



TAX POLICY CENTER
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OFFSETTING FAMILIES' TARIFF BURDENS THROUGH REFUNDABLE TAX CREDITS

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EXECUTIVE SUMMARY

Immediately after taking office again in January 2025, President Donald Trump announced an “America First Trade Policy,” stating that the administration would use global tariffs as part of an effort to remedy trade deficits and revitalize the US economy.¹ In the following months, he increased existing tariffs and imposed new ones, sometimes claiming authority under certain laws that no other president had cited before to raise tariffs (Gerstein, 2026).

In February 2026, the Supreme Court ruled that one of the laws cited by the president—the International Emergency Economic Powers Act (IEEPA)—did not give him the authority to impose tariffs. At the time of the ruling, the administration said that about \$166 billion in IEEPA tariffs had been collected (Romm and Swanson 2026a). Two weeks later, a lower court ruled that refunds were owed to the businesses that directly paid the IEEPA tariffs to the government.

However, the courts’ rulings have not stopped a debate over who is owed refunds of tariff payments. Consumers have filed lawsuits seeking refunds of tariffs from large businesses, including FedEx, UPS, Costco, and Nintendo (Gottlieb and Watwe 2026, Grieve 2026).² Several lawmakers have introduced legislation that would provide families with refundable tax credits, setting the maximum credit to roughly the average IEEPA tariff across all families.³

Most economists generally agree with the viewpoint embedded in those Congressional bills: The tariff burden is ultimately borne by all US residents, not just importers, through increases in prices and reductions in income.

In our analysis, we find that IEEPA tariffs reduced the inflation-adjusted value of families’ after-tax income—thus increasing their tax burden—by \$1,250, on average. The magnitude of the increase ranged from \$230 in the lowest income quintile to \$4,430 among families in the top quintile. The average increase was \$680 for single filers, \$790 for heads of households, and \$2,270 for married couples filing jointly.

We examine four options for one-time refundable tax credits that would offset at least some of the IEEPA tariff burden. Under the first option, the maximum credit amount would be \$700 for unmarried filers (roughly the average IEEPA burden for single filers) and \$1,400 for married couples. The credit would be increased by \$350 for one dependent and \$700 for two or more dependents. If all families were eligible, the average credit would be \$1,090, offsetting 87 percent of the average IEEPA tariff burden.

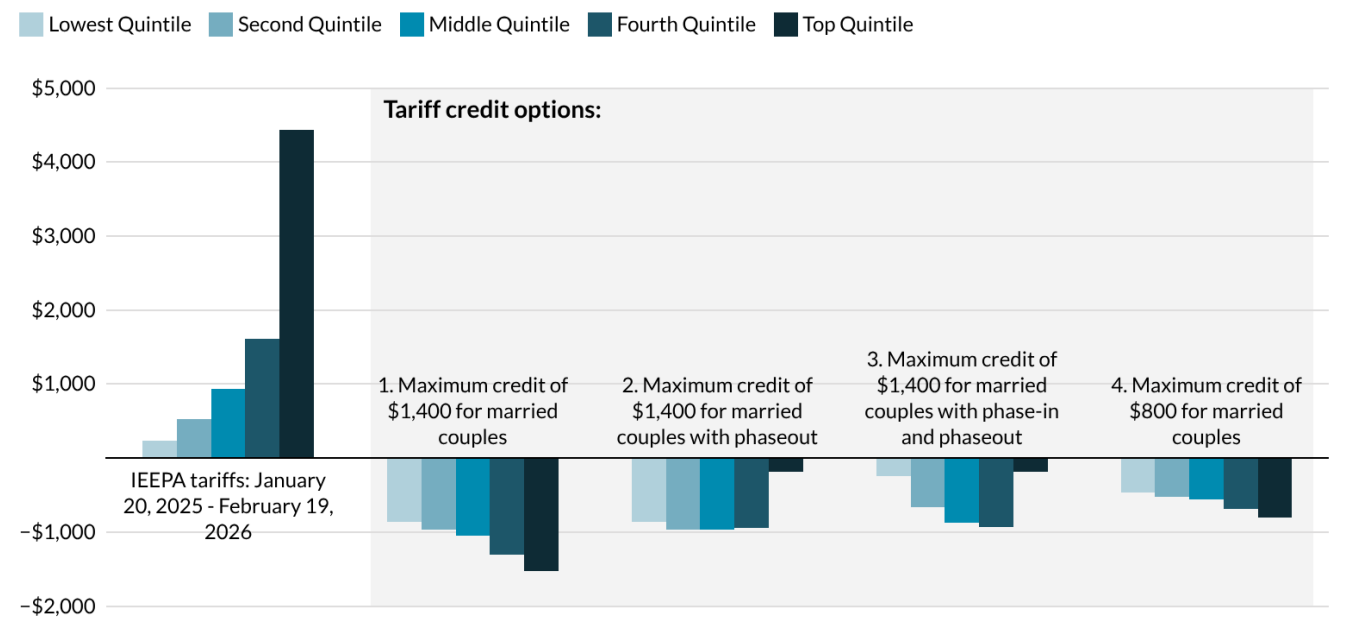
Several legislative proposals would target tariff relief to lower- and middle-income families by phasing out the maximum credit. About 82 percent of families would be eligible if the credit began to phase out when income exceeded \$75,000 (\$150,000 for married couples filing joint returns). On average, the credit with a phaseout range would offset about two-thirds of the IEEPA tariff.

Setting the credit equal to the average IEEPA burden of single filers can overcompensate, on average, families in the lower two income groups and undercompensate those in the top two income quintiles. For example, the average IEEPA burden was \$530 for families in the second income quintile, but their average credit would be \$970 under either of the first two options. In contrast, the average tax credit for families in the top quintile would be \$1,530 and \$180 under the first and second options, respectively, but their average IEEPA burden was \$4,430.

We consider two alternative approaches to reduce the gaps between the tariff burdens and credit amounts. If the credit was both phased in and phased out—with the maximum credit reached at \$35,000 (\$70,000 for joint filers)—the average credit for families in the second quintile would be reduced to \$660. Alternatively, the maximum credit could be set at \$400 for unmarried filers (about the average IEEPA tariff burden for single filers in the second quintile) and \$800 for married couples. Without a phase-in or phaseout range, the top income group would receive, on average, an \$800 credit.

Finally, we examine how various credits would offset federal tax burdens in 2026 from the tariff policies announced since January 20, 2025, and still in effect as of March 11, 2026.

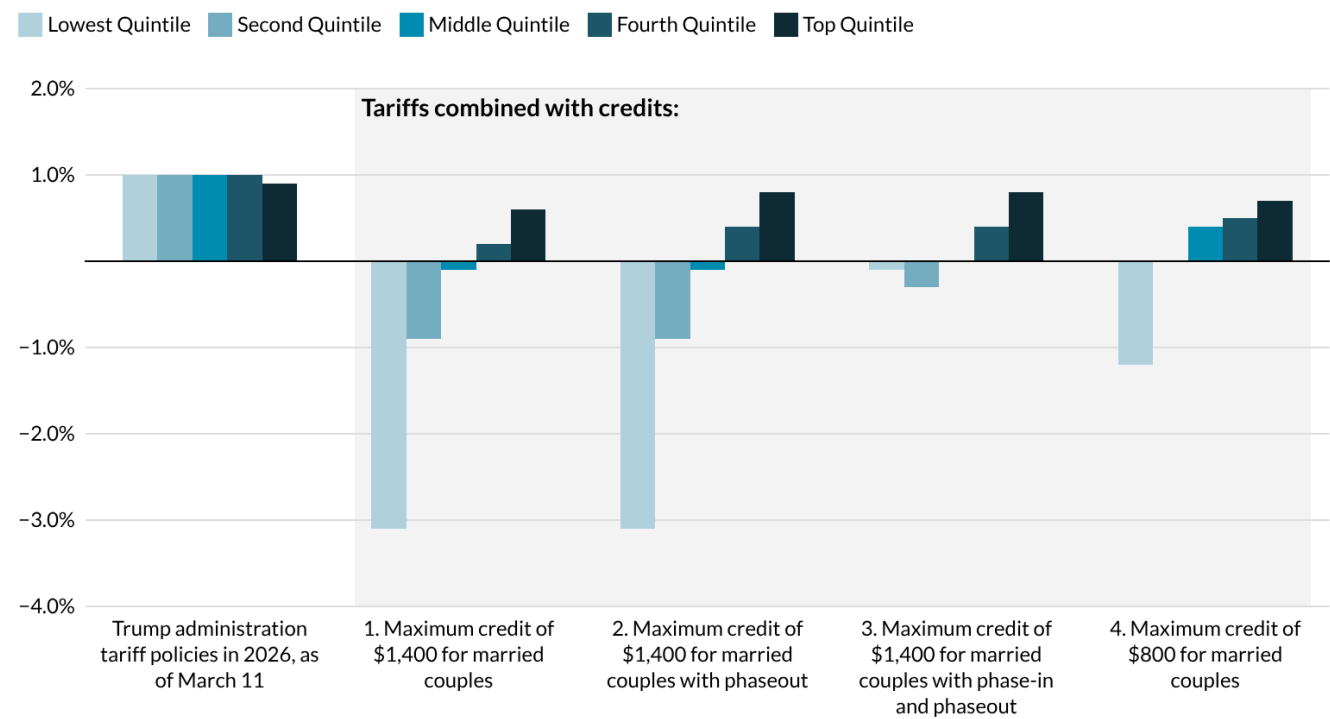
FIGURE 1
Average Tax Change From IEEPA Tariffs and Tariff Credits
By expanded cash income percentile



Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.
Notes: Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, custom duties, and excise taxes) as a percentage of average expanded cash income. For a description of expanded cash income, see <https://taxpolicycenter.org/resources/tax-model-resources/income-measure-used-distributional-analyses-tax-policy-center>.

