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Accounting Considerations Related to the Supreme Court's Ruling on Tariffs

Background

Since February 2025, President Trump has issued executive orders that impose tariffs on imports from several countries. These have included tariffs levied at various rates under the International Emergency Economic Powers Act (IEEPA).

In response to the executive orders, a group of states and small businesses sued the Trump administration, arguing that the president did not have authority under IEEPA to impose broad tariffs. Lower courts agreed and ruled for the plaintiffs in two separate cases in May 2025. The rulings were upheld on appeal. In September 2025, the Trump administration asked the Supreme Court to hear its appeal of the consolidated case on an expedited basis, and in November 2025, the Supreme Court heard oral arguments. On February 20, 2026, the Court ruled in a 6-3 decision that IEEPA does not authorize the president to impose tariffs. The majority opinion did not address tariff refunds. Consequently, there is uncertainty associated with an entity's ability to obtain a refund and the process for trying to do so. Trade officials within the Trump administration have indicated they need guidance on refunds from the Court of International Trade (CIT).

Accounting considerations related to the Supreme Court's ruling are discussed below. For a discussion of accounting and financial reporting considerations associated with assessing the practical effects of tariffs on an entity, see Deloitte's August 13, 2025, [Accounting Spotlight](#).

Accounting Considerations

Recognition and Measurement of Anticipated Refunds

If, before the ruling, an entity recognized costs attributable to tariffs (e.g., expensed them as period costs, capitalized them into fixed assets and subsequently recognized them in depreciation, or capitalized them into inventory and subsequently recognized them in cost of sales), we believe that the entity can apply the principles of the loss recovery model in ASC 410-30¹ by analogy to determine whether it may recognize and measure any tariff refunds. Although ASC 410-30 addresses environmental matters, we believe that it generally applies to recoveries of prior costs or losses. Therefore, an entity could apply the principles in ASC 410-30-35-8 through 35-10 to determine the appropriate recognition and measurement.

In determining whether an asset can be recognized for any potential tariff refund proceeds, an entity must compare the amount of the probable proceeds with the related previously recognized cost, if any. That is, a recognized asset is limited to the amount of previously recognized tariff costs, and recovery must be probable.

When assessing whether a recovery is probable, an entity applies the loss contingency model in ASC 450-20. For an entity to recognize a loss contingency under ASC 450-20, it must be probable that one or more future events will occur or fail to occur. In accordance with the ASC 450-20 glossary, a future event or events are “probable” if they are “likely to occur.” While the glossary definition provides no quantitative thresholds, “probable” does not imply virtual certainty under the loss contingency model. Given the current lack of clarity related to the process by which an entity may pursue tariff refunds and whether there will be legal challenges to requested refunds, there is uncertainty associated with whether an entity will be able to obtain or record an asset for such refunds. To determine whether recognition is appropriate, entities should analyze all relevant internal and external evidence, including:

- *The nature and complexity of the refund process* — Even if a formal refund process exists, recovery may be contingent on the completion of specific procedural steps (e.g., filing protests, petitions, or claims) and the submission of supporting documentation within prescribed timeframes. Eligibility criteria may also narrow the population of entities entitled to a refund, and an entity’s conclusion about its eligibility may need to be evaluated by legal counsel. Further, a currently unclear refund process may preclude a conclusion that recovery is probable (i.e., an entity would seemingly be unable to assert that compliance with an unknown process is probable). Although the ruling did not address the process by which an entity may pursue tariff refunds, the Supreme Court remanded the case to the CIT, which will decide on whether and, if so, how such refunds will be processed.
- *Management’s decision related to how it intends to pursue a refund* — On the basis of management’s evaluation of the expected costs, timing, operational burden, and likelihood of success relative to the potential recovery, an entity may be hesitant to pursue a refund or may elect to discontinue efforts during the process.

If recognition is not appropriate, no loss recovery is recorded unless recovery becomes probable. A conclusion that a potential recovery is probable may involve significant judgment and should be based on all relevant facts and circumstances.

