Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

How CBO Projects Tariff Revenues

October 2024

What Is This Document About?

This document describes how the Congressional Budget Office projects tariff revenues. Those projections are included in CBO's baseline (the agency's projections of federal spending, revenues, and debt in the current year and next decade, which incorporate the assumption that current laws generally remain in place). The presentation also explains how and when CBO produces estimates of the revenue effects of changes in tariff rates.

This document includes three sections:

1. What are tariffs, and how much revenue are they projected to generate under current law? (Slides 3–5)
2. Who has the authority to change tariff rates, and how has that authority been exercised in recent years? (Slides 6–12)
3. How, and when, does CBO produce estimates of changes in tariff rates? (Slides 13–19)

What Are the Main Takeaways?

In CBO's June 2024 report on the budget and economic outlook, the agency projected that revenues from tariffs over the fiscal years 2025–2034 would total $872 billion, which amounts to 1 percent of total revenue projected for that period.

The Congress has the constitutional authority to levy tariffs through legislation. Lawmakers have delegated considerable authority to the Administration.

If legislation that affects tariff rates was approved by a Congressional committee of jurisdiction, CBO would release a cost estimate describing how the bill would change revenues with respect to the baseline projection. If the legislation was enacted, the agency would incorporate the estimated effects into its next baseline projection of tariff revenues.

When the Administration uses its authority to change tariff rates, CBO reflects the estimated effect of the adjusted tariffs in its next budget update. The agency does not produce cost estimates for actions by executive branch agencies.

CBO's latest projection is available in the *Revenue Projections, by Category* section of the agency's Budget and Economic Data page (www.cbo.gov/data/budget-economic-data#7).

What Are Tariffs, and How Much Revenue Are They Projected to Generate Under Current Law?

What Are Tariffs?

Duties levied on goods and services imported from other countries are called tariffs or customs duties. The two terms are interchangeable in this presentation. U.S. Customs and Border Protection assesses and collects tariffs from importers when their products arrive at a U.S. port.[1] In 2023, the United States received $3.8 trillion of goods and services.[2]

Tariffs are applied in various ways: as a fixed percentage of the goods' value, as a fixed amount per unit, or through tariff rate quotas, which authorize reduced rates for a set quantity of imports. The average U.S. tariff rate on goods is 3.4 percent, but rates vary by product.[3] Many products can be imported duty-free, whereas others are subject to rates of more than 50 percent.[4] The Harmonized Tariff Schedule (HTS), maintained by the U.S. International Trade Commission, specifies tariff rates for every product.[4]

What Is CBO's Customs Revenue Baseline?

CBO's baseline projections of federal spending and revenues for the current year and the next decade incorporate the assumption that current laws generally remain in place. The baseline includes a projection of revenues from customs duties, which reflect the assumption that changes in tariffs outlined in legislation will take place and that otherwise current tariff rates will remain in effect.

In June 2024, CBO projected that customs revenues would total $872 billion over the fiscal years 2025 through 2034, which is 1 percent of total revenue projected for that period.[1]

1. CBO's latest projection is available in the *Revenue Projections, by Category* section of the agency's Budget and Economic Data page (www.cbo.gov/data/budget-economic-data#7).

Who Has the Authority to Change Tariff Rates, and How Has That Authority Been Exercised in Recent Years?

Who Has the Authority to Change Tariff Rates?

The Congress has the constitutional authority to regulate foreign commerce by levying tariffs through legislation.

Lawmakers have delegated authority to the executive branch by authorizing the Administration to engage in trade negotiations and implement trade restrictions in specified circumstances.

How Do International Trade Agreements Affect Tariff Rates?

The United States joined the World Trade Organization (WTO) in 1995 and has entered into several international trade agreements. Generally, WTO members agree to impose nondiscriminatory tariffs and follow the most-favored-nation (MFN) rule. Under that rule, the tariff rate that the United States offers to one member must apply to all members. After joining the WTO, the United States reduced certain tariff rates as a result.[5]

The MFN rule has exceptions. Countries can set tariff rates that apply only to specific WTO members to implement free trade agreements, offer favorable treatment for developing countries, or respond to certain trade practices.[5] Both the Congress and the Administration have recently changed tariff rates in accordance with those exceptions.

How Do Free Trade Agreements Affect Tariff Revenues?

