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TAXES-BORDER ADJUSTABILITY

Issue:

Last summer, House Republicans released a tax reform blueprint that contained a proposal for a border adjustability tax. The plan creates a territorial tax system that imposes taxes where a good or service is consumed rather than where it is produced. Farmers and ranchers could benefit from a properly constructed border adjustable tax provided that it complies with international trade agreements.

Background:

Border Adjustability and Exports: There would be no income tax on revenues from export sales of goods and services produced or manufactured in the United States. This should reduce the price of exports, encourage companies to sell internationally, and lead to expanded trade markets for agricultural products. Today, about 25 percent of U.S. agricultural production is exported

Border Adjustability and Imports: The cost of imported goods and services would no longer be deductible and thus would lead to a larger income tax liability for companies that import goods. This should lead to higher prices for imported products, as companies look to pass increased costs along to their customers. Farmers and ranchers rely on imports for such things as fuel, petroleum based chemicals, and fertilizer, which account for 14.5 percent of their cost of production. Where there is capacity to expand domestic supplies, prices should moderate over time. Increased prices for imported food (predominantly fruits and vegetables and high-end products like wine) could create new markets for domestic production. This provision is also intended to encourage domestic industries and discourage American companies from moving production overseas.

Border Adjustability and Currency Valuation: Another result of border adjustability should be a strong dollar. This would moderate the promised benefits of expanded exports, but would lessen the impact of increased prices of imported products and services.

Border Adjustability and Trade Law: If the proposed border adjustable tax is perceived by our trading partners to violate trade agreements, a WTO challenge is possible. Admittedly, the WTO dispute settlement process is lengthy, but challenging countries could impose countervailing duties, which do not need to flow through the WTO Dispute Settlement process before they are applied.

Legislative/Regulatory Status:

The tax reform blueprint offers a comprehensive overhaul of our nation’s taxing system. Border adjustability is one component of the plan. However, the border adjustable tax was taken out of consideration by a joint statement issued by the Administration and Congressional leaders in July.

Talking Points:

While AFBF's initial evaluation of the tax reform blueprint is positive and border adjustability's potential to boost agriculture exports is promising, several improvements would add to the value of the plan. In order to earn Farm Bureau's support, the final tax reform blueprint must yield a lower effective tax rate (combined income and self-employment taxes) for agricultural producers and comply with the United States' international trade commitments.

Most of our trading partners use WTO-compliant border adjustable Value Added Taxes (VAT) that refund VAT taxes on exported goods and services and impose a VAT tax on imported goods and services. In the absence of border adjustments, exports from the United States bear the cost of the U.S. income tax while imports into the United States do not. Enacting a border adjustable tax will remove these self-imposed unilateral penalties.

The majority of agricultural products are not exported directly by farmers and ranchers; rather, they are sold by exporting companies that buy and aggregate agricultural commodities and products. Farm Bureau believes that the tax savings from export sales should be passed down through the supply chain to farmers and ranchers so that they share in the benefits of a border adjusted tax.

Farm Bureau also believes that transition relief is needed to help farmers and ranchers adjust to the added cost of production that will result from taxing imports. While some price relief may come from currency adjustment, the amount of relief and speed of occurrence is uncertain and the benefits will be offset by the degree to which a stronger dollar curbs export sales.

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