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Corporate Taxes

- Border Tax Would Kill U.S. Retail Without VAT-Like Enforcement
  BNA Snapshot

  • Monitoring of packages shipped from foreign-based companies would be needed, JCT staffer says

  • Otherwise, U.S. retailers would face 20 percent discrepancy in how they can price goods compared with competitors

  

  By Allyson Versprille

  The U.S. would have to find a way to monitor direct sales from foreign companies to U.S. consumers, ensuring they are properly taxed, for the domestic retail industry to survive under the House GOP's border adjustment plan, a JCT staffer said.

  However, that's easier said than done. The U.S. would likely have to use tactics currently employed in countries with value-added taxes, Viva Hammer, legislation counsel at the Joint Committee on Taxation, said April 20 at a tax reform conference sponsored by the D.C. Bar tax section.

  “You have to have a whole new system in the United States,” said Hammer. And “It's not going to be the IRS, it's going to be some sort of border program,” she said. At the moment, the U.S. has a very small duty-related border police that will have to be beefed up, she said.

  This new system would likely require people to register their packages and pay a tax when they pick up the item from the post office, much like the system in VAT countries, Hammer said.

  This would also mean that those special border agents would need to open packages to check that the claimed value matches what's actually in the package, or else someone could say the item is worth 20 dollars and pay taxes on that, when it's really worth one thousand dollars, she said.

  “That kind of police state would not be very popular in the United States,” Hammer said.

  **‘Plugging’ a Loophole**

  Retail companies have been some of the strongest opponents of House Republicans’ border adjustment plan. Many import more than 90 percent of their apparel items, and the GOP's plan would tax those imports at 20 percent.

Sally Gilligan, senior vice president of product operations and supply chain strategy at Gap Inc., said even without border adjustment, foreign companies typically have an advantage over U.S. competitors because they enjoy lower tariffs and can be based in countries with lower corporate tax rates. In a border-adjusted world, that advantage would only grow, she said.

If the U.S. can't effectively monitor shipments from foreign-based companies—meaning those items aren't taxed and those companies can sell products at lower prices—"retail in the United States is done," Chad Pearson, senior director of tax planning at Best Buy Co.

When a person can buy straight from a company like Chinese e-commerce company Alibaba Group Holding Ltd. and pay no tax on those goods, it creates a 20 percent disparity between the foreign company's sales price for an item versus what a U.S. company charges for the same item, Pearson said.

Congress needs to figure out how it would effectively "plug" that loophole, Pearson said, and it won't be a simple task.

Tax Analysts co-sponsored the event.

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