The United States has comprehensive free trade agreements with several countries.[6] Those agreements encourage trade with partner countries, leading to altered trade flows and lower revenues from tariffs. Free trade agreements between the United States, Mexico, and Canada have significantly reduced revenues.[7]

How Has Legislative Action Recently Changed Tariff Rates?

Over the past decade, the Congress has exercised its authority to change rates for certain imports or countries through two major types of legislation:

- **Miscellaneous tariff bills** temporarily reduce or suspend duties on specified products. Importers petition for changes, and legislation reduces or suspends duties on qualifying products on the basis of input from several executive agencies.[8]

- **Trade preference bills** reduce or suspend duties on certain imports from eligible low-income countries. Those reductions or suspensions are typically nonreciprocal and are designed to help the economies of beneficiary countries grow through trade.[9]

The Congress also has used its authority to sanction foreign adversaries. After Russia invaded Ukraine, the Congress passed legislation that revoked Russia's MFN status, which raised duty rates for Russian imports.[10]

How Has Executive Action Recently Changed Tariff Rates?

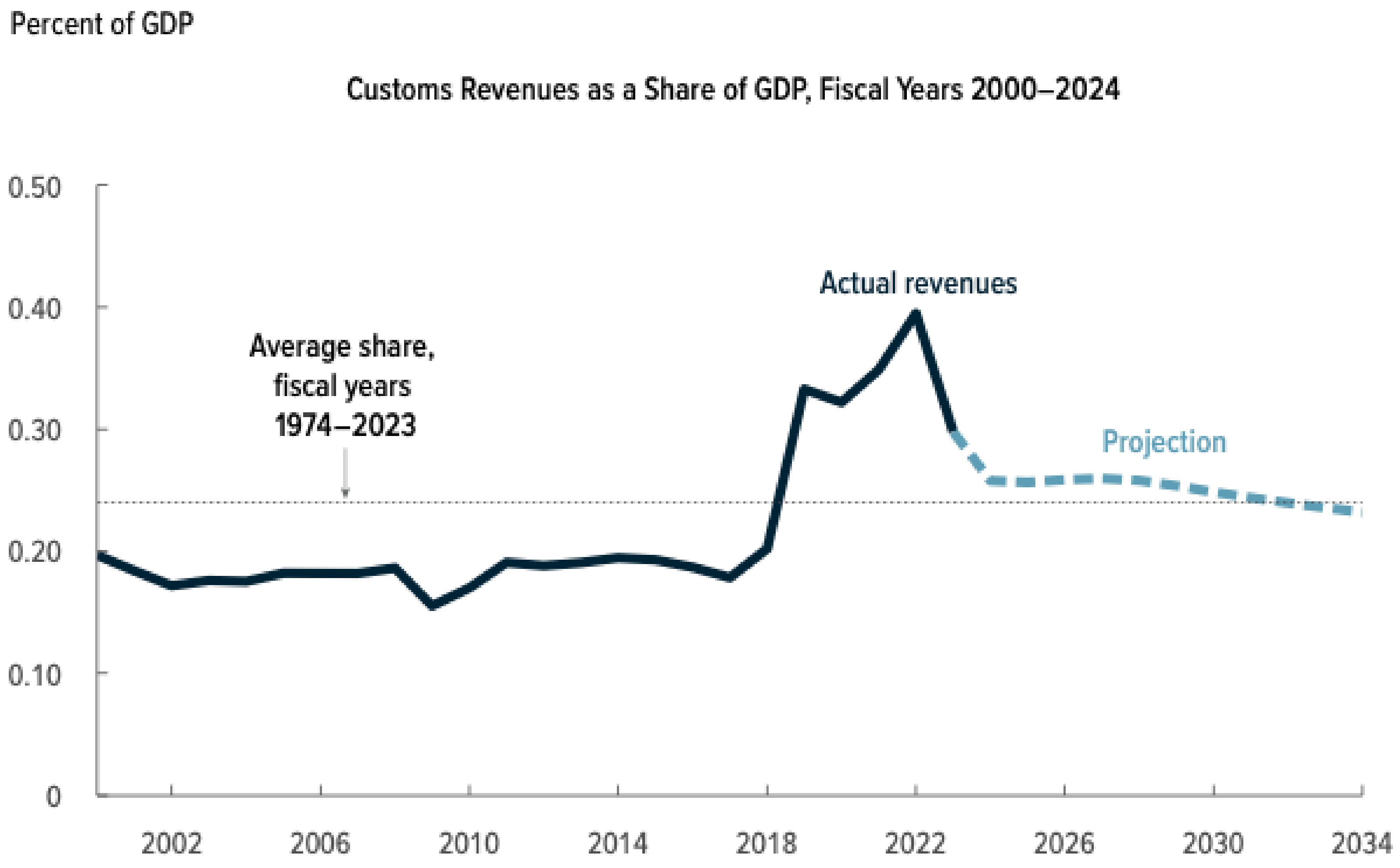
In addition to expanding the authority to negotiate trade agreements, the Trade Expansion Act of 1962 and the Trade Act of 1974 authorize the Administration to implement trade protections, including changes to tariff rates, under certain conditions.