FIGURE 2
Change in Average Tax Rate From Tariffs Announced From January 20, 2025 Through March 11, 2026, With Tariff Credit Options

Percentage points, by expanded cash income percentile, in 2026



Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.
Notes: Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, custom duties, and excise taxes) as a percentage of average expanded cash income. For a description of expanded cash income, see <https://taxpolicycenter.org/resources/tax-model-resources/income-measure-used-distributional-analyses-tax-policy-center>. For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>.

Without any offsetting IEEPA credit, the new tariff policies increased the federal tax rate by roughly 1 percentage point in all income quintiles. If the tariff policies were partially offset by the tax credit options, the net percentage point change in federal taxes would range from 0.1 (option 1) to 0.5 (either option 3 or 4).

A caveat to our analysis is that tariff rates and coverage have expanded and contracted rapidly since January 20, 2025. Our analysis does not reflect changes in tariff policies since the US Supreme Court ruling that struck IEEPA tariffs and the imposition of a global 10 percent rate in the immediate aftermath. Based on comments by President Trump as well as ongoing litigation over tariff policies, we anticipate that fluctuations will continue for the foreseeable future. But while we use the example of IEEPA tariffs to frame our analysis, our general findings would be applicable to the design of tax credits intended to offset the burden of other tariff policies.

OFFSETTING FAMILIES' TARIFF BURDENS THROUGH REFUNDABLE TAX CREDITS

On Day 1 of his return to office in January 2025, President Trump made clear tariffs would be a pillar of his economic, trade, and tax policies. In the following months, he signed numerous executive orders that expanded the scope of tariff policies, sometimes claiming authority under certain laws—most notably, the International Emergency Economic Powers Act (IEEPA)—that no other president had used before to raise tariffs. Within a year of his inauguration, we estimate that the average effective tariff rate rose from about 1.6 percent to 17 percent.

In the president's view, tariffs are paid by the foreign countries that export goods to the United States and they therefore increase the US's competitive advantage. But as tariff rates and coverage have increased, many US businesses and consumers have questioned that view. Calls to reduce Americans' tariff burden intensified in February 2026 after the Supreme Court ruled that the IEEPA did not grant presidents the authority to impose tariffs. Following that ruling, a lower court quickly ordered the government to pay refunds to the importers or their brokers who had paid the IEEPA tariffs when imported goods entered the United States.

However, most economists find that tariffs are ultimately borne by US families through higher prices or lower nominal incomes. This view is reflected in the lawsuits filed by consumers against some large corporations (Gottlieb and Watwe 2026, Grieve 2026). Lawmakers have also responded by introducing bills in both the House and Senate that would create a new refundable tax credit, based on average tariff burdens, for low- and middle-income families.⁴

In this report, we analyze several options for refundable tax credits to offset the reduction in families' real income associated with recent tariff policies. We assume that the administration's tariff policies in place as of March 11, 2026 remain in effect. We use the example of hypothetical refunds of IEEPA tariffs to families, but the design and implementation issues apply more broadly to proposals seeking to reduce the burden of other tariff policies.

We begin with a review of tariff policies during Trump's second term. Next, we discuss the incidence of tariff burdens and the Urban-Brookings Tax Policy Center's methodology for estimating and distributing those burdens. We then analyze four options for refundable tax credits that would offset families' IEEPA tariff burden.

TARIFF POLICIES

Under the US Constitution, Congress is delegated the responsibility to “lay and collect Taxes, Duties, Imposts, and Excises.” Before 2025, tariffs were generally imposed under either an international agreement approved by Congress or by the president under limited congressional authority granted by legislation—in particular, through the Tariff Act of 1930, the 1962 Trade Expansion Act (TEA), and the 1974 Trade Act (TA).

Since the early part of the 20th century, tariffs have not been a major revenue source in the United States.⁵ Beginning with the signing of the General Agreement on Tariffs and Trade in 1947, the United States and its major trading partners committed to policies that fostered international commerce. That commitment was reinforced in the late 1990s and early 2000s with concerted efforts—such as the establishment of the World Trade Organization (WTO)—to lower and more closely standardize tariff rates across countries. We estimate that the US average effective tariff rates were below 1.6 percent from 2010 through 2017. Tariffs and duties hovered around 0.2 percent of gross domestic product during this period.⁶

That changed beginning in 2018, when in his first term President Trump imposed tariffs on solar panels and washing machines imported from most countries and subsequently on over half of all goods from China. The Biden administration continued most of those policies and expanded tariffs on products from China.

Immediately after taking office again in January 2025, President Trump announced an “America First Trade Policy,” warning that the administration would use global tariffs to remedy trade deficits among other policy goals.⁷ While he carried through on that warning, the administration’s tariff policies fluctuated throughout 2025 and 2026, in part due to delays in implementation, new trade arrangements (spurred in part by the threat of higher tariffs), and court decisions.

By January 2026, the average tariff rate on all imports was 17 percent, rising to 21 percent if all announced policies were in effect, according to TPC estimates. The ratio of tariffs to GDP rose to 0.6 percent in fiscal year 2025. In early February 2026, CBO projected it would increase to 1.3 percent in 2026.

After the Supreme Court decision invalidating certain tariffs on February 20, 2026, and the nearly immediate response by President Trump to impose a 10 percent global tariff, the average rate fell to 12 percent. Since then, the administration’s tariff policies continue to fluctuate—with the president lowering some tariffs while suggesting more tariffs are to come.

Pre-2025 Tariffs That Were Still in Effect as of March 2026

In total, there are five major categories of tariffs that were implemented prior to 2025 and remained in effect as of early 2026.

1. **Standard tariff and trade agreement rates.** Chapters 1 through 97 of the *Harmonized Tariff Schedule* (HTS) of the United States list tariff rates set by either the World Trade Organization (WTO)—most-

favored-nation (MFN) rates—or trade agreements between the United States and other countries.⁸ The United States applies the MFN rates to imports from other WTO countries. In some cases, the US government and other countries agree to replace the MFN rate with a lower rate. Trade agreements generally must be ratified by Congress.

2. **Temporary industry safeguard tariffs.** Section 201 of the TA authorizes the president to adopt temporary safeguard measures—including tariffs—on imports that cause or threaten serious damage to a domestic industry. Using that authority, President Trump imposed tariffs on imported solar cells and modules during his first administration.⁹ President Biden extended those tariffs—with an exemption for finished solar panels—for another four years.
3. **National security tariffs.** Section 232 of the TEA allows the executive branch to initiate an investigation and levy tariffs when imported goods are determined to pose a threat to national security (Kitamura 2026). The first Trump administration cited this authority to impose 25 percent tariffs on steel and 10 percent tariffs on aluminum. The policy was later expanded to include some derivatives of steel and aluminum. Both the Trump and Biden administrations subsequently exempted some countries, goods, and businesses from those tariffs.
4. **Tariffs responding to discriminatory trade practices.** Section 301 of the TA allows the president to impose tariffs on countries whose policies burden or restrict US commerce through discriminatory practices, following an investigation by the US Trade Representative, a public comment period, an administrative record, and a legal determination (Bork 2026; Trachtenberg 2026). In his first term, President Trump used this authority to levy tariffs on over half of Chinese imports. President Biden maintained the China tariffs, increasing their coverage and rates in some cases.
5. **Antidumping and countervailing duties.** These duties were first authorized by Title VII of the Tariff Act of 1930¹⁰ and are meant to offset strategies used by other countries to increase their businesses' competitive edge—often by underpricing their exported goods or subsidizing production of commodities. Under the act, businesses can petition the US International Trade Commission and the Commerce Department for relief from the impact of imports that have allegedly been dumped in the United States or unfairly subsidized. After investigation, the federal government can impose tariffs on imported goods, which can vary by business as well as by country and industry.

New Tariffs Imposed Between January 20, 2025, and February 20, 2026

During 2025, President Trump cited Section 301 authority when setting tariffs on China's shipping equipment and most Nicaraguan imports. He also turned again to Section 232 to justify the imposition of more levies on such goods as automobiles, copper, trucks, buses, wood products, semiconductors, and pharmaceuticals, regardless of origin. In addition, he expanded the 232 tariffs on steel and aluminum by rescinding all existing exemptions, expanding the definition of derivatives, and raising the rates on both metals to 25 percent in March 2025 and then to 50 percent in June 2025 before reducing those rates in April 2026.

In an unprecedented move, the Trump administration cited the International Emergency Economic Powers Act (IEEPA) in a series of executive orders that imposed wide-ranging tariffs on goods from many countries, even though the legislation contains no specific reference to tariffs.¹¹ Instead, IEEPA allows the president to declare a national emergency when there is an “unusual and extraordinary” threat from outside the United States to the country’s national security, foreign policy, and economy. The act further authorizes a president to “investigate, block during the pendency of an investigation, regulate, direct and compel, nullify, void, prevent or prohibit...importation or exportation.” The Trump administration claimed the language to “regulate...importation” authorized the imposition of tariffs by a president.

