

# Issue Brief

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## The Escalating Toll of Trump's Taxes on Trade

The Trump administration has imposed 25 percent taxes on \$234.8 billion in imports from China under Section 301 of the Trade Act of 1974. This represents a nominal tax hike of as much as \$58.7 billion — the third-largest in inflation-adjusted dollar terms since World War II ended. But things could soon get much worse.<sup>1</sup>

President Trump plans to impose a 5 percent tariff on imports from Mexico starting on June 10, possibly increasing to 25 percent by October 1.<sup>2</sup> He is also considering adding a 25 percent tariff to an additional \$300 billion in imports from

<sup>1</sup> Tempalski, Jerry. U.S. Department of the Treasury, "[Revenue Effects of Major Tax Bills](#)," OTA Working Paper 81, September 2007; Estimated Revenue Effects Of The Amendment In The Nature Of A Substitute To H.R. 4872, The "Reconciliation Act Of 2010," As Amended, In Combination With The Revenue Effects Of H.R. 3590, The "Patient Protection And Affordable Care Act ('PPACA')," As Passed By The Senate, And Scheduled For Consideration By The House Committee On Rules On March 20, 2010, [Joint Committee on Taxation, JCX-17-10](#), March 20, 2010; Congressional Research Service, "[Trump Administration Tariff Actions: Frequently Asked Questions](#)," February 22, 2019; Bureau of Labor Statistics, and authors' calculations. PPACA tax increase based on annual average of estimated revenue impact from FY 2011 through FY 2019.

<sup>2</sup> "[Statement from the President Regarding Emergency Measures to Address the Border Crisis](#)," The White House, May 30, 2019.

## Key Facts:



**If the Trump administration follows through on all its tariff threats, the combined result will be a tax increase of up to \$220.5 billion. This would shatter the post-war record for largest tax increase.**



**After more than two years of historic pro-growth tax and regulatory reform, tax increases of this scale threaten to undermine the economic expansion that has driven unemployment down to levels not seen since 1969.**



**President Trump's trade taxes represent an extremely rare example of taxes being imposed unilaterally by the executive branch with little or no congressional oversight.**

China.<sup>3</sup> Tariffs on washing machines, solar goods, steel, and aluminum add billions of dollars more to the burden on U.S. taxpayers. If the Trump administration follows through on all its tariff threats, the combined result will be far and away the largest tax increase in the post-war era in real dollar terms. In fact, the worst-case scenario is a tax hike more than two and a half times larger than the previous record holder.

After more than two years of historic pro-growth tax and regulatory reform, tax increases of this scale threaten to undermine the economic expansion that has driven unemployment down to levels not seen since 1969.<sup>4</sup>

**Table 1: Major Trump Tariff Measures**

	Tax Impact at Current Import Levels (Billions)	Tax Impact with 31.5% Import Reduction (Billions)
25% Sec. 301 Tariffs on Chinese Goods	\$58.7	\$40.2
5% Tariff on Mexican Goods	\$17.4	\$11.9
25% Tariff on Mexican Goods	\$86.8	\$59.4
Additional 25% Tariff on Chinese Goods	\$75.0	\$51.4
Potential Cumulative Impact	\$220.5	\$151.0

Note: NTUF calculations based on import figures from the U.S. International Trade Commission and the Congressional Research Service.

**Table 2: Other Significant Post-WWII Tax Increases (2019 Dollar Equivalents)<sup>5</sup>**

	Billions of 2019 Dollars
2019 Potential Trump Tariff Impact at Current Import Levels	\$220.5
2019 Potential Trump Tariff Impact at Reduced Import Levels	\$151.0
Tax Equity and Fiscal Responsibility Act of 1982	\$87.0
Omnibus Budget Reconciliation Act of 1993	\$77.9
Omnibus Budget Reconciliation Act of 1990	\$57.2
Affordable Care Act, 2010	\$53.4
Revenue Act of 1951	\$48.7
Revenue Act of 1950	\$41.1
Tax Adjustment Act of 1966	\$33.7
Excess Profits Act of 1950	\$30.2
Omnibus Budget Reconciliation Act of 1987	\$28.3
Omnibus Budget Reconciliation Act of 1989	\$8.7

<sup>3</sup> Lane, Sylvan. "[White House posts list of \\$300B in Chinese goods to be targeted by tariffs](#)," *The Hill*, May 13, 2019.

<sup>4</sup> Long, Heather. "[U.S. unemployment fell to 3.6 percent, lowest since 1969](#)," *Washington Post*, May 3, 2019.

<sup>5</sup> Tax cost based on applying 25 percent tariff to \$234.8 billion in annual imports. The actual tax impact will vary depending on the volume of imports from China. It is possible that the tariffs will be reduced if the United States and China reach a trade deal, or increased if the Trump administration extends the 25 percent tariff to an additional \$300 billion of imports from China.