Law	Executive Action Authorized if:	Changes Since 2018
Section 232, Trade Expansion Act of 1962[11]	Department of Commerce determines that an import threatens national security	Increased tariffs on steel and aluminum products beginning in **2018***
Section 201, Trade Act of 1974[12]	U.S. International Trade Commission determines that an import threatens domestic industry	Increased tariffs, which have since expired, on certain washing machines beginning in **2018*** Increased tariffs on certain solar energy technologies beginning in **2018***
Section 301, Trade Act of 1974[13]	U.S. Trade Representative determines that another country has violated a trade agreement or unjustifiably burdened U.S. commerce	Multiple tranches of increased tariffs on a large share of imports from China beginning in **2018 and 2019****

*Some countries were exempt from these tariffs or eligible for tariff rate quotas, under which a set quantity of imports are eligible for a reduced rate.

**In May 2024, the Administration announced additional section 301 tariffs on electric vehicles, batteries and battery components, steel and aluminum products, and other products imported from China. CBO's June 2024 baseline did not include those tariffs.

How Have Recent Executive Actions Affected Customs Revenues?



After the Administration's 2018 and 2019 increases in certain tariff rates, customs revenues rose as a share of gross domestic product (GDP). Their share has since fallen, and CBO projects that revenues will fall below historical norms by the end of the 11-year forecast period. That decline reflects CBO's expectation that the growth of imports will slow in relation to GDP and that some imported goods from countries subject to the additional U.S. tariffs imposed at the beginning of 2018 (in particular, imports from China) will continue to be diverted to countries whose imports are subject to lower tariffs.

CBO's June 2024 projection of customs revenues is available in the *Revenue Projections, by Category* section of the agency's Budget and Economic Data page (www.cbo.gov/data/budget-economic-data). Historical values for customs revenues are available in that page's *Historical Budget Data* section.

How, and When, Does CBO Produce Estimates of Changes in Tariff Rates?

When Does CBO Project and Estimate Tariff Revenues?

CBO estimates both tariff revenues under current law and the effects of legislative changes.

The laws that set tariffs are not part of the Internal Revenue Code. CBO is therefore responsible for producing revenue estimates for legislation that alters tariffs.* The agency uses its baseline projections of tariff revenues under current law as a benchmark for its estimates.

CBO gives lawmakers feedback on proposed changes to tariffs at various stages in the legislative process and regularly publishes estimates of the budgetary effects of extending existing trade promotion programs beyond their scheduled expiration.**

*The staff of the Joint Committee on Taxation is responsible for estimating effects of legislation that alters the Internal Revenue Code.
**CBO's latest estimates of trade preference program extensions are available in its *Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues* report (www.cbo.gov/publication/60114).

How Does CBO Prepare Its Baseline Projections of Revenues From Tariffs?

To project revenues from tariffs, CBO:

1. Gathers the most recent import data and tariff rates from the Census Bureau, Customs and Border Protection, and the U.S. International Trade Commission;
2. Uses that information to estimate current revenues and adjusts that estimate on the basis of recent receipts reported in the Monthly Treasury Statements;
3. Projects those estimated revenues by using the agency's macroeconomic forecast of imports;
4. Incorporates scheduled expirations of legislative provisions; and
5. Adjusts for recent trends, including the decline in imports from countries subject to additional tariffs imposed beginning in 2018.

What Assumptions Does CBO Make When Projecting Tariff Revenues?

