
Commentary

U.S. Supreme Court Strikes Down IEEPA Tariffs

Morningstar DBRS

20 February 2026

Key Highlights

- While the Supreme Court decision strikes down the IEEPA tariffs, it does not affect all tariffs enacted over the last year.
- The ruling is unlikely to significantly change the medium-term fiscal outlook, primarily because we expect the Trump administration to reinstate tariffs through other legal channels.
- The Supreme Court did not opine on the question of refunds, but the potential need to repay importers would be a one-off cost for the U.S. Treasury.

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The Supreme Court ruled today that the tariffs imposed by the Trump administration under the International Emergency Economic Powers Act of 1977 (IEEPA) are illegal. In response, the Trump administration announced plans to impose a 10% across-the-board tariff based on the Trade Act of 1974 and additional tariffs could be enacted through alternative statutory routes. The ruling and the follow-up announcements by the Trump administration are bound to generate uncertainty in the near term and tariff refunds could ultimately represent a one-off cost of up to 0.4% of 2025 GDP. Nonetheless, the Supreme Court's decision does not materially impact our views on the U.S. economic outlook or medium-term fiscal situation.

The Trump administration used emergency powers under IEEPA to impose a wide range of tariffs. These include the "reciprocal" tariffs to address trade imbalances and the national security tariffs imposed on China, Mexico, and Canada to address drug trafficking concerns. While the Supreme Court decision strikes down the IEEPA tariffs, it does not affect all tariffs enacted over the last year. Product-specific duties imposed under Section 232 legislation, including those on steel, aluminum, copper, autos, and lumber, are unaffected and remain in place. Without IEEPA tariffs, the Yale Budget Lab estimates that the effective tariff rate declines from 16.9% to 9.1%. Although this is a marked decline, it is sharply higher than the 2.3% rate in January 2025 and is still near an 80-year high.

In our view, the ruling is unlikely to significantly change the medium-term fiscal outlook. This is primarily because we expect the Trump administration to reinstate tariffs through other legal channels. The administration views tariffs as a powerful tool to extract concessions from other countries on a wide range of issues. As such, we anticipate that tariffs will continue to be central to economic policymaking under this administration. The CBO estimated in November 2025 that all tariffs implemented since January 2025 would reduce federal deficits by \$3.0 trillion over 2025-2035. Roughly half of the projected deficit reduction stems from IEEPA-related tariffs. If the Trump administration decides not to replace the IEEPA tariffs, federal fiscal deficits, which are already elevated, could end up being marginally higher over the next decade.

The Supreme Court did not opine on the question of refunds, but the potential need to repay importers would be a one-off cost. The Treasury collected \$134 billion in IEEPA-related duties through December 14, 2025, according to the US Customs and Border Protection. That is about 0.4% of GDP. It is not clear how the administration will respond to the high volume of likely claims. It is possible that the government's reimbursement bill could be somewhat lower if importers face a slow or onerous repayment process.

Conclusion

We do not expect the Supreme Court decision to weaken the administration's preference to use tariffs as the centerpiece of its international economic policy. However, the ruling could require the administration to redesign its approach to tariffs. Alternative routes pursued by the administration would likely face legal challenges too, but that would be an issue for another day. As a result, U.S. trade policy in 2026 may look a lot like it did in 2025: unpredictable tariff actions will continue to be a source of uncertainty and weigh on the U.S. economy as anticipated legal challenges work their way through domestic courts.

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