Liability Derecognition

Entities may have outstanding tariff payables as of a relevant balance sheet date for amounts owed to the U.S. government when importing goods became subject to tariffs that have since been invalidated by the Supreme Court’s ruling. We believe that such payables represent liabilities within the scope of ASC 405 and therefore should be derecognized when the entity

¹ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification.](#)”

“pays the creditor and is relieved of its obligation” or “is legally released [as] the primary obligor.” If the ruling voids the entity’s obligation to pay tariffs that were previously accrued but not yet remitted, the entity should derecognize the related payables in accordance with ASC 405 in the period in which they are legally released. An entity should involve legal counsel for assistance in assessing whether the ruling results in its legal release from such obligation. If an entity concludes that its obligation to pay tariffs is void, we believe that it should derecognize the outstanding payable as of the date of the ruling, but not earlier.

Subsequent Events

Entities with reporting periods that ended before the Supreme Court’s ruling and that have not yet issued their interim or annual financial statements should consider the subsequent event guidance in ASC 855 to determine the appropriate accounting treatment. Such entities should evaluate the effects of the ruling on their financial statements and whether the ruling qualifies as a Type 1 or Type 2 subsequent event.

We believe that it is appropriate to conclude that if the ruling was announced after the balance sheet date, the subsequent event is a Type 2 (nonrecognized) subsequent event (e.g., akin to a change in law). Consequently, ASC 855-10-50-2 would require disclosure of both “[t]he nature of the event” and “[a]n estimate of its financial effect, or a statement that such an estimate cannot be made” if the absence of such disclosure would result in misleading financial statements.

Accounting Estimates

The anticipated impact of an expected change in tariff policy should typically be factored into an entity’s accounting estimates as of the balance sheet date, in a manner similar to other business assumptions (e.g., an entity’s estimate of costs related to satisfying performance obligations in a contract with a customer). As discussed above, for entities whose reporting periods ended before the Supreme Court ruling, we believe that it is appropriate to conclude that the actual effect of the ruling on tariffs that differ from those used in management’s estimates would be a nonrecognized subsequent event. That is, management’s estimates would not be adjusted to reflect the expected impact of the ruling after the balance sheet date.

Impacts on Contracts With Customers

Entities may need to consider whether the Supreme Court’s ruling affects rights and obligations under contracts with customers. For example, if an entity’s contract with a customer permitted it to increase the price of its goods or services as a result of the enacted tariffs (e.g., pass the cost of the tariffs on to the customer), to the extent that those tariffs were deemed not legal (and the entity may potentially recover previously paid tariffs from the government), the entity may need to consider whether a refund obligation exists under any of its contracts with customers. In a manner similar to how an entity might consider the ruling to be akin to a change in law when determining whether it is a Type 1 or Type 2 subsequent event, the entity may reasonably conclude that a change in rights and obligations under a contract with a customer as a result of the ruling is a contract modification that should be accounted for as of the date of the ruling in accordance with ASC 606-10-25-10 through 25-13.

Entities may receive customer claims (e.g., requests for refunds or credits) related to perceived tariff-driven price increases even when a contract with a customer does not address such price adjustments. Those claims do not, by themselves, constitute a contract modification. However, entities should consider their customary business practices, public statements, and implied promises when evaluating whether customers might have a valid expectation that they will be entitled to refunds. That is, an entity’s contracts with customers could include an implied refund obligation related to tariffs that are expected to be recovered. Entities will need to carefully consider their facts and circumstances when evaluating whether a refund obligation exists.

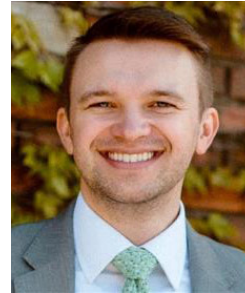
Disclosures

Entities may need to provide disclosures about the impact of the Supreme Court's ruling in the footnotes to their financial statements (e.g., see ASC 275-10-50-6 through 50-8) as well as in other areas of their SEC filings, such as in Management's Discussion and Analysis or the risk factors section. The extent of such disclosures would be based on the potential materiality of the impact. For more information about disclosure considerations in related circumstances, see Deloitte's December 1, 2022, *Financial Reporting Alert*.

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