

Trump Aims to Eliminate Taxes for Americans Earning Under \$200,000 with Revenue from Favorable Tariffs, Leverages U.S. Market Power in Trade Talks

President Trump's ambitious new proposal aims to completely remove income taxes for Americans making less than \$200,000 annually, financed by revenue from favorable tariff-based trade agreements secured through aggressive international negotiations.

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President Donald Trump has proposed eliminating federal income taxes for Americans earning less than \$200,000, aiming to fund the initiative with revenue from favorable trade agreements secured through tariff-driven negotiations.

On April 27, Trump posted on Truth Social, “When Tariffs cut in, many people’s Income Taxes will be substantially reduced, maybe even completely eliminated. Focus will be on people making less than \$200,000 a year.”

Leveraging the U.S.’s position as the world’s largest consumer market, the administration is using temporary high tariffs to spark trade talks with major partners, which the administration says has been proving to be effective.

Trump’s strategy centers on securing advantageous trade deals to generate tariff revenue, which would finance significant tax cuts. The administration initially imposed tariffs—10% on most imports, 145% on Chinese goods, 25% on Canada and Mexico, 20% on the European Union, and up to 49% on Southeast Asian nations—to pressure trading partners into negotiations. On April 6, aboard Air Force One, Trump stated, “Every country is calling us. That’s the beauty of what we do. We put ourselves in the driver’s seat. The tariffs give us great power to negotiate. They always have.” These negotiations aim to secure lower tariffs on U.S. exports, increased market access, or other concessions, with the resulting revenue supporting tax relief.

The Tax Policy Center estimates that tariff agreements could generate \$3.3 trillion over a decade, though White House aide Peter Navarro has claimed up to \$6–7 trillion. This revenue is intended to offset the cost of eliminating income taxes for individuals earning under \$200,000, which could exceed \$2 trillion annually, while also funding the extension of the 2017 Tax Cuts and Jobs Act (TCJA, \$4.5 trillion over 10 years) and new tax breaks, such as eliminating taxes on tips, overtime pay, Social Security benefits, and introducing a deduction for auto loan interest.

Trump has suggested tariffs could reshape the tax system. In a February 2025 Fox News interview, Commerce Secretary Howard Lutnick relayed Trump’s vision, stating, “Donald Trump announced the External Revenue Service, and his goal is very simple: to abolish the Internal Revenue Service and let all the outsiders pay.” However, economists are skeptical.

The success of Trump’s tax cut plan relies on securing favorable trade agreements, with high tariffs serving as a catalyst for talks. Treasury Secretary Scott Bessent noted in April 2025 that tariffs create “maximum leverage,” with over 50 countries initiating discussions. Progress, however, varies across key partners.

- **China:** The U.S.-China trade relationship is strained, with 145% U.S. tariffs met by 125% Chinese retaliatory tariffs. Beijing denies formal negotiations are underway, but the White House is exploring tariff reductions to restart talks. China’s exemptions on some U.S. imports suggest economic pressures, though its warnings against other nations’ U.S. deals and its push for Asian trade integration complicate progress. The trade slowdown has disrupted supply chains, raising concerns for U.S. businesses.
- **European Union:** The EU, facing 20% U.S. tariffs, is seeking a “negotiated resolution.” It has proposed \$4.9 billion in retaliatory tariffs starting April 1, with \$19 billion more targeting U.S. goods like agriculture. European Commission President Ursula von der Leyen, in April 2025 talks with Chinese Premier Li Qiang, emphasized stabilizing global trade while engaging Washington. Trump’s threat of 200% tariffs on European alcohol escalates tensions.
- **Canada:** Canada’s 25% U.S. tariffs, partially exempted for USMCA-compliant goods until April 2, prompted \$20.6 billion in retaliatory tariffs, with \$106 billion more planned. Prime Minister Justin Trudeau and Trump held a “cordial” call on March 28, 2025, but Canada’s WTO dispute filing challenges the tariffs. U.S. accusations of fentanyl smuggling add friction.

- Mexico: Mexico, also facing 25% tariffs, paused retaliatory measures to prioritize talks. Economy Minister Marcelo Ebrard visited Washington in April 2025, and Mexico is addressing U.S. fentanyl concerns. Immigration issues, including Trump's deportation plans, pose challenges.
- Japan and India: Both nations are nearing preliminary agreements to avoid 24% and 26% tariffs, respectively. The U.S. aims to supplant China as their primary partner, with "memorandums of understanding" in progress. Japan's Prime Minister Shigeru Ishiba resists rushed concessions, and India's trade minister reported "significant progress" in April 2025 talks, though no deal was finalized.
- Other Partners: South Korea, Taiwan, Vietnam, and ASEAN nations, facing tariffs up to 49%, are in early talks. Vietnam's Deputy Prime Minister Ho Duc Phoc met U.S. officials in April 2025. Brazil is negotiating to protect its steel industry, and the U.K. explores a tariff-free bilateral deal. The White House's goal of "90 deals in 90 days" is considered unrealistic by trade experts.

The tariff strategy initially sparked market fluctuations, with the S&P 500 dropping 3.5% on April 10 and the Dow falling nearly 1,000 points in early April; however, markets have since regained some losses and shown signs of stabilizing, reflecting cautious optimism about ongoing trade negotiations.

Economists remain divided: some warn of potential inflation, recession risks, and regressive impacts from tariffs, which could raise costs for lower-income households, while others note that successful trade deals could boost U.S. revenue and economic growth.

Congressional Republicans advocate spending cuts alongside tariffs to ensure fiscal balance, but the Trade Review Act of 2025, aimed at limiting Trump's tariff authority, has not gained traction.

Globally, trading partners like the EU and Canada have filed WTO disputes and formed coalitions, with China advancing Asian trade initiatives and the EU coordinating with India and Vietnam, signaling both resistance and a willingness to negotiate.