The IEEPA tariffs fell into two categories:

- **Reciprocal tariffs tied to trade deficits.** President Trump identified US trade deficits as a threat and imposed “reciprocal tariffs” on imports from some countries.¹² They were set specifically for each country (except Canada and Mexico), with a minimum rate of 10 percent and were as high as 50 percent.
- **Country-specific tariffs tied to national security or foreign policy concerns.** President Trump cited other threats to the United States as a rationale for tariffs on China, Canada, and Mexico (fentanyl smuggling for the preceding three countries), Brazil (compelling US online platforms to change their content moderation policies as well as legal issues concerning a former president of Brazil),¹³ and India (import of Russian oil).¹⁴

Although the IPEEA tariff rates were high and extensive, their impact was mitigated by many exceptions. Imports compliant with the United States-Mexico-Canada Agreement (USMCA), a characterization that applies to a large share of goods from Canada and Mexico, were not subject to IEEPA tariffs. Goods already subject to Section 232 tariffs were also exempted from IEEPA tariffs. In addition, the administration exempted numerous other products from the IEEPA tariffs.¹⁵

Moreover, the Trump administration entered into trade agreement negotiations with many countries, whereby IEEPA and Section 232 rates were reduced in exchange for other trade concessions. For example, reciprocal tariffs were reduced from 32 percent to 19 percent for Indonesia (the US-Indonesia Agreement on Reciprocal Trade), from 24 percent to 15 percent for Japan (the US-Japan Strategic Trade and Investment Agreement), and from 20 percent to 15 percent for the European Union (the US-EU Framework on an Agreement on Reciprocal, Fair, and Balanced Trade). Whereas some agreements were implemented (those with Japan, South Korea, EU, Switzerland, and Liechtenstein), others had not been as of the release of this report.

Supreme Court Decision on IEEPA and Administration’s Response

The IEEPA tariffs were challenged in several court cases by businesses. In *Learning Resources, Inc., et al. v. Trump*, the Supreme Court ruled that IEEPA did not authorize the president to impose tariffs.¹⁶ According to

the Court, only Congress had that authority to impose tariffs under the constitution unless it expressly conveyed that power to the president as it had done with TEA and TA.

Within days of the Court's ruling, the Trump administration began to replace the IEEPA tariffs. First, they imposed a new global tariff of 10 percent, citing TA's Section 122 that allows presidents to impose tariffs in response to a balance of payments crisis. Trump warned that he would raise the rate to the maximum of 15 percent but had not done so as of the release of this report.

The Trump administration also announced new Section 301 investigations of 15 countries and the European Union to determine if they were engaging in unfair trade practices. Other Section 301 investigations were initiated, targeting more than 60 countries for importing goods from other jurisdictions that were produced with forced labor. On June 2, 2026, the Trump administration released a report on their findings over the use of forced labor and imposed new tariffs of 10 percent to 12.5 percent on 59 countries and the European Union.

Although both Sections 122 and 301 explicitly allow a president to impose tariffs, Congress placed limits on those authorities. Section 122 global tariffs can only be in effect for 150 days unless Congress agrees to an extension; hence, the 10 percent global rate will expire on July 24, 2026 (Gerstein 2026). Other hurdles are highlighted in a lawsuit by attorney generals from 24 states and one libertarian group. The suit states that a trade deficit is not the same as a balance of payments crisis and that the current investigations do not meet other standards set by Section 122. The plaintiffs also argue that Section 122 tariffs must be broadly applied, whereas there are many exemptions (many mirroring the IEEPA exemptions). In May 2026, the United States Court of International Trade (USCIT) blocked collections of the global rate from two companies and the state of Washington that paid tariffs on purchases by the University of Washington, but an appeals court subsequently issued an order that stayed the decision until the appeals process is completed (Hashim 2026).

REFUNDING IEPPA TARIFFS

When ruling that IEPPA did not give the president authority to impose tariffs, the Supreme Court did not address whether the government must refund the amounts already paid in 2025 and 2026. Only Justice Kavanaugh raised the issue in his dissenting opinion, writing: “The United States may be required to refund billions of dollars to importers who paid the IEPPA tariffs, even though some importers may have already passed on costs to consumers or others. As was acknowledged at oral argument, the refund process is likely to be a ‘mess.’”¹⁷ In those two sentences, Kavanaugh identified two key administrative challenges for refunding IEPPA tariffs—who would be eligible and how they would be delivered.

Incidence of Tariffs

Kavanaugh’s statement is illustrative of a broader conversation about who bears the burden of tariffs. President Trump often claims that foreign businesses bear the burden of tariffs, but many US businesses, consumers, and economists have a different perspective on the incidence of tariffs (Swanson and Ember 2026).

Do foreign businesses bear the tariff burden? To remain competitive in the US market, foreign businesses may have to reduce the price of their exports. Consequently, the foreign exporters would bear part of the tariff burden, although they do not actually pay the tariff directly to the US government.

However, most researchers have not found evidence that foreign businesses lower prices in response to US tariffs. Several studies concluded that nearly all the burden of tariffs imposed on goods from China in 2018 was borne by the United States (Amiti et al. 2019; Cavallo et al. 2021; Fajgelbaum et al. 2020). Gopinath and Nieman (2026) found similar results for the burden from tariffs imposed by the Trump administration from January through September 2025.

Two new studies, however, show that foreign businesses bear some share of the burden from tariffs. Fajgelbaum and Khandwelwal (2026) estimate that 80 to 90 percent of tariff burden in 2025 was borne domestically, and Ganapati and Hottman (2026) observe a reduction in orders of imported goods from US businesses even though listed prices—before discounts for large purchases—did not change.

Pass-through of tariff burden. Economists generally conclude that importers initially pass some or all the tariff burdens on to the purchasers of the imports. Often, the imported goods are then used to produce final goods, and the tariffs are subsequently borne by the people and entities that bought those items. TPC estimates almost one-third of the burden lands on goods and services that are not directly tariffed.¹⁸ Ultimately, the tariff burden is passed on to families as a reduction in nominal income or increase in prices, regardless of whether they purchased the imported good.

For example, businesses can pass the tariff burden to other businesses, consumers, workers, and the government by raising prices enough to fully compensate for the higher production costs. Amiti et al. (2019)

found that nearly 100 percent of the burden from tariffs on imports from China was shifted to consumers in 2018. However, Cavallo et al. (2026) examine tariffs imposed between January and September 2025 and find that in the short run about 20 percent of tariffs were passed on to retail prices.

Alternatively, businesses may keep prices the same as before the imposition of the tariff. They have several options:

- Fully absorb the burden, resulting in lower profits
- Do not buy new imported goods and instead reduce their inventory, though that strategy works only in the short term
- Purchase less expensive goods from domestic suppliers
- Buy goods from foreign suppliers whose products are tariffed at lower rates or are less expensive because of their lower quality
- Lower labor costs by reducing workers' hours or downsizing their workforce
- In the longer term (for example, after labor contracts expire), freeze or reduce employees' compensation (wages, salaries, and benefits)

However, wide fluctuations in tariff policies over a short time span can make businesses uncertain about the future market for their goods. Thus, domestic suppliers may be reluctant to increase production to compete against foreign suppliers, and businesses may be hesitant about entering into long-term contracts with suppliers whose goods face lower tariffs.

Lawsuits and Congressional Action to Obtain IEEPA Refunds

Within a month of the Supreme Court decision, both businesses and consumers sued the government and businesses for refunds of IEEPA tariffs. Several lawmakers introduced legislation to provide all families with refundable tax credits, intended to offset IEEPA tariff burdens.

Refunds to businesses. On March 4, 2026, the USCIT ordered the federal government to pay refunds of IEEPA tariffs to the importers of record or their brokers.¹⁹ The USCIT did not address the broader question of incidence, partly because consumers and others did not have standing in this case.

The government immediately appealed the decision, arguing, among other reasons, that Customs and Budget Protection (CBP) needed time to develop and implement a program that could pay roughly \$166 billion in refunds. The agency estimated that it would take more than 4 million hours to generate that volume of refunds manually. In response, the USCIT judge temporarily paused the order to give the agency time to build a refund system.

CBP began accepting applications for IEEPA refunds on April 20, 2026. However, applications are initially limited to cases that have not yet been liquidated or were liquidated within the past 80 days and do not face meaningful appeals or procedural complications. (Liquidation occurs when CPB completes its review, the tariff liability has been finalized, and the importer's window for appeal has expired.) The agency anticipates accepting applications for more complicated requests in phases.

According to CBP, refund payments with interest will take up to 60 to 90 days unless a compliance problem is detected. However, some observers warn that the wait could be longer, due to potential delays in processing and validating claims, liquidation status, and refund payment capacity (which also involves the Treasury Department's Bureau of Fiscal Service).²⁰

As of the end of May, CBP had issued \$21 billion in refunds. However, the government filed an appeal on May 29, arguing that the USCIT did not have the authority to require CBP to pay refunds to many importers, such as those whose IEEPA tariffs had been finalized and fully paid. If the government wins its appeal, affected importers may have to sue the government to obtain a refund (Romm and Swanson, 2026b).

Refunds paid to individuals. As of March 25, 2026, at least 17 lawsuits were filed by consumers seeking refunds from several large corporations, including FedEx, United Parcel Service (UPS), and Costco (Gottlieb and Watwe 2026). FedEx is the defendant in 11 of those cases. The lawsuits, however, raise unique issues, and the companies have responded differently, although the cases have not been settled yet.

Both FedEx and UPS paid the tariffs on imported goods at the point of entry before delivering those items to the purchasers. The purchasers of the delivered goods were then charged separately for the tariffs paid by the two delivery companies on their behalf. Under the USCIT's decision, only the companies—not the person or entity that ordered the good—can apply for the IEEPA refunds from CBP. Both companies have announced that they will refund the tariffs to their customers after they receive payments from CBP.²¹

The lawsuit filed by an Illinois resident against Costco goes to the broader question of whether businesses should pay rebates to the retailer's customers reflecting the higher prices charged on imported goods after the imposition of tariffs (Grieve 2026). A similar lawsuit was filed in April by Nintendo customers against that company.²²

Some lawmakers would not limit IEEPA refunds just to customers at stores that sold Imported goods and have, instead, adopted the perspective that tariffs are ultimately borne by families regardless of where they shop or what they purchase. They have introduced bills that would create new refundable tax credits linked to the average tariff payment.

