Border Adjustable

Consumption taxes are “border adjustable taxes” allowed under WTO rules. They average 17% globally. This means that virtually all foreign countries tax our exports at 17% on top of tariffs. They subsidize domestic shipments abroad with a 17% tax rebate. U.S. does not have a consumption tax to offset this advantage.

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 bills directed the US government to fix this problem. But the government never even tried.

Others 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: A Strategic Goods and Services Tax

IMPACT ON AMERICA

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

Congress should enact a strategic Goods and Services Tax that is revenue and distribution neutral. The proceeds should finance the reduction of payroll taxes, health care or other domestic taxes and costs.
EXAMPLE: OFFSET PAYROLL TAX FOR IMPROVED COMPETITIVENESS

FY 2017 FEDERAL TAX REVENUE

- Excise Taxes: $84 Billion (6%)
- Payroll Taxes: $1.16 Trillion (35%)
- Corporate Income Taxes: $297 Billion (9%)
- Individual Income Taxes: $1.59 Trillion (48%)
- Other: $188 Billion (2%)

TRADE COMPETITIVENESS PROBLEM

U.S. Price PLUS 17% VAT $117.00

Chinese Price MINUS 17% VAT rebate = $85.47

HOW IT WOULD WORK

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

BENEFITS OF PAYROLL TAX CREDIT

- Regressiveness of GST offset by elimination of regressive payroll tax
- GST costs on all domestic producers are offset
- Minimal impact on purchasing power
- Imported goods/services prices increase
- Cost of production for exports reduced