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Trump's Tariffs Have Already Wiped Out Tax Bill Savings for Average Americans

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President Donald Trump's trade wars have already wiped out all but \$100 of the average American household's windfall from Trump's 2017 tax law. And that's just the beginning.

That last \$100 in tax-cut gains also could soon disappear -- and then some -- because of additional tariffs Trump has announced or is considering. If the president makes good on his threats to impose levies on virtually all imports from China and Mexico, those middle-earning households could pay nearly \$4,000 more as they shell out more for a vast range of goods -- from avocados to iPhones.

Subtract the tax cut, and the average household will effectively be paying about \$3,000 more a year in additional costs.

"It's giving with one hand and taking with the other," said Kim Clausing, an economics professor at Reed College in Portland, Oregon, who's written a book promoting free trade.

Here's how the math works: middle earners got an average tax cut of \$930 for tax overhaul passed in late 2017, according to the Urban-Brookings Tax Policy Center. The tariffs already in effect cost the average household about \$831, according to research from the New York Federal Reserve.

China Goods

Add in the additional tariffs on another \$300 billion in Chinese goods that Trump proposed in May, and is still considering, and that increases the cost for an average family of four to about \$2,294 annually, according to research from "Tariffs Hurt the Heartland," a coalition of business groups.

Trump has also threatened to levy tariffs on all imports from Mexico, starting with a 5% tax beginning as soon as Monday that would increase monthly to 25% in October unless Mexico curbs illegal migration to the president's satisfaction.

If the tariffs reach their highest level, the annual cost to households would increase by \$1,700, according to Gary Hufbauer, a senior fellow at the centrist Peterson Institute for International Economics.

The full force of the Chinese and Mexican tariffs and subsequent retaliation would mean that consumers are facing an additional \$3,994 in costs because of tariffs, more than four times the \$930 tax cut for middle earners that the Republican Party touts as its signature legislative achievement under Trump.

These comparisons attempt to measure the direct benefit to households of the tax cuts -- including larger paychecks -- with the direct and indirect effects of tariffs, including lost jobs, higher prices, and retaliatory tariffs from trading partners.

'Cause I'm Already Gone

The majority of the average annual tax cut for middle earners has been eroded by the cost of higher import tariffs already in effect.

The tariffs are “clearly demolishing” the benefits of the tax cuts for both businesses and consumers, said Daniel Ikenson, who directs trade policy at the libertarian Cato Institute. “Many households and consumers have been spared so far, but the next round of tariffs will be more problematic.”

In the beginning of the trade dispute, Trump and his advisers sought to put tariffs on products that consumers don't directly buy, such as steel and aluminum. But as the trade feud with China has escalated, they ran out of non-consumer goods on which to put levies. The most recent round of announced tariffs includes consumer products, such as apparel, sporting goods and kitchen ware.

Trump's most recent threat on all imports from Mexico would increase prices on cars and auto parts, televisions, phones and air conditioners, as well as produce including avocados, citrus fruits and pineapples.

Only the top 5% of earners would continue to see a net tax cut of more than 1%, according to the right-leaning Tax Foundation. Tariffs would also depress wages by about 0.5% and result in the loss of nearly 610,000 full-time jobs, according to the foundation.

That creates political problems for Republicans in Congress who've continued to back Trump even as they disagreed with his trade policies. Republicans have cited the passage of the tax-cut law, low unemployment rates and wage increases as signs that Trump's policies have buoyed the economy. But there are signs that support is beginning to fracture.

The tax cuts “vaulted America back into the most competitive economy,” said Representative Kevin Brady, the Texas Republican who led the passage of the tax cut legislation in the House. “Higher tariffs and the uncertainty that comes with trade disputes” hurt the economy, he said.

Tax Cuts and Tariff Hikes

The full force of Trump's enacted and planned tariffs on goods from China and Mexico amount to more than four times the size of the tax cut for middle-earners.

Sources: Urban-Brookings Tax Policy Center, Tariffs Hurt the Heartland, Peterson Institute for International Economics

Senate Majority Leader Mitch McConnell urged the administration this week to delay imposing the tariffs on Mexico until Republicans in Congress could plead their case to Trump. Most Senate Republicans have objected to Trump using tariffs to force tougher border enforcement by Mexico. Lawmakers are weighing moves to block the levies.

“This is a man-made disaster, because Donald Trump is not focused in any way on advancing a well-thought-out doctrine,” said Representative Hakeem Jeffries, a top Democrat from New

York. “He seems to be carrying out at times personal vendettas, at other times political objectives and sometimes an effort to distract from the news of the day.”

Little Noticed

The effects of tariffs have yet to become noticeable to average consumers. That could soon change. The tariffs on goods from Mexico are slated to go into effect Monday, barring a last-minute deal between Mexican and U.S. negotiators. The Chinese tariffs targeting consumer goods could go into effect in the coming months.

U.S. and Mexican negotiators planned a third day of talks on Friday to try to reach an agreement that would avert the tariffs. Mexico is pushing for more time, but Vice President Mike Pence and other officials said the U.S. plans to impose tariffs on Monday.

“It’s not like all of sudden prices will jump 25%, but they could increase 10% or 11%,” said Brian Yarbrough, a senior equity analyst at Edward Jones, said of tariffs of 25% or more. “At some point, price increases will choke off demand, resulting in fewer sales.”

Republicans are hoping to campaign in 2020 on the message of a strong economy buoyed by their tax reductions and deregulation, which began two years ago. But the fresh sting of tariffs risk erasing any economic goodwill those policies generated.

“For the average household it will be a net loss, no doubt,” the Peterson Institutes’ Hufbauer said. “It will be painful.”