## Measuring the Cost of Tariffs

The actual revenue impact of tariff increases depends on whether the volume of imports changes. A recent study found that 2018 tariffs reduced the volume of targeted imports by 31.5 percent.<sup>6</sup> If one assumes that additional tariffs impose a similar impact on the products targeted, the potential impact of all the Trump tariffs would be a \$151 billion tax increase, which would easily be the largest in the post-WWII era in dollar terms.

These estimates of tax costs do not include additional economic costs resulting from tariffs. One recent study calculated an annual tax impact of \$62.9 billion from Section 301 tariffs, with an additional deadweight loss of \$95.9 billion resulting from consumers switching to more expensive suppliers.<sup>7</sup> Another predicted a \$62 billion reduction in U.S. gross domestic product (GDP) by 2020.<sup>8</sup>

**“If the Trump administration follows through on all its tariff threats, the combined result will be a tax increase of up to \$220.5 billion.”**

## An Extraordinary Abuse of Taxing Authority

Most of the major post-WWII tax increases either included significant spending reductions as part of deficit-reduction packages,<sup>9</sup> or were enacted as special measures to fund the Korean and Vietnam wars.<sup>10</sup> President Trump’s tariffs not only are not linked to spending reductions, but they have actually been accompanied by billions of dollars in new spending on aid to farmers hurt by the trade war.<sup>11</sup> These prior tax increases also resulted from legislation passed by Congress. President Trump’s trade taxes represent an extremely rare example of taxes being imposed unilaterally by the executive branch with little or no congressional oversight.

The President’s alleged power to unilaterally impose new taxes on imports from Mexico is based on the International Emergency Economic Powers Act.<sup>12</sup> The legal basis for this action is unclear. According to Senate Finance Committee Chairman Chuck Grassley (R-IA), “This is a misuse of presidential tariff authority and counter to congressional intent.”<sup>13</sup> The taxes on imports from China were imposed under Section 301 of the Trade Act of 1974, possibly in violation of World Trade Organization (WTO) rules.<sup>14</sup>

<sup>6</sup> Fajgelbaum, Pablo, et al. “[The Return to Protectionism](#),” National Bureau of Economic Research and the University of California Los Angeles, March 10, 2019.

<sup>7</sup> Amity, Mary, Redding, Stephen J., and Weinstein, David E. “[New China Tariffs Increase Costs to U.S. Households](#),” Federal Reserve Bank of New York, May 23, 2019.

<sup>8</sup> Watts, William. “[Here’s how hard the tariff fight could hit the economy](#),” *MarketWatch*, May 13, 2019.

<sup>9</sup> Lynch, Megan S. “[Budget Reconciliation Measures Enacted Into Law: 1980-2017](#),” Congressional Research Service, February 22, 2018.

<sup>10</sup> Tempalski, Jerry. “[Revenue Effects of Major Tax Bills](#),” OTA Working Paper 81, U.S. Department of the Treasury, September 2007.

