

Buying American Cotton Act of 2025

May 2025

Objective: By leveraging the traceability of U.S. cotton and the purchasing power of U.S. consumers, the Buying American Cotton Act authorizes transferable tax credits to incentivize the consumption of U.S. cotton and U.S. cotton manufactured products.

Eligible Articles: Cotton products, including but not limited to apparel, home textiles, and nonwovens, either fully manufactured in the United States or imported into the United States, that are made in whole or in part from U.S. extra-long staple cotton or upland cotton.

Eligible Taxpayer: The first U.S. entity who sells an eligible article in the United States in its final condition, meaning the product is now “ready for sale” at retail to the consumer. The taxpayer may claim the credit based on the value of the U.S.-grown cotton in the eligible article, or instead, may elect to claim a higher-value credit based on the value of the U.S.-manufactured yarn or the U.S.-manufactured fabric, if the taxpayer can demonstrate the eligible article was made from U.S.-manufactured yarn or fabric, respectively.

Documenting the Use of U.S. Cotton: Entities claiming the tax credits must be able to demonstrate proof of U.S. origin through a trustworthy supply chain tracing system that certifies the provenance and volume of the cotton in the eligible article, or of the yarn or fabric if either of those credit options are selected.

Calculation of the Tax Credits: The value of the tax credit is determined as the product of the volume of U.S.-grown cotton in the eligible article and a factored percentage of the rolling three-year average market price. If the taxpayer elects a credit based on U.S.-manufactured yarn, the value is multiplied by a price factor of 1.6, and for U.S.-manufactured fabric, multiplied by a price factor of 6.5, to incentivize and reward the consumption of U.S.-manufactured goods.

Factors Determining the Value of the Tax Credits: In the case of an eligible article that is processed either wholly in the United States or in a country or countries with which the United States has entered into a free trade agreement or for which the United States has extended benefits through a preferential trade arrangement, a location factor of 24% is used. In the case of an eligible article that was subject to processing at any stage in any other country, a location factor of 18% is used.

Tax Credit Formula: The per-pound value of the tax credit is determined by the formula:

$$\text{Tax Credit} = (3\text{-Yr Average Cotton Price}) * (\text{Price Factor}) * (\text{Location Factor})$$

Sample calculations are shown in the following table.

Cotton Tax Credit Sample Calculations					
	Assumed 3-Yr Average US Far East Price	\$0.85			
In the Case of Finished Goods Imported into the United States					
	Supply Chain Documents Purchase of:	Cotton Price	Price Factor	Location Factor	Tax Credit
1	U.S. Cotton Fiber Exported to Non-FTA Country	\$0.85	1.0	18%	\$0.15
2	U.S.-Manu. Cotton Yarn Exported to Non-FTA Country	\$0.85	1.6	18%	\$0.24
3	U.S.-Manu. Cotton Fabric Exported to Non-FTA Country	\$0.85	6.5	18%	\$0.99
4	U.S. Cotton Fiber Exported to FTA Country	\$0.85	1.0	24%	\$0.20
5	U.S.-Manu. Cotton Yarn Exported to FTA Country	\$0.85	1.6	24%	\$0.33
6	U.S.-Manu. Cotton Fabric Exported to FTA Country	\$0.85	6.5	24%	\$1.33
In the Case of Finished Goods Manufactured in the United States					
	Supply Chain Documents Purchase of:	Cotton Price	Price Factor	Location Factor	Tax Credit
7	U.S. Cotton Fiber	\$0.85	1.0	24%	\$0.20
8	U.S.-Manufactured Cotton Yarn	\$0.85	1.6	24%	\$0.33
9	U.S.-Manufactured Cotton Fabric	\$0.85	6.5	24%	\$1.33