The Tariff Refunds for Working Families Act, introduced by Senator Martin Heinrich (D-New Mexico) and others, would provide unmarried individuals with refundable tax credits of \$600, with married couples eligible

for twice that amount.²³ Eligibility would be limited to filers with income up to \$90,000 if single, \$120,000 if a head of household, and \$180,000 if married. The credit would increase by \$600 for each dependent.

In the House, Representative Henry Cueller's (D-Texas) bill—the American Consumer Tariff Rebate Act—would distribute IEEPA revenues among families with income below \$400,000, and amounts varying with filing status and number of children.²⁴

Who gets the refunds? The multiple lawsuits and legislative proposals are bearing out Kavanaugh's prediction of the difficulties in determining the amount and eligibility for IEEPA tariff refunds. At the time of the release of this report, some businesses have obtained refunds from the government, but this has not stopped lawsuits and legislation that would provide relief to consumers and others who ultimately experienced the burden of IEEPA tariffs.

If the lawsuits prevail or legislation is passed, the next issue to be addressed will be whether businesses that are currently eligible for refunds will have to distribute those amounts to their customers or if the government will effectively make duplicate payments—the current refunds to businesses and tax credits to families—substantially raising the budgetary costs.

The IRS's Experience with Refunding Telephone Excise Taxes

There is a legislative and administrative precedent for refunds to individual filers after court rulings that a tax was illegal. The Communications Excise Tax Refund was a one-time refund of a three-percent tax paid on long-distance and bundled telephone service (combined local and long-distance calls).²⁵ Congress enacted the refund provision in response to several federal court decisions that found that the excise tax applied solely to local-only telephone service.

The refunds of the communications excise tax differ from a tariff refund to individuals in a key dimension: Consumers paid the excise tax directly to the phone companies. But the design and administration of the excise tax have implications for the design of a tariff refund to individuals.

Taxpayers could claim a refund on their 2006 tax return (or a short form, if they did not have to file a return) for the full amount of the excise tax payments. Rather than gathering and reviewing over three years of monthly phone bills to determine the amount of the refund, individuals could claim a flat dollar amount ranging from \$30 to \$60, depending on the number of exemptions claimed by the taxpayer for self, spouse, and dependents. The IRS set those levels based on an analysis of telephone excise tax data.²⁶

Most claimants opted for the simple approach to determine the amount of the rebate. Through the first two months of the 2007 filing season, less than 1 percent computed the total amount of eligible excise tax amounts they had paid over the preceding 43 months. But even with the simpler method, less than 2 percent of people without a tax-return filing obligation applied for the rebate using the short form (GAO 2007).

The US experience with refunds of telephone excise taxes highlights some of the challenges for a tariff rebate program for individuals. Among tax filers, a simple formula was preferred over determining actual payments from old telephone bills that may have been discarded months before. However, even simple computations may not have been sufficient to enroll people who typically do not file returns. More intensive outreach was likely necessary to reach them. Technological advances since then may facilitate payments to nonfilers. For example, the IRS developed several new systems during the pandemic to facilitate payments of economic recovery payments and advance child tax credits to nonfilers, including arrangements with other agencies serving low-income families and online registration portals (Holtzblatt and Karpman 2020, Maag et al. 2026).

METHODOLOGY

In its analysis of tariff refunds, TPC assumes that US importers—not foreign businesses—initially bear the burden of tariffs before shifting that burden to the businesses, individuals, and other entities who purchase the imports. Those businesses then pass the burden on to families by increasing prices or lowering workers' compensation. Consequently, families bear the entire tariff burden—regardless of whether they were customers of businesses receiving refunds from CBP.

To trace the tariffs from those paid directly to importers of records or their brokers to all families, TPC uses three distinct tools in the following sequence:

- A tariff rules engine
- A supply chain model
- A microsimulation tax model of the federal tax system

Tariff Rules Engine

The rules engine computes tariff rates using trade flow data from the US International Trade Commission (USITC). Each flow (or variety) represents a unique combination of a 10-digit HTS code and a country of origin. The trade data, which include import values and duties collected, typically cover approximately 17,000 distinct HTS codes and 240 countries and territories, yielding about 330,000 observed varieties that form the basis for tariff rate computations.

Rates are estimated for each import based on specified policies. The policy parameters include (1) the import's country of origin, (2) its product code, and (3) the policy's effective date. Those parameters are obtained from Federal Register notices and White House announcements.

The rules engine was designed to handle two challenging characteristics of current tariff policy—temporary provisions and complexity. Those challenges are enhanced by frequent changes in tariff policies in 2025 and 2026 (figure 3). In some cases, the short duration of a tariff policy was by design or legislative mandate (for example, the 150-day limitation on the 10 percent global tariff under Section 122). But in other cases, the Trump administration paused or suspended tariff policies, revised rates and coverage, and negotiated new trade agreements with some countries, resulting in lower US tariffs on their imports.

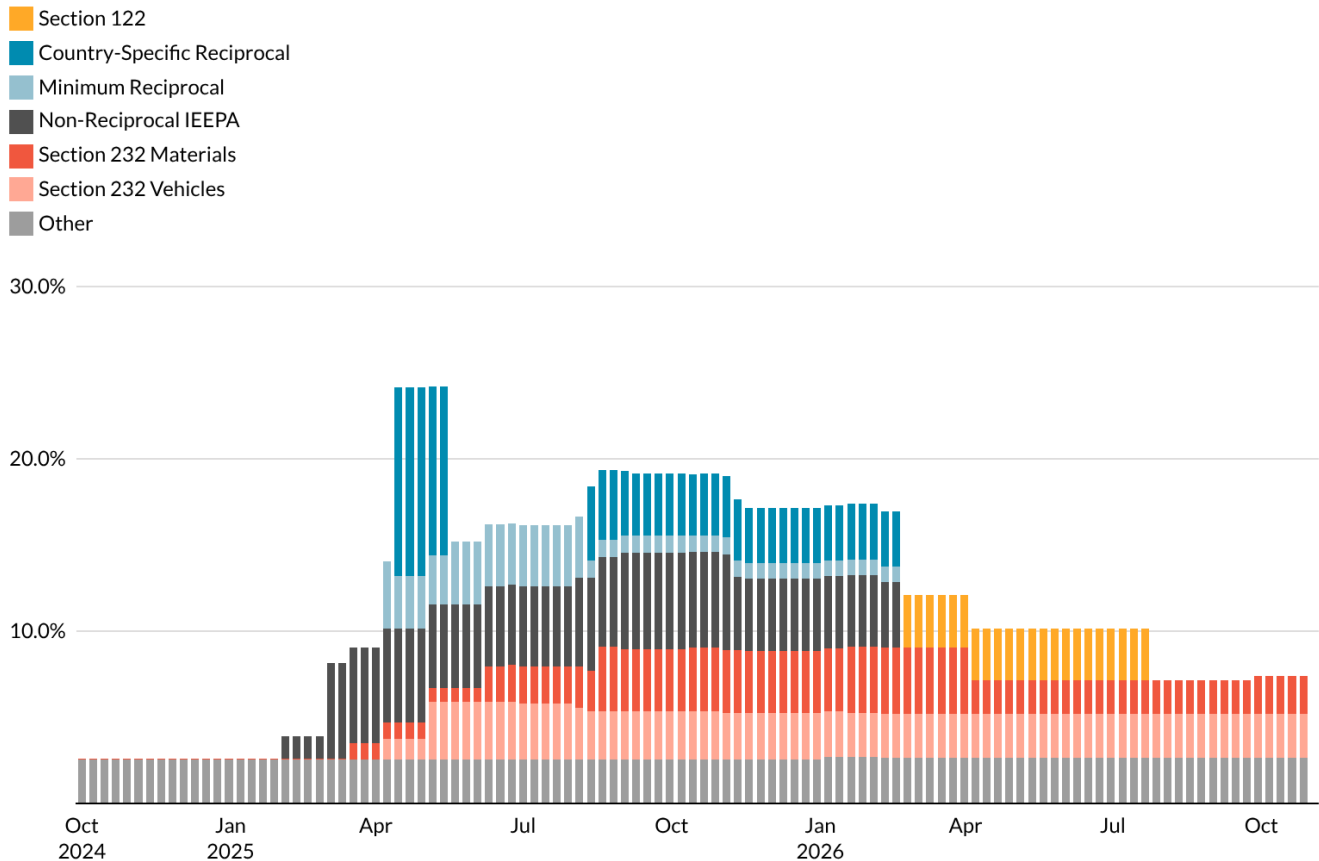
Because of the frequent changes to tariff policies throughout the year, the rules engine must adjust for the duration of each policy when estimating annualized rates. Tariff rates are computed for each day by type of import, country of origin, and the specific tariff policy in place that day. The daily rates are then used to compute the average rates faced by the product over the course of the year. Currently, the rules engine

produces about 30 billion tariff rates, which are then collapsed into up to 2 million rates when computing the tariff burdens imposed on families.

FIGURE 3

Average Statutory Tariff Rate

By tariff type



Source: Urban-Brookings Policy Center Tariff Rules Engine v 1.6.

Notes: Average statutory tariff rate of a policy (on a day) is the sum of tariff rates (on that day) on all import flows, imposed by that policy conditional on all other policies being in effect, weighted by import flows' 2024 import volumes. Estimates exclude antidumping and countervailing duties. "Section 232 Vehicles" is an aggregation of Section 232 tariffs on automobiles, trucks, buses, and associated parts. "Section 232 Materials" aggregates Section 232 tariffs on aluminum, steel, copper, wood, semiconductors, and pharmaceuticals. "Other" aggregates Section 301 and Section 201 tariffs, in addition to tariffs in Chapters 1 through 97 of the Harmonized Tariff Schedule.

