely it is that complications can arise. When you have importing and exporting to manage, you add potential bottlenecks, including international shipping complications, customs inspections, tariff wars, global politics, and more exposure to severe weather systems.

In light of these complications, and in response to the benefits derived from Congress' Inflation Reduction Act and CHIPS Act, the GMs and Intels of the world have been expanding manufacturing operations stateside. But small businesses can benefit from manufacturing in the U.S.A. too.

By bringing production closer, companies can often increase agility. Shipments that take months to fulfill internationally can be ordered, altered, and delivered within weeks. This kind of time savings allows small businesses to adjust to changes in consumer demand and operate efficiently with lower volume orders and reduced back stock.

Another reason to consider reshoring production or partnering with domestic manufacturers is customer demand. Whether concerned about poor labor standards in other countries or driven by a sense of patriotism, more consumers are choosing to buy goods made in America.

Even the perennial justification for offshoring — keeping costs down — is faltering.

disaster strikes. You may recognize each of these as a source of major headlines over just the last decade.

What businesses should know when manufacturing in the U.S.

There are many things to think about when reshoring parts or all of the supply chain. Where you open (or partner with) a plant, factory, or warehouse relies on several considerations, including:

- Labor costs
- Regulations
- Shipping and transportation logistics
- Weather complications

If this sounds similar to challenges facing international manufacturing, that's because you'll still need to factor in cross-border differences — state borders. However, they're typically less complicated due to federal standards, common currency, shorter shipping routes, and a likely reduction in translation errors.

And while you won't have to deal with duties or tariffs on domestic goods, you will need to consider reshoring impacts on sales tax compliance. Each state sets its own tax rates. If you have employees, manufacturing plants, or warehouses located in a state, you'll trigger physical presence nexus obligations. You'll be required to collect and remit sales tax to local authorities, even if your sales themselves don't reach economic nexus thresholds.

And any tax-exempt sales for distribution or resale will require exemption certificate management. Essentially, for each transaction, you'll need to either collect sales tax or have an exemption document on file.

====

Dawn Moser is a writer at Avalara. She loves learning random facts about history,

Hello. It looks like you’re using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

sponsors.