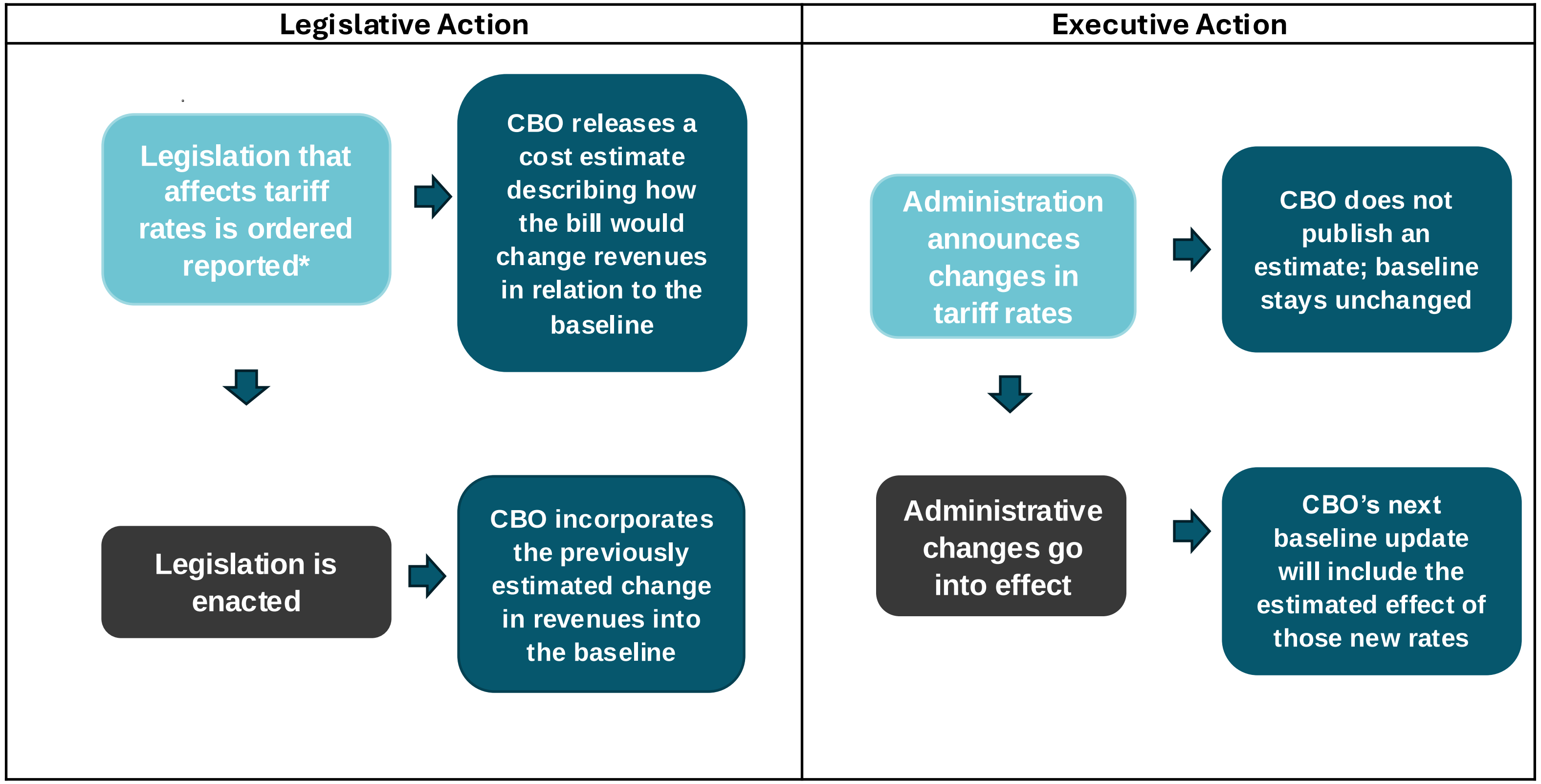
Executive Action

When the Administration exercises broad authority to impose tariffs pursuant to current law, CBO assumes that tariffs then in effect will continue permanently without any planned or unplanned changes. For example, the tariffs imposed starting in 2018 under section 301 of the Trade Act of 1974 are assumed to continue at the rates in effect.

Legislative Action

The agency assumes that any changes outlined in law will occur as planned. Therefore, CBO's baseline reflects the scheduled expiration of legislative programs, such as the trade preference program established under the African Growth and Opportunity Act.

When Does CBO Estimate the Effects of Changes in Tariff Rates?



*Legislation is ordered reported when a committee approves it.

How Does CBO Estimate the Revenue Effects of Changes in Tariff Rates?

