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Donald Trump’s tariffs will not allow for the abolition of income tax

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Donald Trump’s trade policy faces both economic constraints and legal obstacles. Following the annulment of the ‘Liberation Day’ measures, the US Treasury has already refunded \$104 billion. This episode illustrates the considerable cost and vulnerabilities of a trade policy pursued without congressional approval.

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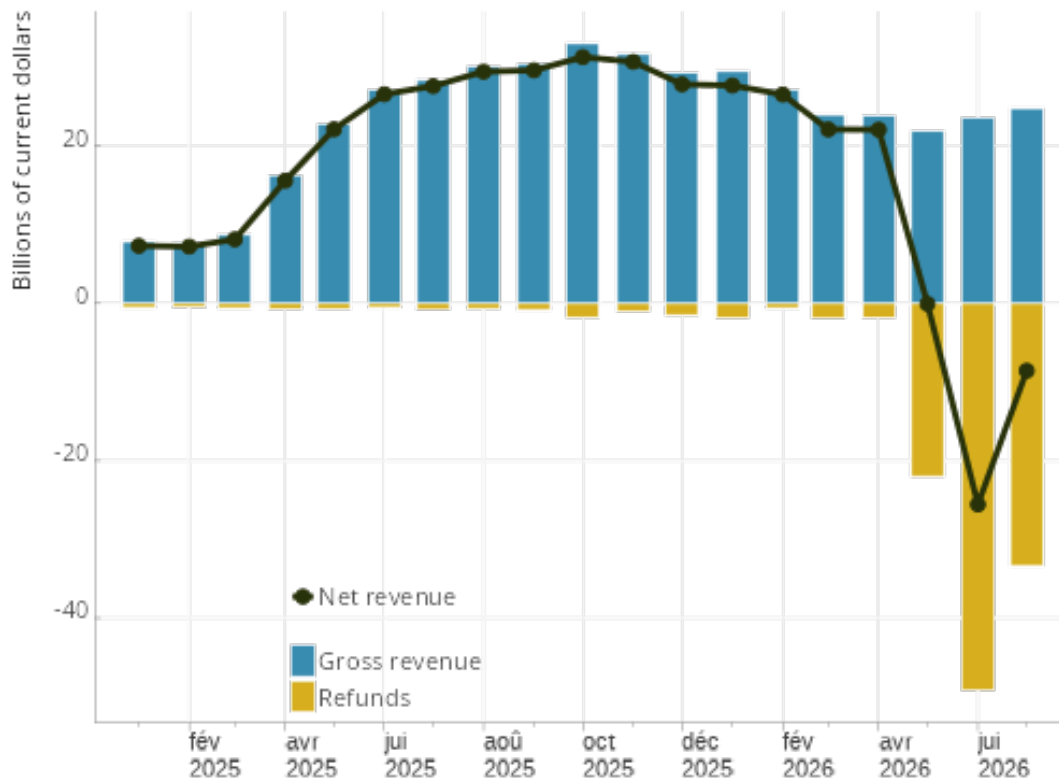
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It has not escaped anyone’s notice that, for Donald Trump, tariffs are an obsession. He attributes numerous virtues to them, including the fact that they are paid by foreign exporters, rather than American businesses or consumers; that they provide the US Treasury with revenue that could replace income tax; and finally, that they reduce the US trade deficit, as well as the Chinese trade surplus. Since his return to power in January 2025, this policy reached its peak on 2 April 2025 with the introduction of so-called ‘reciprocal’ tariffs on all imports of goods from countries with a trade surplus with the United States. The measures taken on this ‘Liberation Day’ were based on a law passed by Congress in 1977: the International Emergency Economic Powers Act (IEEPA)¹, which authorises the President of the United States to regulate international trade after declaring a state of international emergency in response to an extraordinary and unusual threat affecting the country and originating abroad. The President is then authorised to block commercial transactions and freeze monetary and financial assets².

¹International Emergency Economic Powers Act

²For example, the IEEPA was first used by Jimmy Carter, who, in 1979, declared a national emergency in relation to the situation in Iran, which enabled him to freeze the Iranian government’s financial assets.

Graphique 1: Gross US customs revenue, refunds and net revenue (billions of current dollars)



Sources : U.S. Treasury, author's calculations.

