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EY Tax Alert

**Reciprocal tariffs announced
by US government in
April 2025, struck down by
US Supreme Court**

EY Alerts cover significant tax news, developments and changes in legislation that affect Indian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor.

Executive summary

On 02 April 2025, the US government issued an Executive Order under the International Emergency Economic Powers Act (IEEPA) announcing 'reciprocal' tariffs across nearly all of their trading partners. The measure signalled a clear shift in US trade policy of maintaining minimal Customs duties to one of high import tariffs aligned with their stated objective of promoting domestic manufacture, strengthening domestic industry and recalibrating trade imbalances faced by the US.

Consequently, many Indian exports faced tariffs of up to 50%. On 07 February 2026, the US and India jointly announced a framework for an interim agreement on reciprocal and mutually beneficial trade. The framework included reduction of the reciprocal tariffs on Indian exports to 18% while India would reduce or eliminate its Customs Duty on a variety of US exports. It also announced both countries' intent to continue negotiations toward a comprehensive U.S.-India Bilateral Trade Agreement (BTA), originally launched on 13 February 2025.

However, on 20 February 2026 the reciprocal tariffs announced by the US government on 02 April 2025, was struck down by the US Supreme Court, ruling that the IEEPA does not confer any authority to the Executive to impose tariffs.



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Date of Events of levy of Tariffs by US

Date	Event
13 February 2025	India US negotiations launched.
02 April 2025	The US announced a reciprocal tariff on various countries. For India 26% tariff was announced under the IEEPA vide Executive Order 14257. However, these rates were deferred, and 10% tariffs were imposed on all imports into the United States, regardless of the country of origin from 5 April 2025 including India
31 July 2025	The US imposed a 25% tariff on Indian goods, effective 07 August 2025.
6 August 2025	The US imposed an additional 25% tariff on Indian goods due to import of Russian oil by India effective 27 August 2025 thereby increasing the total applicable rate to 50%.
06 February 2026	Executive Order issued by US withdrawing 25% tariff imposed on India for importing Russian oil. Hence, now applicable rate is 25%
07 February 2026	United States-India issued Joint Statement for framework for an Interim Agreement regarding reciprocal and mutually beneficial trade (Interim Agreement) containing the coverage of tariff reduction/elimination, commitments for preferential market access etc. India US trade deal discussions started in February 2025.
09 February 2026	Fact Sheet issued by the United States on the Trade Deal containing largely the same information as the US-India joint statement.

Litigation on Reciprocal Tariffs in US Courts

Date	Tariff Announcement
28 May 2025	U.S. Court of International Trade (CIT) ruled that the tariffs imposed under the International Emergency Economic Powers Act (IEEPA) are unlawful and exceeded the President's authority.
29 August 2025	The U.S. Court of Appeals for the Federal Circuit ruled that President Trump exceeded his authority in invoking the International Emergency Economic Powers Act (IEEPA) to impose these tariffs. The court has agreed not to put the ruling into effect until October 14, allowing Trump and his administration to appeal to a higher court.
5 November 2025	Hearing concluded
20 February 2026	<p>US Supreme Court decision on Reciprocal tariff:</p> <ul style="list-style-type: none"> In a 6-3 ruling written by Chief Justice John Roberts, the Supreme Court held that the International Emergency Economic Powers Act (IEEPA) does not give the President authority to impose tariffs. The Court struck down tariffs imposed under IEEPA on goods from Canada, Mexico, and China, including global and country-specific tariffs. However, the national emergency declarations remain valid. The IEEPA can still be used for other non-tariff measures. Tariffs imposed under Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974 remain valid. The Court ruled that tariffs are taxes, and only Congress has constitutional authority over them. If Congress wants to give the President tariff powers, it must do so clearly. The ruling does not address how companies can recover tariffs already paid. In dissent, Justice Kavanaugh noted that refunding billions of dollars could significantly affect the U.S. Treasury and create practical difficulties. Further guidance is expected on this.

Proclamation dated 20 February 2026

Following the US Supreme Court ruling, The US has now issued a Proclamation imposing an additional import duty to address what the Administration describes as fundamental international payment problems and to advance efforts to rebalance U.S. trade relationships to benefit American workers, farmers, and manufacturers. This proclamation imposes an additional 10% ad valorem import duty on articles imported into the US, with effect from February 24 at 12:01 a.m. The Proclamation invokes Section 122 of the Trade Act of 1974 (relevant text is reproduced below), under which the President may address such payment imbalances through surcharges and special import restrictions.

"SEC. 122. Balance-Of-Payments Authority, Trade Act of 1974 (as amended)

(a) Whenever fundamental international payments problems require special import measures to restrict imports:

(1) to deal with large and serious United States balance-of-payments deficits,

(2) to prevent an imminent and significant depreciation of the dollar in foreign exchange markets, or

(3) to cooperate with other countries in correcting an international balance-of-payments disequilibrium, the President shall proclaim, for a period not exceeding 150 days (unless such period is extended by Act of Congress):

(A) a temporary import surcharge, not to exceed 15 percent ad valorem, in the form of duties (in addition to those already imposed, if any) on articles imported into the United States;...."

Exclusions:

This Proclamation shall not apply to the products, as further detailed in Annexes I and II to the Proclamation which inter alia includes:

- Critical minerals, metals used in currency and bullion; energy and energy products; certain natural resources and fertilizers
- Certain agricultural products such as beef, tomatoes, and oranges
- Pharmaceuticals and pharmaceutical ingredients
- Certain electronics
- Passenger vehicles, specified light, medium and heavy-duty vehicles, buses, and certain related parts
- Certain aerospace products
- Informational materials, donations, and accompanied baggage

Additionally, the duty does not apply to:

- Articles subject to Section 232 actions
- USMCA-compliant goods of Canada and Mexico
- Specified textiles and apparel entering duty-free under the Dominican Republic-Central America Free Trade Agreement.

Conclusion:

1. The 18% reduction under the February 2026 interim framework was premised on the IEEPA based reciprocal regime, which the Supreme Court invalidated. The new global 10% additional duty (effective 24 February 2026 under Section 122) applies instead, but the US administration has signalled that negotiated deals like the US-India framework remain on track, with expectations that both sides honour their commitments amid the changed tariff baseline.
2. In other words, the immediate impact for India is that the currently applicable 25% reciprocal tariff will be replaced by a 10% additional duty, effective 24 February 2026. This will be temporary (150 days max without congressional extension) and in addition to any MFN tariff applicable on that product. Hence, there is a marginal relief for the Indian exporters.
3. Section 232 tariffs on Automobiles, Heavy Trucks, Steel and Copper remain in force and are unaffected by the ruling.
4. The Supreme Court ruling is silent on refund of duties already paid under IEEPA by companies. However, during discussions announcing the new measures with media, it was indicated that the refund matter will be litigated and will be decided by the US Courts in the coming year.
5. This development may recalibrate the framework for discussions between India-US on the Interim Trade Deal as the baselines have changed

Given these dynamic changes, stakeholders should closely monitor further developments, seek clarifications for details as they emerge, and plan their business accordingly.

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



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