To estimate the effects of changes in tariff rates, CBO:

1. Collects data on current imports of products or countries affected by the new rates;
2. Projects imports of affected products under current law by using the agency's macroeconomic forecast of imports;
3. Applies the new tariff rates to the import forecast to estimate future revenues without accounting for anticipated changes in imports;
4. Adjusts the estimate to account for anticipated changes in imports by using information on how consumers respond to changes in the price of the targeted goods and the rate at which imports of similar products were diverted to unaffected countries when targeted by past tariffs;
5. Reduces the revenue estimate to account for anticipated changes in income and payroll taxes that would result[14]; and
6. Compares projected revenues under the new tariff rates with revenues projected under current law.

When Does CBO Consider the Dynamic Effects of Changes in Tariff Rates on the Economy?

CBO's cost estimates typically do not reflect dynamic effects—that is, behavioral responses that would affect total output in the economy. Under House rules, such effects are reflected when the gross budgetary effect of a bill is at least 0.25 percent of GDP in any year over the next 10 years.[15]

The agency's baseline reflects the macroeconomic effects of implemented changes in tariff rates. For example, tariffs imposed beginning in 2018 reduced business investment by increasing the cost of imported production inputs for some businesses and by raising businesses' uncertainty about future trade policy. Those effects were later reflected in CBO's economic forecast and budget update.

Unless the gross budgetary effect of tariff changes exceeds the threshold for dynamic analysis, the agency does not estimate the effect of tariff changes separate from other factors that affect trade flows, revenues, and the broader economy.

References Cited

1. U.S. Customs and Border Protection, *Trade Statistics* (June 2024), www.cbp.gov/newsroom/stats/trade.

2. Bureau of Economic Analysis, *U.S. International Trade in Goods and Services, June 2024* (August 2024), https://tinyurl.com/mp9mjjdz.

3. World Trade Organization, *United States of America Tariff Data* (September 2024), https://tinyurl.com/yubh8ds4.

4. U.S. International Trade Commission, *Harmonized Tariff Schedule*, https://hts.usitc.gov/.

5. Congressional Research Service, *U.S. Tariff Policy: Overview* (February 2024), https://tinyurl.com/2w6ev27u.

References Cited

6. Office of the United States Trade Representative, *Free Trade Agreements* (September 2024), https://tinyurl.com/42r8bzy8.

7. Office of the United States Trade Representative, *United States–Mexico–Canada Agreement* (September 2024), https://tinyurl.com/5n7tt69f.

8. Congressional Research Service, *Miscellaneous Tariff Bills* (December 2021), https://tinyurl.com/3tfdwmx5.

9. Congressional Research Service, *Generalized System of Preferences (GSP)* (January 2022), https://tinyurl.com/2w4xhpkz.

10. Congressional Budget Office, *Estimated Budgetary Effects of H.R. 7108, the Suspending Normal Trade Relations with Russia and Belarus Act* (March 2022), www.cbo.gov/publication/57938.

References Cited

11. Congressional Research Service, *Section 232 of the Trade Expansion Act of 1962* (April 2022), https://tinyurl.com/4y6hdde6.

12. Congressional Research Service, *Safeguards: Section 201 of the Trade Act of 1974* (January 2021), https://tinyurl.com/4wmjvwn4.

13. Congressional Research Service, *Section 301 of the Trade Act of 1974* (May 2024), https://tinyurl.com/5n6bjbr6.

14. Congressional Budget Office, *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421.

15. Congressional Budget Office, "Does CBO Do 'Dynamic Analysis'?" (Frequently Asked Questions), www.cbo.gov/faqs#dynamic.

Related CBO Publications

- Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), www.cbo.gov/publication/60039.

- Congressional Budget Office, *Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues* (May 2024), www.cbo.gov/publication/60114.

About This Document

This document was prepared to enhance the transparency of the work of the Congressional Budget Office and to encourage external review of that work. In keeping with CBO's mandate to provide objective, impartial analysis, the document makes no recommendations.

Emma Uebelhor prepared the document, with guidance from John McClelland, Molly Saunders-Scott, and Joshua Shakin. Bob Arnold, Devrim Demirel, Daniel Fried, and Ann Futrell offered comments. Jack Lynch fact-checked the document.

Robert Sunshine reviewed the document. Gabe Waggoner edited and formatted the text, and Jorge Salazar refined the graphics. The document is available at www.cbo.gov/publication/60692.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.