The second estimating challenge is the complex web of interactions between tariff policies. The major types of interactions include:

- A tariff supersedes another tariff
- A product is exempted from a tariff if imported from a particular country, but that same type of product is subject to the tariff if it is from another jurisdiction
- The effective date of a tariff policy does not completely overlap with the exemptions or superseding policies

The complexity of the interaction rules is enhanced by the ways in which they are applied. For example, the 10 percent global rate may be superseded by a new tariff imposed on a specific product imported from a certain country after a Section 232 national security investigation; the 10 percent rate, however, may still apply to the same good imported from another country.²⁷ The rules engine is designed to quickly adjust to new tariff interaction rules even when they are not universally applied.

The total burden attributable to a product is calculated by multiplying the estimated tariff rates by the projected import values for each product and country. The import values are based on historical amounts reported in 2024 USITC data and then scaled by the Congressional Budget Office's projection of imports as of January 2025.

The burden estimates do not reflect behavioral responses to the tariffs, such as changes in demand for the product or the replacement of a tariffed imported good with one that is produced in the United States. That assumption is consistent with the methodology that TPC uses for distributing changes in other federal taxes.²⁸

Tariff Supply Chain Model

A final good (such as a house) can be composed of many intermediate goods, each potentially containing inputs from imported goods at some stage in production. Or the imported good (such as shoes from Italy) may itself be the final good. While no tariffs are directly imposed on a house, the home purchaser feels the burden of the tariffs levied on the various intermediate products used in its construction. In contrast, the tariff imposed on the Italian-made shoes at entry into the United States generally reflects the burden experienced by the customer.

TPC's tariff supply chain model traces the relationship between goods in the economy and consequently can be used to map the burden on imported goods to the final goods produced in the United States. The model reflects each stage in the production of a final good. TPC's supply chain model is adapted from the Bureau of Economic Analysis's Input-Output (I-O) framework (Oosterhaven 2024).

Import values and tariff rates are used in the supply chain model to translate the tariff burden on intermediate and final goods into the burden on final demand, composed of consumption, investment, and government expenditures.

TPC's Microsimulation Model

The distribution of the burden of tariffs on families is calculated using the excise tax module in TPC's microsimulation model. The model can analyze current law and numerous potential policy changes and predict the change in average taxes, effective tax rates, and after-tax income for taxpayers across the income distribution and by age, marital status, and presence of children. Those distributions generally do not incorporate behavioral responses to policy changes.

Because tax returns do not contain information on taxpayers' purchases, TPC uses data from the Bureau of Labor Statistics' Consumer Expenditure Survey (CEX) to assign consumption variables to tax units (families) in the microsimulation model. Originally, those imputations were developed for the analysis of value-added and excise taxes, and detailed explanations of the methodologies can be found in Toder et al. (2011) and Rosenberg (2015). For purposes of estimating tariff burdens, some of the consumption categories were refined to better align with goods subject to tariffs.

As with TPC's analysis of excise tax burdens, tariffs are assumed to affect the real value of families' income in the long run with the amounts varying by sources.²⁹ The supply chain model is integrated into the microsimulation model through its relative price adjustment component. The model adjusts a family's burden based on the amount of tariffed final goods they purchase relative to total consumption. By construction, the burden adjustment is equal to zero across all tax units, to reflect that changes in relative prices do not affect the aggregate price level.

Finally, because taxes such as tariffs and excise taxes lower incomes, individual income and corporate taxes are lowered as well. We model these offsets using rates produced by the Joint Committee on Taxation (JCT 2025). Moreover, the estimates in the distribution tables are based on income and liabilities during calendar year 2026 (2025 and 2026 for IEEPA tariff burdens).

ANALYSIS OF TARIFF POLICIES IMPLEMENTED AFTER JANUARY 20, 2025

In this section, we estimate the impact of tariff policies implemented since the beginning of the second Trump administration. First, we examine the distribution of the IEEPA tariff burden by income, filing status, and age. For this analysis, we combine IEEPA tariff burdens in 2025 and 2026.

We then consider the distribution of the burden attributable to tariff policies announced by President Trump in his second term, relative to those in place on January 19, 2025 (the day before his inauguration and the announcement of the America First Trade Policy). Our analysis focuses on those policies in effect during 2026, as of March 11; for brevity, we will refer to those as “second-term tariff policies.”

Notably, the estimates of 2026 burden reflect the IEEPA tariffs in effect from January 1 through February 19 (the day before the Supreme Court ruling), the subsequent imposition of a 10 percent global tariff, and the expiration of that tariff on July 24, 2026 (150 days after imposition). Several significant changes in tariff policies occurred after March 11 and are excluded from the analysis. Changes to steel and aluminum tariffs took effect on April 6, 2026 and June 8, 2026, and pharmaceutical tariffs are supposed to take effect in late 2026.

The estimates also do not reflect other potential policy changes because of the Section 301 investigations launched after the Supreme Court ruling, the resolution of ongoing lawsuits about the legality of the 10 percent global rate, and the possible imposition of new tariffs to replace the global rate when it expires in July 2026.

Impact of IEEPA Tariffs on Average Burdens

Overall, IEEPA tariffs raised the average tariff burden by a combined total of \$1,250 in 2025 and 2026 (table 1). The average change ranged from \$230 in the lowest income quintile to \$4,430 in the top quintile. IEEPA tariffs constituted nearly two-thirds of Trump Administration tariffs for families in 2025.

We estimate that the aggregate IEEPA tariff burden was \$240 billion. As noted earlier, the administration told the USCIT in March that IEEPA tariff collections totaled nearly \$170 billion. The complexity of the overlapping tariffs and disputes between importers and CBP on their tariff liabilities might contribute to that difference.

Another reason for the difference is conceptual. Some families may respond to tariffs by replacing imported goods with products produced in the United States, hence reducing demand for foreign-made goods. But while tariff collections decline, families are still burdened by the tariff—especially if a domestic product is not available, less satisfactory, or the search for an equivalent good is lengthy.

The impact of IEEPA tariffs varied across family types, reflecting both differences in family size and income (table 3). The average burden for married couples filing jointly was three times that of single filers (\$680 and \$2,270, respectively). Heads of households experienced an average increase of \$790, while the burden rose by \$1,850 for filers with children.

TABLE 1

IEEPA Tariff Burdens and Tariff Credits, by Expanded Cash Income Percentile

Values are for 2026 unless otherwise indicated

Expanded Cash Income Percentile	IEEPA Tariffs: January 20, 2025 - February 19, 2026	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase-in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Average Tax Burden or Credit					
Lowest Quintile	230	-860	-860	-240	-470
Second Quintile	530	-970	-970	-660	-520
Middle Quintile	940	-1,050	-970	-870	-560
Fourth Quintile	1,610	-1,300	-940	-930	-690
Top Quintile	4,430	-1,530	-180	-180	-800
All	1,250	-1,090	-830	-570	-580
Addendum					
80-90	2,560	-1,500	-330	-330	-790
90-95	3,630	-1,530	-30	-30	-800
95-99	5,890	-1,580	0	0	-820
Top 1 Percent	23,650	-1,600	0	0	-830
Top 0.1 Percent	90,640	-1,560	0	0	-810

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900. For a description of expanded cash income, see <https://taxpolicycenter.org/resources/tax-model-resources/income-measure-used-distributional-analyses-tax-policy-center>.

Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

TABLE 2

Families Eligible for Tariff Credits, by Expanded Cash Income Percentile

Expanded Cash Income Percentile	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase-in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Percent of Families Eligible for Credit				
Lowest Quintile	100	100	69	100
Second Quintile	100	100	92	100
Middle Quintile	100	94	93	100
Fourth Quintile	100	67	66	100
Top Quintile	100	17	17	100
All	100	82	71	100
Average Credit Per Recipient Family				
Lowest Quintile	-860	-860	-350	-470
Second Quintile	-970	-970	-720	-520
Middle Quintile	-1,050	-1,030	-940	-560
Fourth Quintile	-1,300	-1,420	-1,400	-690
Top Quintile	-1,530	-1,050	-1,040	-800
All	-1,090	-1,010	-800	-580

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900. For a description of expanded cash income, see <https://taxpolicycenter.org/resources/tax-model-resources/income-measure-used-distributional-analyses-tax-policy-center>. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

TABLE 3

Average IEEPA Tariff Burdens and Tariff Credits, by Filing Status and Age

Values are for 2026 unless otherwise indicated

Characteristic	IEEPA Tariffs: January 20, 2025 - February 19, 2026	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase-in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Single Filer	680	-720	-600	-340	-410
Married, filing Jointly	2,270	-1,630	-1,120	-820	-870
Head of Household	790	-1,180	-1,000	-820	-540
Filers with Children	1,850	-1,590	-1,120	-940	-760
Filers at Least Age 65	1,040	-1,010	-840	-430	-570
All	1,250	-1,090	-830	-570	-580

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: Tax units with children are those claiming an exemption for children at home or away from home or with children qualifying for the Child Tax Credit or EITC. Tax units in which either the primary individual (or secondary individual in a married couple) is age 65 or older. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

Impact of Trump Administration's Second-Term Tariff Policies by Income and Family Status

Relative to the tariff policies in place at the end of the Biden administration, the Trump administration's second-term tariff policies would increase the average federal tax burden in 2026 by \$1,230, ranging from \$220 for families in the bottom income quintile to \$4,400 in the top quintile (table 4). The average federal tax rate would increase by between 0.9 and 1 percentage points across income quintiles. Similarly, the average percent reduction in after-tax income would not vary greatly throughout the income distribution, hovering around 1.1 to 1.2 percent. As with the IEEPA tariffs, the magnitude of the second-term tariff burdens would vary widely across family types (table 5). The increase in the average burden incurred by single filers and heads of households would be, respectively, \$670 and \$760. In contrast, joint filers would experience an increase of \$2,230—over

three times the amount felt by single filers. But both the percentage change in average federal tax rate and the percent change in after-tax income would be similar across family types.

