

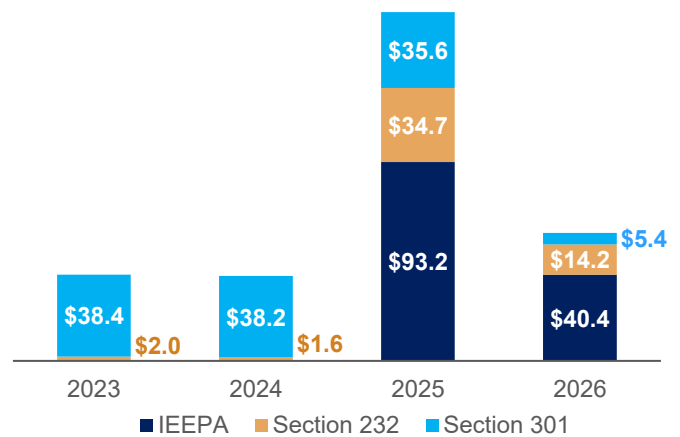


IEEPA Tariffs Struck Down: Limited Economic Impact, Persistent Policy Uncertainty

From Macroeconomics

- The Supreme Court struck down IEEPA-based tariffs, removing a major pillar of the administration’s current trade and fiscal policy.
- The fiscal and economic impact is likely to be limited, however, as the administration is quickly pivoting to alternative authorities to replicate the IEEPA tariff structure.
- Policy uncertainty remains elevated, with open questions around substitute tariff pathways, potential legal challenges, and the treatment of refunds for previously paid IEEPA duties.

Figure 1: Tariff revenue by authority | \$Billions



Data shown for fiscal years. FY 2026 data through December 14, 2025. Revenue from Section 201 tariffs on solar panels are negligible and hence omitted.
Source: US Customs and Border Protection

In its February 20, 2026 ruling in *Learning Resources, Inc. v. Trump*, President of the United States, the Supreme Court invalidated the administration’s trade tariffs implemented under the International Emergency Economic Powers Act (IEEPA). The ruling covers tariffs on goods imports from Canada, Mexico and China related to drug trafficking (the so-called “fentanyl tariffs”) as well as broad-based tariffs against trade partners related to trade deficits. The ruling leaves in place tariffs implemented under alternative authorities, such as Section 232 sectoral tariffs and Section 301 tariffs against Chinese imports.

On the face of it, the ruling would appear to deal a serious blow to the administration’s trade and manufacturing agenda. There are also potentially significant fiscal implications, as tariff revenue has been positioned as a meaningful offset to the deficit impact of the administration’s signature 2025 fiscal package. For example, in its most recent long-term budget outlook, the Congressional Budget Office projected that the fiscal package would add \$4.7 trillion to deficits over ten years, while an assumed 15 percent tariff rate would bring in roughly \$3 trillion in revenue. As seen in the chart above, the majority of the tariff revenue to date has stemmed from IEEPA tariffs.

In our view, however, the administration is likely to quickly pivot to other tariff authorities to replicate the effects of IEEPA. In fact, shortly after the Supreme Court ruling, the president announced a ten percent global tariff rate that relies on Section 122 of the Trade Act of 1974. Since Section 122 tariffs can only last for 150 days, the United States Trade Representative will likely initiate the lengthier process for implementing Section 301 tariffs based on unfair foreign trade practices (see the table below for details on most likely legal authorities that the administration can use to replicate the IEEPA tariffs).

At the very least, trade policy uncertainty is likely to remain elevated for the foreseeable future. First, there is some possibility that the administration may use the ruling as an opportunity to lower tariff rates, given the midterm elections and voter frustration with the high cost of living. There is also a strong possibility that the use of Section 122 for broad-based tariffs across major trading partners will face legal challenges. And finally, the Supreme Court did not rule on potential refunds of IEEPA tariff payments made by importers. That process is likely to play out over an extended period of time given the sheer volume of potential claims that a lower court would need to address,

and the need for the administration to process those claims.

As for any economic impact of today’s ruling, much will depend on how quickly and to what degree the administration seeks to replicate the IEEPA tariffs with other authorities. The immediate announcement of Section 122 tariffs suggests only a modest decline in the effective tariff rate in the near term, with a similarly modest, though positive, effect on growth. The inflation impact should be limited. A somewhat lower effective tariff rate will dampen goods inflation, but could result in higher services inflation if aggregate demand increases.

Directionally, the immediate market reaction to the ruling suggests discounting of a somewhat better growth environment with lower inflation, but with increased fiscal policy risks. The S&P500 rose after the announcement and short-dated inflation swap rates fell slightly, while the 2-to-30-year Treasury curve steepened by roughly five basis points. The modest size of these moves likely reflects widespread expectations that the administration will use other authorities to sustain tariff rates at close to current levels.

Figure 2: Other tariff authorities that can substitute for IEEPA tariffs

Basis	Legal rationale	Terms	Process / delegation	Example
Section 122 of Trade Act of 1974	Balance of payments deficits	Up to 15% for 150 days, can be extended by Congress	Presidential discretion	1971 oil imports
Section 301 of Trade Act of 1974	Unfair trade practices	No limits on rate but action must be “appropriate and feasible” to change foreign trade practice	USTR leads; must follow negotiation attempts, public comment period and hearings	2018 China intellectual property practices
Section 232 of Trade Expansion Act of 1962	National security threat	No limits on rate but product specific	USDoC leads investigation, makes recommendation to President; public comment periods and hearings required	2018 steel and aluminum, 2025 autos and copper
Section 338 of Tariff Act of 1930	Discrimination against US commerce	Up to 50 percent on any/all products from a country; effective 30-days after decision	Presidential discretion	Post-World War II tariffs against France, Italy

Source: MacKay Shields, S&P Global Market Intelligence. USTR: United States Trade Representative; USDoC: United States Department of Commerce

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