CONSUMPTION TAXES AT THEIR BORDER

Consumption taxes are a tax on consumption - as opposed to income, wealth, property or wages. A goods and services tax (GST) and a value added tax (VAT) are consumption taxes. They are usually a tax only on the “value added” to a product, material or service. Over 150 countries have such taxes. The U.S. does not.

Unilateral Trade Disarmament

After 40 years of multilateral tariff reduction, other countries replaced tariffs with VATs but the U.S. did not. American exporters face nearly the same border taxes (tariffs + consumption tax) as they did in the early 1970s.

The 2002 and 2015 Fast Track Trade Authority Bills directed the Office of the U.S. Trade Representative to fix this problem. However, USTR has never even tried.

Other use VATs to Offset Tariff Reduction

- Mexico: 15% VAT after NAFTA
- Central America: 12% VAT after CAFTA
- Germany raised its VAT to 19% in 2007 to fund business tax reduction for trade competitiveness

SOLUTION: ELIMINATE PAYROLL TAX BURDEN WITH A VAT

IMPACT ON AMERICA

Subsidy: Foreign VAT rebates are export subsidies
Tariff replacements: They are tariffs on US exports to VAT countries

Congress should implement a border adjustable consumption tax (VAT). The proceeds should be credited against payroll taxes paid by all workers and businesses

- Reduces the cost of labor in the US
- Gives every worker a raise
- Lowers price of US exports
- Levies a tax on imports
ELIMINATE PAYROLL TAX BURDEN WITH THE MOST EFFICIENT VAT IN THE WORLD

PRESIDENT'S PROPOSED $3.5 TRILLION IN REVENUE (FY 2016)

TRADE COMPETITIVENESS PROBLEM

U.S. Local Price = $100

China Local Price = $100

U.S. Price PLUS 17% VAT $117.00

Chinese Price MINUS 17% VAT rebate = $85.47

HOW IT WOULD WORK

- A 12.9% VAT would produce approximately $1.454T tax revenue (Tax Policy Center, 2015)
- All payroll taxes (approx $1.11T) could be eliminated with a credit
- With a 15% VAT, other tax reform or domestic production cost reduction could be funded

BENEFITS OF PAYROLL TAX CREDIT

- Regressiveness of VAT offset by elimination of regressive payroll tax
- VAT costs on all domestic producers are offset
- No impact on prices of domestic goods/services
- Imported goods/services prices increase
- Cost of production for exports reduced