Subsequent analysis showed that not only were the economic foundations of this policy flawed, but so too were its legal foundations. Firstly, numerous studies examining the tariffs imposed during D. Trump's first term, as well as in 2025³, have clearly demonstrated that tariffs are essentially paid by Americans, whether households or businesses. Secondly, it is difficult to see how customs revenue could replace that derived from income tax, given the vast gulf between the two. In 2024, customs revenue amounted to 77 billion dollars, representing 1.6 % of total federal government revenue (\$4,918 billion) and 3.2 % of federal income tax revenue (\$2,426 billion). Thirdly, the US trade deficit rose from an average of 1,141 billion dollars per year over the three years preceding 2025 to 1,235 billion dollars in 2025; and, also in 2025, China's trade surplus increased by 20 % compared with 2024. Finally, and this is the point that must be emphasised, setting customs duties is, apart from limited exceptional circumstances, a prerogative of the US Congress, not the President. These exceptional circumstances apply when national security is at stake (Section 232 of the Trade Expansion Act of 1962), when partner countries engage in unfair

³See Amiti, Redding et Weinstein (2019) and Fajgelbaum *et al.* (2020) for the 2018–2019 tariffs. For those of 2025, see Gopinath et Neiman (2026) and Fajgelbaum et Khandelwal (2026). All these studies show that over 90 % of tariffs are passed on to consumer prices. Freund (2026) recently published a study suggesting that this percentage (the degree of pass-through) is only 50 %; this finding has yet to be validated by further research.

trade practices (Section 301 of the Trade Act of 1974), and when a significant increase in imports may cause serious injury to a domestic industry (Section 201 of the Trade Act of 1974 – safeguard measure). Donald Trump was not satisfied with these exceptional measures, either because they required a delay in their implementation, or because they could only be applied to a limited number of products or countries. He therefore relied on the International Emergency Economic Powers Act (IEEPA), which makes no mention of customs duties and had never before been invoked to impose them, let alone permanent duties affecting a very large number of countries. The ‘international emergency’ he cited was the US trade deficit, a situation that has, however, existed for 50 years⁴.

Ten months later, a Supreme Court regarded as generally favourable to President Trump had no choice but to rule that the legal grounds he had invoked to overturn the measures taken on ‘Liberation Day’ were invalid. The consequence of this ruling is that the US Treasury must reimburse \$166 billion (an estimate by the Bureau of Economic Analysis) to 330,566 US importers. These tariff refunds began in May 2026, followed by June and July. Over these three months, they totalled \$104.4 billion and exceeded customs revenue by \$26 billion in June and \$9 billion in July respectively (graphique 1). This setback for the Trump administration did not deter it from continuing its protectionist crusade without consulting Congress. It relied on Section 122 of the Trade Act of 1974⁵ to impose, on the very day of the Supreme Court’s ruling, a 10 % tariff – in addition to existing duties – from the end of February to the end of July 2026. The grounds cited this time were a ‘significant and serious balance of payments deficit’.

These new measures, limited in scope and duration, were in turn challenged in the federal courts⁶. The balance of payments is an accounting statement: by definition, it is balanced. US legislators in 1974 were *probably* targeting a situation in which a current account deficit would be insufficiently offset by net capital inflows into the United States, which would, in particular, put pressure on the dollar’s exchange rate (and its strength as an international reserve currency). The economic significance of the 1974 Act is unclear⁷. Since 1981, the US current account balance has been consistently in deficit, except in 1991. It has deteriorated considerably since 2020, rising from a deficit of \$442 billion in 2019 to \$1,120 billion in 2024, before recovering slightly in 2025. The scale of this deficit and its persistence have been one of the major issues in the international economy since the beginning of the 21st century

⁴The last US trade surplus in goods dates back to 1975: +\$8.9 billion.

⁵Section 122 authorises the President to impose customs duties or surcharges ‘[w]hen fundamental problems of international payments require special import measures designed to restrict imports (1) to address substantial and serious deficits in the United States balance of payments, (2) to prevent an imminent and significant depreciation of the dollar on the foreign exchange markets, or (3) to cooperate with other countries to correct an international balance of payments imbalance.’ Section 122 tariffs were replaced in July 2026 by Section 301 tariffs on US imports from 60 countries that were not doing enough to combat forced labour.

⁶The tariffs recently imposed by the US administration on Canadian goods in July 2026 are based on Section 338 of the Trade Act of June 1930 and could also be challenged: see Wolff, A.W., 2026. Trump invoked a zombie statute to justify tariffs on Canada, PIIE, REALTIME ECONOMICS, 3 September 2026.

⁷see Clausing, K., and Maurice Obstfeld, 2026. What the Supreme Court’s tariff ruling changes, and what it doesn’t, PIIE, Realtime Economics, 23 February 2026)

and are the subject of much debate. The consensus amongst economists today is that its main cause is excess demand in the United States, linked in particular to the persistent budget deficit⁸. The legal setbacks faced by the Trump administration in implementing its tariff policy serve as a reminder, if one were needed, that the solution to this problem will not come from the tariffs imposed since February 2025.

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⁸See Chong-En Bai, C.-E., Gopinath, G., Rey, H., and A. Weber, 2026. Report on global imbalances by the G7 Economic Experts Group, G7 France, Paris Elysée