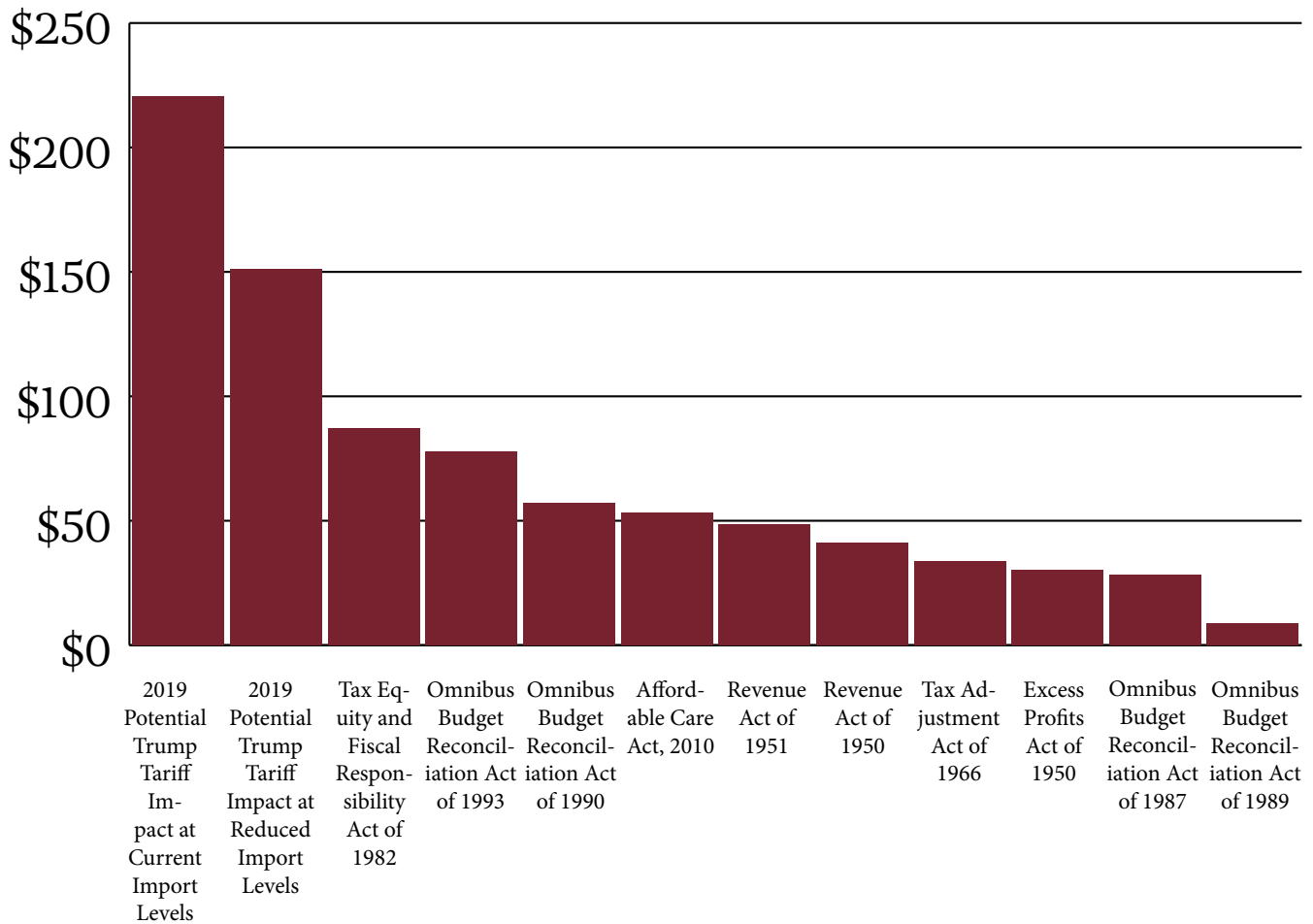
<sup>11</sup> Boudreau, Catherine, and McCrimmon, Ryan. “[Trump readies up to \\$20B more in aid to rescue farmers from trade war](#),” *Politico*, May 15, 2019.

<sup>12</sup> Congressional Research Service, “[The International Emergency Economic Powers Act: Origins, Evolution, and Use](#),” March 20, 2019.

<sup>13</sup> Elis, Niv. “Grassley slams Trump tariffs on Mexico: ‘A misuse of presidential tariff authority,’” *The Hill*, May 30, 2019, <https://thehill.com/homenews/senate/446278-grassley-slams-trump-tariffs-on-mexico>.

<sup>14</sup> Packard, Clark. “[Section 301: China’s Acts, Policies and Practices Related to Technology Transfer, Intellectual Property and Innovation](#),” Statement to the Office of the United States Trade Representative, May 15, 2018.

**Chart 1: Post-WWII Tax Increases**



**Tariff Hikes Weaken the U.S. Economy**

During the discussions on expanding infrastructure spending, there has been a proposal to raise the gas tax by 25 cents per gallon, increasing revenues by a yearly average of \$39.4 billion over the next decade.<sup>15</sup> According to Politico, White House officials have pushed back against the tax hike because “it would ultimately undercut the gains consumers received from the Republicans’ 2017 tax bill.”<sup>16</sup> Economists warn that Trump’s trade taxes pose the same risk.<sup>17</sup>

Outgoing Congressional Budget Office Director Keith Hall recently observed, “Tariffs are taxes, taxes slow down the economy, and that’s sort of how this is working. And then on the other side when you have a retaliation that’s another anti-stimulus on the economy.”<sup>18</sup>

President Trump once said: “TAX CUTS will increase investment in the American economy and in U.S. workers, leading to higher growth, higher wages, and more JOBS!” He should end the significant import-tax increases he has imposed on Americans, and Congress should pass legislation limiting the ability of the executive branch to unilaterally increase taxes in the future.

<sup>15</sup> Donahue, Thomas J. “[Our Nation’s Crumbling Infrastructure and the Need for Immediate Action](#),” Statement of the U.S. Chamber of Commerce Before the Committee on Ways and Means of the United States House of Representatives, March 6, 2019.

<sup>16</sup> Cook, Nancy and Restuccia, Andrew. “[Trump aides try to quash tax hike rumors amid infrastructure talks](#),” *Politico*, May 17, 2019.

<sup>17</sup> Elis, Niv. “[Trump tariffs threaten to drown gains from tax cuts](#),” *The Hill*, May 26, 2019.

<sup>18</sup> Wilhelm, Colin. “[CBO director says economic growth will fall below 2%](#),” *Washington Examiner*, May 29, 2019.

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