TABLE 4

Distribution of Tariffs Announced From January 20, 2025 Through March 11, 2026

By expanded cash income percentile, 2026

Expanded Cash Income Percentile	Average Federal Tax Change (\$)	Change in Average Federal Tax Rate (% Points)	Percent Change in After-Tax Income
Lowest Quintile	220	1.0	-1.1
Second Quintile	510	1.0	-1.1
Middle Quintile	910	1.0	-1.1
Fourth Quintile	1,580	1.0	-1.2
Top Quintile	4,400	0.9	-1.1
All	1,230	0.9	-1.1
Addendum			
80-90	2,530	0.9	-1.2
90-95	3,600	0.9	-1.2
95-99	5,900	0.9	-1.2
Top 1 Percent	23,320	0.7	-1.1
Top 0.1 Percent	84,150	0.6	-0.9

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900. For a description of expanded cash income, see <https://taxpolicycenter.org/resources/tax-model-resources/income-measure-used-distributional-analyses-tax-policy-center>. After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; customs duties; and excise taxes. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, customs duties, and excise taxes) as a percentage of average expanded cash income. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Burden also includes changes in individual income, payroll, and corporate income taxes due to the impact of tariffs on incomes.

TABLE 5

Distribution of Tariffs Announced From January 20, 2025 Through March 11, 2026

By filing status and age, 2026

Characteristic	Average Federal Tax Change (\$)	Change in Average Federal Tax Rate (% Points)	Percent Change in After-Tax Income
Single Filer	670	0.9	-1.1
Married, filing Jointly	2,230	0.9	-1.2
Head of Household	760	0.9	-1.1
Filers with Children	1,810	1.0	-1.2
Filers at Least Age 65	1,000	0.9	-1.0
All	1,230	0.9	-1.1

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: Tax units with children are those claiming an exemption for children at home or away from home or with children qualifying for the Child Tax Credit or EITC. Tax units in which either the primary individual (or secondary individual in a married couple) is age 65 or older. After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; customs duties; and excise taxes. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, customs duties, and excise taxes) as a percentage of average expanded cash income. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Burden also includes changes in individual income, payroll, and corporate income taxes due to the impact of tariffs on incomes.

CREDIT OPTIONS TO REFUND IEEPA TARIFFS TO FAMILIES

If lawmakers choose to refund IEEPA tariffs to families, they could do so through the income tax system, benefit programs, or a combination of the two. We considered several different ways of providing offsets through one-time refundable income tax credits. The options vary in the maximum amounts and income eligibility. People who do not have to file a tax return would have the option to submit a simple form through a portal or by paper.

One of the lessons of the telephone excise tax refund was that people preferred simplicity over exactitude—even in that instance where taxpayers could observe the amount of the excise tax they had paid from their phone bills. The options below do not require taxpayers to determine the amount of direct and indirect tariffs associated with their purchases. Instead, the credit amounts are based on the average burden incurred by selected populations.

An advantage of the tax credit approach is that eligibility and benefit levels could be based on other information already reported on income tax returns. Thus, eligibility for the credit and the amount could vary with income, marital status, and number of dependents.

A disadvantage, however, is that some taxpayers might overstate the number of dependents or misstate income to artificially bump up the amount of their credits. Others—especially those who are not required to file tax returns—might find it too burdensome to file a form to claim the credit.

TPC’s distributional analysis focuses on tax liabilities—the amounts owed, after credits, by filing units—and thus does not incorporate compliance and participation responses. In our analysis, we consider the impact of the credits from two different perspectives:

- the extent to which a credit would offset IEEPA tariffs and
- the impact of a one-year refundable tax credit on tax liabilities, inclusive of the administration’s second-term tariff policies, in 2026.

Option 1: Refundable Tax Credit to All Families with Amount Based on Average Tax Burden from Tariffs

As noted earlier, legislative proposals have typically linked refundable tax credits to the average IEEPA burden incurred by families. In this option, families would be eligible for a refundable tax credit based on the average tariff burden incurred by unmarried filers, adjusted for family size. The credit is designed to limit marriage penalties by setting the amount for couples filing joint returns to be twice that received by unmarried filers. The credit amounts would be:

- Married couples filing joint returns: \$1,400.
- All other filers: \$700
- Dependents: \$350 for one dependent and \$700 for two or more dependents

How much does the credit offset IEEPA tariffs? Under the option, the credit would be available to all families, with an average value of \$1,090, offsetting about 87 percent of the IEEPA tariffs (see tables 1 and 2). The offset rate is less than 100 percent largely because the average amount of the IEEPA tariffs for joint filers is more than twice the average incurred by single filers.

The offset rate would differ greatly across the income distribution. Families in the bottom quintile would receive credit amounts averaging \$860—nearly four times the average amount of their IEEPA tariff burdens—whereas the average credit (\$970) would be roughly twice the burden (\$530) for those in the second quintile. In the middle-income quintile, the average credit would be 12 percent higher than their average IEEPA tariffs (\$1,050 compared to \$940). For families in the top quintile, the credit—averaging \$1,530—would offset only about a third of their average IEEPA tariffs (\$4,430).

The impact of the credit also varies widely by family type. Among single filers, the average credit (\$720) is about 6 percent higher than the IEEPA burden (\$680) (table 3). For joint filers, however, the average credit is \$1,630, compared to their IEEPA average burden of \$2,270.

What is the combined effect of the credit and Trump Administration tariffs? Overall, this credit would reduce the federal tax burden attributable to second-term tariffs by 89 percent, from \$1,230 to \$140 in 2026 (table 6). The average federal tax rate would still increase but by only 0.1 percentage point—0.8 percentage point lower than from the second-term tariff policies alone (table 7). The average after-tax income would fall by 0.1 percent (table 8).

TABLE 6

Change in Average Tax by Expanded Cash Income Percentile, of Tariffs Announced From January 20, 2025 Through March 11, 2026, With Tariff Credit Options, 2026

Expanded Cash Income Percentile	Trump Administration Tariffs: January 1, 2025 - March 11, 2026	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase-in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Lowest Quintile	220	-650	-650	-30	-250
Second Quintile	510	-460	-460	-150	-10
Middle Quintile	910	-140	-50	40	350
Fourth Quintile	1,580	280	640	650	890
Top Quintile	4,400	2,870	4,220	4,220	3,600
All	1,230	140	400	660	650
Addendum					
80-90	2,530	1,030	2,200	2,200	1,750
90-95	3,600	2,070	3,570	3,570	2,800
95-99	5,900	4,330	5,900	5,900	5,090
Top 1 Percent	23,320	21,720	23,320	23,320	22,500
Top 0.1 Percent	84,150	82,590	84,150	84,150	83,350

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900. For a description of expanded cash income, see <https://taxpolicycenter.org/resources/tax-model-resources/income-measure-used-distributional-analyses-tax-policy-center>. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

TABLE 7

Change in Average Tax Rate by Expanded Cash Income Percentile, of Tariffs Announced
From January 20, 2025 Through March 11, 2026, With Tariff Credit Options, 2026

Expanded Cash Income Percentile	Trump Administration Tariffs: January 1, 2025 - March 11, 2026	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase- in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Lowest Quintile	1.0	-3.1	-3.1	-0.1	-1.2
Second Quintile	1.0	-0.9	-0.9	-0.3	*
Middle Quintile	1.0	-0.1	-0.1	*	0.4
Fourth Quintile	1.0	0.2	0.4	0.4	0.5
Top Quintile	0.9	0.6	0.8	0.8	0.7
All	0.9	0.1	0.3	0.5	0.5
Addendum					
80-90	0.9	0.4	0.8	0.8	0.7
90-95	0.9	0.5	0.9	0.9	0.7
95-99	0.9	0.6	0.9	0.9	0.8
Top 1 Percent	0.7	0.7	0.7	0.7	0.7
Top 0.1 Percent	0.6	0.6	0.6	0.6	0.6

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: * indicates non-zero value rounded to zero. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900. For a description of expanded cash income, see <https://taxpolicycenter.org/resources/tax-model-resources/income-measure-used-distributional-analyses-tax-policy-center>. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, customs duties, and excise taxes) as a percentage of average expanded cash income. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

TABLE 8

Percent Change in After-Tax Income by Expanded Cash Income Percentile of Tariffs Announced from January 20, 2025 Through March 11, 2026, With Tariff Credit Options, 2026

Expanded Cash Income Percentile	Trump Administration Tariffs: January 1, 2025 - March 11, 2026	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase-in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Lowest Quintile	-1.1	3.2	3.2	0.1	1.2
Second Quintile	-1.1	1.0	1.0	0.3	*
Middle Quintile	-1.1	0.2	0.1	-0.1	-0.4
Fourth Quintile	-1.2	-0.2	-0.5	-0.5	-0.7
Top Quintile	-1.1	-0.8	-1.1	-1.1	-0.9
All	-1.1	-0.1	-0.4	-0.6	-0.6
Addendum					
80-90	-1.2	-0.5	-1.0	-1.0	-0.8
90-95	-1.2	-0.7	-1.2	-1.2	-0.9
95-99	-1.2	-0.9	-1.2	-1.2	-1.0
Top 1 Percent	-1.1	-1.0	-1.1	-1.1	-1.0
Top 0.1 Percent	-0.9	-0.9	-0.9	-0.9	-0.9

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: * indicates non-zero value rounded to zero. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2025 dollars): 20% \$34,600; 40% \$66,800; 60% \$119,200; 80% \$217,100; 90% \$317,700; 95% \$460,800; 99% \$1,141,900; 99.9% \$5,184,900. For a description of expanded cash income, see <https://taxpolicycenter.org/resources/tax-model-resources/income-measure-used-distributional-analyses-tax-policy-center>. After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; customs duties; and excise taxes. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

However, the impact of the credit would vary substantially across the income distribution because the average amount would be larger than the tariff burden borne by lower- and middle-income groups and smaller than the burden imposed on higher-income families.

