

The Trump Tax Increase of 2026

di Phil Gramm e Michael Solon

Republicans are counting on voters being pleasantly surprised by larger-than-expected tax refunds this spring thanks to new tax cuts from the One Big Beautiful Bill Act. Republican lawmakers hope this will ameliorate what Democrats call the “affordability crisis” and make it possible for the GOP to maintain control of Congress. The problem is that although the government is putting money back into taxpayers’ pockets on the one hand via tax refunds, it is taking more money out via tariff-driven price increases, leaving Americans worse off financially.

The Trump administration insists that other countries are eating the cost of tariffs. That is a myth. If foreigners were absorbing the costs, import prices would drop: To keep their products at the same prices in U.S. stores, foreigners would have to lower their products’ prices to make room for the tariff. Instead, a Bureau of Labor Statistics analysis found that “U.S. import prices were unchanged (0.0 percent) in 2025.” It’s hardly surprising, therefore, that a Federal Reserve Bank of New York analysis finds that “there is 100 percent pass-through from tariffs to import prices, and therefore on U.S. consumers and firms.”

The Joint Committee on Taxation estimates that taxpayers will receive about a \$188 billion reduction in federal tax liability for 2025 that they wouldn’t have received if the president’s tax cuts hadn’t become law. Those refunds and tax benefits, however, have been more than offset by the \$195 billion in new tariffs collected in 2025.

Things will get worse in 2026. The Congressional Budget Office projects that Mr. Trump’s tariffs will generate \$331 billion this year, while the CBO estimates the new tax cuts will save taxpayers \$230 billion. Families and businesses will be worse off on net. This will matter in the election. By October, Mr. Trump’s new tariffs from his second term will have cost American consumers and businesses \$443 billion, while

the tax cuts will have provided them with \$379 billion. If the president successfully restores his tariffs to the levels where they were before the Supreme Court's decision in February, the tariff tax in 2026 will be 44% larger than the new tax cuts contained in the Big Beautiful Bill.

The Trump administration's economic policies feel like a bad deal to the average American because consumers bear most of the direct costs of the tariff bill while most of the tax refunds go through businesses. The CBO estimates that businesses are absorbing 30% of the tariffs' cost while consumers are paying 70%. But individuals received only \$60.5 billion, or 32%, of new tax cuts for calendar year 2025, while businesses received about twice that amount, \$127.7 billion.

Those ratios will reverse for 2026, with individuals getting \$140 billion and businesses getting \$90 billion from the new tax cuts. But the gap between the tax relief and the tariff bill is growing. The business tax cuts in 2025 and 2026 are principally in business investment expensing. Eighty percent of those benefits go to corporations and will accrue to investors, who won't identify the increased value of their retirement funds with Trump tax policies.

Defenders of the president's tariff policies might argue that the tax cuts not only provide new benefits but also extend provisions that would have expired without changes in the law. This argument isn't likely to make voters view the GOP more favorably. If Democrats had won the 2024 election, they likely would have extended many of the 2017 tax-cut provisions that were set to expire. President Obama extended some 90% of expiring provisions from the Bush tax cut, but he didn't get credit for doing so in the ensuing political debate. Instead, critics attacked Mr. Obama for his proposed tax changes. Few taxpayers even knew parts of the 2017 tax cuts were expiring, and no one had his taxes increased. Voters don't give politicians credit for getting back things they never lost.

Mr. Trump clearly believes that using tariffs to replace income taxes would be popular. If he studied the history of tariffs, however, he would know that Americans have always hated them. From Britain's Townshend Acts of 1767, which helped fuel

the American Revolution, to the Smoot-Hawley Tariff of 1930, which deepened the Great Depression, tariffs have proved politically toxic.

Voters don't reward politicians for enacting tariffs. In the election that followed the 1890 McKinley tariffs—tariffs that Mr. Trump has cited as a prototype for his own—Republicans lost 93 representatives (including Rep. William McKinley, the tariff's namesake) and four senators. So bitter was the subsequent Republican experience with tariffs that a Republican President, William Howard Taft, pushed for the 16th Amendment, giving Congress the power to impose income taxes as an alternative funding source to tariffs. A Republican Congress overwhelmingly proposed it, and state legislatures ratified it with bipartisan support. Republicans feared the income tax, but they had grown to hate tariffs.

If Mr. Trump had implemented his tax cuts, deregulation and welfare reforms and left tariffs alone, the economy would be booming. His obsession with tariffs has denied us the “golden age” he promised.

Mr. Gramm, a former chairman of the Senate Banking Committee, is a visiting scholar at the American Enterprise Institute. Mr. Solon is a senior fellow at the Hudson Institute.