Compared to tariff policies at the end of the Biden administration, the combination of second-term tariffs with a tax credit would be a \$650 *reduction*, on average, in the federal tax burden of families in the lowest income group. Among families in the middle-income group, average taxes would fall by \$140. Without the credit, the second-term tariffs would increase the average tax rate by about 1 percentage point in all income quintiles. As a result of the credit, the rate would decline in the lower three income quintiles—with families in the lowest income quintile experiencing a rate decline of 3.1 percentage points.

The credit would substantially reduce—but not eliminate—the second-term tariff burden of families in the top two income quintiles. Those in the top income group would owe an additional \$2,870, compared to the pre-Trump administration tariff policies. Their average tax rate would increase by 0.6 percentage point.

The credit's effect also varies widely by family type (see tables 9, 10, and 11). On average, the credit would offset the second-term tariff burden incurred by unmarried filers. Heads of households would especially benefit, receiving a credit that would reduce their federal tax burden by \$430. Among this group, the tariff policies alone would raise their tax rate by 0.9 percentage point; combined with the credit, their tax rate would be reduced by half a percentage point.

TABLE 9

Change in Average Tax by Filing Status and Age, of Tariffs Announced
From January 20, 2025 Through March 11, 2026, With Tariff Credit Options, 2026

Expanded Cash Income Percentile	Trump Administration Tariffs: January 1, 2025 - March 11, 2026	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase- in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Single Filer	670	-50	70	330	260
Married, filing Jointly	2,230	600	1,110	1,400	1,360
Head of Household	760	-430	-250	-60	220
Filers with Children	1,810	220	690	870	1,060
Filers at Least Age 65	1,000	-10	160	570	430
All	1,230	140	400	660	650

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: Tax units with children are those claiming an exemption for children at home or away from home or with children qualifying for the Child Tax Credit or EITC. Tax units in which either the primary individual (or secondary individual in a married couple) is age 65 or older. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

TABLE 10

Change in Average Tax Rate by Filing Status and Age, of Tariffs Announced From January 20, 2025 Through March 11, 2026, With Tariff Credit Options, 2026

Expanded Cash Income Percentile	Trump Administration Tariffs: January 1, 2025 - March 11, 2026	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase- in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Single Filer	0.9	-0.1	0.1	0.4	0.3
Married, filing Jointly	0.9	0.2	0.5	0.6	0.6
Head of Household	0.9	-0.5	-0.3	-0.1	0.3
Filers with Children	1.0	0.1	0.4	0.5	0.6
Filers at Least Age 65	0.9	*	0.1	0.5	0.4
All	0.9	0.1	0.3	0.5	0.5

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: * indicates non-zero value rounded to zero. Tax units with children are those claiming an exemption for children at home or away from home or with children qualifying for the Child Tax Credit or EITC. Tax units in which either the primary individual (or secondary individual in a married couple) is age 65 or older. Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, customs duties, and excise taxes) as a percentage of average expanded cash income. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

TABLE 11

Percent Change in After-Tax Income by Filing Status and Age, of Tariffs Announced From January 20, 2025 Through March 11, 2026, With Tariff Credit Options, 2026

Expanded Cash Income Percentile	Trump Administration Tariffs: January 1, 2025 - March 11, 2026	Option 1. Maximum Credit of \$1,400 for Married Couples	Option 2. Maximum Credit of \$1,400 for Married Couples with Phaseout	Option 3. Maximum Credit of \$1,400 for Married Couples With Phase- in and Phaseout	Option 4. Maximum Credit of \$800 for Married Couples
Single Filer	-1.1	0.1	-0.1	-0.5	-0.4
Married, filing Jointly	-1.2	-0.3	-0.6	-0.8	-0.7
Head of Household	-1.1	0.6	0.3	0.1	-0.3
Filers with Children	-1.2	-0.1	-0.5	-0.6	-0.7
Filers at Least Age 65	-1.0	*	-0.2	-0.6	-0.4
All	-1.1	-0.1	-0.4	-0.6	-0.6

Source: Urban-Brookings Policy Center Microsimulation Model (version 0325-4) and Tariff Rules Engine v1.5.

Notes: * indicates non-zero value rounded to zero. Tax units with children are those claiming an exemption for children at home or away from home or with children qualifying for the Child Tax Credit or EITC. Tax units in which either the primary individual (or secondary individual in a married couple) is age 65 or older. After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate taxes; customs duties; and excise taxes. Baseline is the law currently in place as of January 1, 2026 (customs duties are held fixed at levels consistent with the Congressional Budget Office's January 2025 budget projections). For more details on the policies included in estimates, see <https://taxpolicycenter.org/features/tracking-trump-tariffs#policies>. Under credit option 1, families are eligible for a refundable tax credit that is based on the average tariff burden incurred by unmarried filers. The credit is \$1,400 for joint filers and \$700 for other filers. Each dependent adds \$350 (up to \$700). Option 2 has the same credit amounts and adds a phaseout: the credit is reduced by \$50 for each \$1,000 by which modified adjusted gross income (MAGI) is greater than a threshold level (\$150,000 for joint, \$75,000 for others). Option 3 adds a phase-in to option 2: the credit is equal to 2 percent of MAGI, such that joint filers must earn at least \$70,000 (\$35,000 for other filers) to qualify for the full credit. Each dependent increases the phase-in rate by 1 percentage point (up to 2 percentage points). Under option 4, the refundable tax credit is based on the average tariff burden of unmarried filers in the second income quintile. Joint filers are eligible for \$800 and other filers \$400. Each dependent adds \$100 (up to \$200). The credit is neither phased in nor phased out.

The credit, however, would not be sufficient to fully offset the second-term tariff burden of married couples filing jointly. On average, their net federal taxes would increase by \$600 relative to tax policies at the end of the Biden administration.

Option 2: Refundable Tax Credit to All Filers with Amount Based on Average Tax Burden, with Phaseout

The legislative proposals for IEEPA offsets typically target relief to low- and middle-income families by phasing the credit out as income rises. A disadvantage of this approach is that it increases effective marginal tax rates for taxpayers in the phaseout range.

In this option we follow that approach, using the same maximum credit amounts as in option 1. The credit would begin to phase out when income exceeds \$150,000 for joint filers and at half that level for all other filers. The phaseout rate would be the same as for the child tax credit—with the credit reduced by \$50 for each \$1,000 (or fraction thereof) by which modified adjusted gross income is greater than the threshold level.

How much does the credit offset IEEPA tariffs? With the phaseout, the average credit would decline from \$1,090 to \$830, and 18 percent of families would no longer be eligible. Among those eligible for the credit, the average amount would be \$1,010.

Overall, the credit would cover about two-thirds of the IEEPA tariffs. Because the option would not affect families below the phaseout, the credit, on average, would overcompensate those in the lower two income quintiles by the same amounts as in the first option. However, with the credit amount and number of eligible families falling in the next three income quintiles, the offset rate would rapidly decline. By the top income quintile, the average credit would be \$180—4 percent of IEEPA tariffs—with 83 percent of families ineligible in that group.

The impact of the credit varies greatly among family types, reflecting the presence of children and the amount of their income. The credit would cover 88 percent of single filers' IEEPA burdens, but only about half of the burden incurred by joint filers. Heads of households, who are more concentrated in the bottom two quintiles than joint filers, would still receive more in credits than their IEEPA burden, with the credit exceeding the tariff burden by about 27 percent.

What is the combined effect of credit and Trump Administration tariffs? Compared to tariff policies at the end of the Biden administration, this option would increase average taxes by \$400 and average tax rates by three-tenths of a percentage point.

Because most families in the first two income quintiles have income below the phaseout range, this option does not change the amount, on average, that they would receive from the full credit. The phaseout would, however, reduce the middle-income group's tax cut from \$140, with the full credit, to \$50.

Similarly, the phaseout increases the tax burden of families in the top two income quintiles relative to the full credit option. Families in the fourth income quintile would see their net taxes increase by \$640 relative to tariff policies in place before Trump's second term. For families in the top quintile, the benefits of the credit would dissipate; their taxes, with the credit, would rise by \$4,220 compared to \$4,400 without any credit.

Among family types, only heads of households would experience a reduction in their tax liabilities if the credit phases out. That finding is due to heads of households being more concentrated in the lower two income quintiles than other family types. Married couples would incur a tax increase of \$1,100—nearly twice the amount if the credit amount did not have income limitations.

Option 3: Refundable Tax Credit Based on Overall Average, with Phase-In and Phaseout

This option builds on the preceding option by phasing in the credit as modified adjusted income rises as well as phasing it out. The refundable tax credit would be equal to 2 percent of modified adjusted gross income up to \$35,000 (the midpoint of the second income quintile) for non-joint filers and \$70,000 for joint filers.

Consequently, for filers without dependents, the maximum credits would be \$700 and \$1,400, respectively, for non-joint and joint filers. For each dependent, the credit rate would increase by an additional 1 percentage point (2 percentage points for families with two or more dependents) up to \$35,000 (for a maximum dependent increment of \$350 for one child and \$700 for two or more children).

One concern about this option is that families without modified adjusted gross income would not be eligible for the credit, while those with very low income might not receive sufficient amounts to offset their credits. As will be discussed later, targeted government assistance programs may automatically offset some of the tariff burden incurred by families.

How much does the credit offset IEEPA tariffs? Overall, the phased-in credit would be, on average, \$570, and offset about half the IEEPA tariffs. It would substantially reduce the chances that people receive a credit much larger than their IEEPA burden. Further, 29 percent of families would not be eligible for any credit. Among those eligible, the average credit would be \$800.

For families in the lowest income quintiles, the credit would, on average, be more closely aligned with their IEEPA burden: their average credit would be about 4 percent higher than their IEEPA burden. However, the share of families in the lowest-income quintile who would be eligible for the credit would markedly decline from 100 percent to 69 percent. In contrast, the second quintile's average credit and eligibility rate would be 25 percent higher than IEEPA tariffs, and 92 percent of families would be able to claim the credit.

Among family types, only heads of households would still receive, on average, a credit amount that is larger (4 percent) than their IEEPA tariffs. The addition of a phase-in rate reduces the offset rate of single filers more than other family types (from 88 percent to 50 percent).

What is the combined effect of credit and Trump Administration tariffs? Across all families, the option would increase net taxes, on average, by \$660 compared to tariff policies before January 20, 2025. The average tax rate would rise by half a percentage point.

Even with a phase-in range, families in the lowest two income quintiles would still receive a small tax cut: \$30 and \$150, respectively, in the first and second quintile. Average tax rates decline slightly in those income groups. The phase-in generally does not affect families in the top two income quintiles, so the effects of the option for those groups are similar to the credit with just a phaseout range.

With the phase-in, the credit still results in a lower tax liability for heads of households. As with the previous options, the credit would be least beneficial for married couples filing jointly, whose taxes would rise by \$1,400 as a result of the combination of the second-term tariffs and credit.

Option 4: Refundable Tax Credit Based on Average Amount for Families in Second Quintile (No Phase-In or Phaseout)

In this option, the maximum amount of the refundable credit would be lowered to more closely align with the average tariff burden of families below the phaseout range. Families would be eligible for a refundable tax credit based on the average tariff burden incurred by unmarried filers in the second income quintile (income between \$34,600 and \$66,800). The credit would not be phased in or phased out. The amounts would be as follows:

1. Married couples filing joint returns: \$800
2. All other filers: \$400
3. Dependents: \$100 for each dependent, capped at \$200

How much does the credit offset IEPPA tariffs? Overall, the average credit would be \$580—just \$10 over the average credit in the preceding option. But in contrast, this credit would be available to all families.

Not surprisingly, the average credit for families in the second income quintile would be nearly equal to their IEPPA burden. Because there would not be a phase-in range as in option 3, the average credit for families in the bottom quintile would be twice their burden. For middle-income families, the offset rate would be the lowest among the four options (60 percent). For those in the top quintile, the 18 percent offset rate would be higher than the rates for the two phaseout options.

Relative to other family types, heads of households would, on average, find that a higher share of the IEPPA tariff burden would be offset from the credit. However, the offset rates would be less than 100 percent, on average, for all family types.

What is the combined effect of credit and Trump Administration tariffs? This option's overall effects are also similar to those associated with the previous option. But the effects across income groups differ because of the credits' different features.

Across all families, the option would increase net taxes, on average, by \$650. The average tax rate would rise by half a percentage point due to the combination of the second-term tariff policies and the smaller tax credit.

Without a phase-in range, families in the lowest income quintile receive a larger net tax cut—\$250—than under the third option with both phase-in and phaseout ranges. But the lower credit results in a smaller tax cut in the second quintile and a larger tax increase in the middle- and fourth-income quintiles. Because there is no

phaseout range, however, the option results in a smaller net increase in the top quintile than under the third option.

On average, the credit results in higher net taxes across all family types, but the pattern remains that heads of households fare the best (net tax increase of \$220) and married couples filing jointly face the highest increase in their average taxes (\$1,360).

ALTERNATIVE APPROACHES TO OFFSETTING THE TARIFF BURDEN

Tariff burdens could be offset in ways other than tax credits. Tariff offsets could be distributed directly through other agencies, either at the federal or state level (with federal reimbursements). That approach might be especially suited for people who do not have any other reason to file a tax return. Many in that population might instead interact more regularly with the agencies that administer low-income assistance programs, such as supplemental food assistance (SNAP). As such, refunds could be paid through income tax for filers and through state agencies for those who do not file tax returns.

Another alternative is greater reliance on automatic adjustments in the tax and transfer systems. As noted earlier, the tariff burden is passed through to families either as a reduction in income or an increase in prices. Some assistance programs—such as SNAP and supplemental security income—increase as income falls until the maximum amounts are reached and are also adjusted for inflation each year.

In certain other cases, the tariff burden imposed by rising prices and declining income is partially offset:

- **The earned income tax credit (EITC) parameters** are increased each year to keep up with inflation. For most eligible families, the amount of the EITC also increases as income falls due to changes in their financial and family circumstances. However, the opposite is true for very low-income families because the EITC initially rises with income; hence, a decline in income would cause their credit to also fall.
- **A cost-of-living adjustment (COLA)** is made each year to Social Security benefits to keep up with inflation. Some employees also receive a COLA from their employer. But neither current Social Security beneficiaries nor workers with COLAs are cushioned from a drop in income.
- **The federal income tax brackets, the standard deduction, and certain other provisions in the individual income tax** are adjusted annually for inflation. However, the tax value would be less than inflation; rather it would be equal to the taxpayer's marginal tax rate multiplied by the change in taxable income—in this case, the amount of the inflation adjustment. The income tax's progressive rate structure also implies that the magnitude of the benefit increases as income rises.

Expanding the use of COLAs and income adjustments would generally provide more families with a cushion against the tariff burden. It also adds another layer of complexity for the design of a tariff relief program—whether, and how, to effectively prevent duplicate refunds for people who are eligible for the credit and who also might receive income that is automatically adjusted for changes in prices and income.

CONCLUSION

For many decades, tariff rates have been relatively low and generally not visible to most families. That has changed in the second Trump administration as tariff rates and coverage have increased substantially, with the impact more widely felt by businesses and families.

In this paper, we have presented options that would provide refundable tax credits to families, who most economists find ultimately bear the burden of tariffs. Based on prior experience, families would likely prefer credits with predetermined amounts rather than having to compute a level consistent with their past purchases and tariff burden. Tariff relief can be targeted to lower- and middle-income families by phasing out a tax credit as income rises.

Basing the credit amounts on the overall average burden is simple but can overcompensate lower-income families on average while undercompensating those with very high incomes. Income phase-ins or basing credit amounts on lower-income or middle-income families' burden can limit overcompensation of burden. However, phasing in the credit may mean that some very low-income families will not be eligible for any tariff relief. To some extent, however, automatic adjustments—such as for inflation—in government assistance programs and some wage contracts may also help offset the tariff burden for some families.

Notably, some lawmakers' proposals for tariff-related refundable tax credits are not linked to tariff burdens. For example, despite his view that tariff burdens are borne by foreign countries, President Trump has proposed using the revenues to cut income taxes. Specifically, he would use the tariff revenues to finance a \$2,000 per-person tariff dividend. However, even if high-income families were ineligible, as he suggests, a \$2,000 dividend could cost much more than the revenues generated by tariff.³⁰

One implication of our analysis is that a simple tariff credit can serve more than one function. Generally, the credit, without either a phase-in or phaseout range, can offset at least some of families' burden from tariffs. Basing a refundable tax credit on average burdens, without a phase-in range, would result in many lower- and middle-income families receiving greater tariff relief—plus assistance for other needs—than those with higher incomes.

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NOTES

- ¹ Presidential Documents, America First Trade Policy, 90 Fed. Reg. 8471 (Jan. 30, 2025), <https://www.govinfo.gov/content/pkg/FR-2025-01-30/pdf/2025-02032.pdf>.
- ² Hoffert v. Nintendo of America, Inc., complaint, No. 2:26-cv-01360 (WD Wash., filed April 21, 2026), <https://www.courthousenews.com/wp-content/uploads/2026/04/hoffert-v-nintendo-complaint.pdf>.
- ³ See Tariff Refunds for Working Families Act, S. 4093 and American Consumer Tariff Rebate Act of 2026, H.R.7865.
- ⁴ See Tariff Refunds for Working Families Act, S. 4093 and American Consumer Tariff Rebate Act of 2026, H.R.7865.
- ⁵ "History of US Tariffs and Why It Matters Today," Thomson Reuters Tax and Accounting, accessed April 24, 2026, <https://taxpolicycenter.org/sites/default/files/2025-02/Taxing-Wealth-in-the-United-States-Issues-and-Challenges.pdf>.
- ⁶ Congressional Budget Office, "Key Budget and Economic Data," accessed May 4, 2026, <https://www.cbo.gov/data/budget-economic-data#2>.
- ⁷ Presidential Documents, America First Trade Policy, 90 Fed. Reg. 8471 (Jan. 30, 2025), <https://www.govinfo.gov/content/pkg/FR-2025-01-30/pdf/2025-02032.pdf>.
- ⁸ "Harmonized Tariff Schedule," United States International Trade Commission, accessed May 4, 2026, <https://hts.usitc.gov/>.
- ⁹ "Section 201-Imported Solar Cells and Modules," Office of the United States Trade Representative, accessed May 4, 2026, <https://ustr.gov/issue-areas/enforcement/section-201-investigations/investigation-no-ta-201-75-cspv-cells>.
- ¹⁰ "Understanding Antidumping and Countervailing Duty Investigations: Antidumping and Countervailing Duty Laws Under the Tariff Act of 1930," US International Trade Commission, accessed May 5, 2026, https://www.usitc.gov/press_room/usad.htm.
- ¹¹ Exec. Order No. 14257, 90 Fed. Reg. 15041 (April 7, 2025) <https://www.govinfo.gov/content/pkg/FR-2025-04-07/pdf/2025-06063.pdf>.
- ¹² Exec. Order No. 14326, 90 Fed. Reg. 37963 (Aug. 6, 2025), <https://www.govinfo.gov/content/pkg/FR-2025-08-06/pdf/2025-15010.pdf>.
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