Ending the "Made in America" Tax

FREQUENTLY ASKED QUESTIONS

House Republicans are proposing a Blueprint for bold, pro-growth tax reform that takes historic action to unleash job creation and economic growth in the United States. Our plan is specifically designed to make America one of the most attractive places in the world to invest, hire, and headquarter a business. One key way we do this is through a provision known as "border adjustability."

Here's how this feature of our built-for-growth tax reform Blueprint is explained by the Tax Foundation, an independent and non-partisan tax policy organization:

> "Right now, if a company makes a product in the United States and sells the product overseas, it is required to pay income taxes to the U.S. on the income from the sale. **But under a border adjustment, companies would no longer be required to pay income taxes to the U.S. on their income from exports – because the products are not sold in the United States.**
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> "On the flip side, under the current tax code, if a company sells a product in the United States that was produced overseas, it doesn't pay income taxes to the U.S. on the value of the imported product. **But under a border adjustment, companies would be required to pay income taxes to the U.S. on the value of their imports – because the products are sold in the United States.**
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> "In total, under a border adjustment, the income tax would apply to goods produced and sold in the United States and goods produced in foreign countries and sold in the United States."

So, in the end, border adjustability means that all products sold in the United States – regardless of whether they are American-made or foreign-made – will be taxed at the same rate. At the same time, sales of "Made in America" products in other countries will not bear U.S. tax.

More than 160 countries now use some sort of border adjustable tax as part of their international tax systems. For the United States, however, this is a new concept. Understandably, there are a lot of questions about how it works and what it will mean for American job creators, workers, and our economy as a whole. The information provided here helps answer those questions and explains why incorporating border adjustability into the U.S. tax code – a bold change that will end the "Made in America" tax – is an essential pillar of pro-growth tax reform.

Frequently Asked Questions

WHY DO YOU CALL IT THE “MADE IN AMERICA” TAX?

- Countries around the world generally apply business taxes one of two ways. Either they tax the product based on (1) where it is made, or (2) where it is sold.
- Unlike the vast majority of our foreign competitors, the U.S. does not currently tax products based on where they are sold. Instead, we tax products based only on where they are made – that is, whether they are made in America. Hence, today’s “Made in America” tax.

HOW DOES THE “MADE IN AMERICA” TAX HURT OUR COMPETITIVENESS HERE AT HOME?

- Under today’s tax code, “Made in America” products are taxed when they are sold in the United States, but imports do not bear U.S. tax. This puts our products at a direct tax disadvantage here at home versus foreign-made products that are imported from abroad.

HOW DOES THE “MADE IN AMERICA” TAX HURT OUR COMPETITIVENESS AROUND THE WORLD?

- Today, the products our companies make here and sell in foreign markets are typically subject to two layers of tax: 1) The “Made in America” tax we levy on the sale of our exports worldwide, and 2) the taxes that our foreign competitors impose on all products sold in their countries.
- By contrast, the products of our foreign competitors bear only one layer of tax in their home countries, putting our “Made in America” products at a tax disadvantage worldwide. This makes it harder for our businesses to compete and win globally, which ultimately means fewer jobs here at home in industries that make products for export around the world.

HOW DOES THE "MADE IN AMERICA" TAX ENCOURAGE BUSINESSES TO MOVE OUTSIDE THE UNITED STATES?

- Because "Made in America" products have a tax disadvantage here at home and around the world, businesses have a direct tax incentive to move operations, jobs, and investments outside the United States.
- By moving outside the U.S., businesses can then sell their products back into America tax-free because the U.S. does not currently tax the sale of imports. At the same time, these businesses can also export their products into markets around the world without the sale of those products being subject to the "Made in America" tax.

WHAT DOES YOUR BLUEPRINT PROPOSE TO SOLVE THESE PROBLEMS?

- As part of our Blueprint, we propose a very simple and powerful solution: All products sold in the U.S. will be taxed at a low, equal rate – regardless of where they are produced. And, at the same time, we end the "Made in America" tax on the sale of our exports so that all American-made products sold abroad do not bear U.S. tax at all.
- Taking this action will dramatically level the playing field for our businesses, workers, and products here in the United States and around the world. In addition, it will eliminate all tax incentives for businesses to move jobs, operations, or headquarters outside the United States.

HOW DOES THIS INCREASE U.S. COMPETITIVENESS AND GROW OUR ECONOMY?

- By taxing all products sold in the U.S. at a low, equal rate – regardless of where they are made – we are leveling the playing field for our businesses, products, and workers. No longer will foreign-made products have a tax advantage here in America. Instead, there will be true competition based on price, quality, and service. That's incredibly good for our businesses, our consumers, and our economy as a whole.
- By ending the "Made in America" tax on the sale of U.S. exports, our businesses, workers, and products will no longer be at a tax disadvantage around the world. Instead of bearing two layers of tax in foreign markets, our goods and services will only bear one – just like the products of our international competitors. And, with a level playing field in global markets, our businesses will be better able to compete and win worldwide, spurring the creation of new jobs here at home.

- Finally, our simple but powerful solution will obliterate all tax incentives for businesses to move operations and jobs overseas. And, when combined with the other bold reforms of our Blueprint, it will truly establish America as one of the most attractive places in the world to invest, create jobs, and headquarter a business.

IS THIS A TAX ON ONE SPECIFIC COUNTRY?

- No. Ending the “Made in America” tax is about leveling the playing field worldwide and providing our businesses, workers, and products the greatest opportunity to compete and win everywhere. It is not about singling out any one country or group of countries.

IS THIS PROPOSAL A SEPARATE ADD-ON TAX THAT IS DIFFERENT FROM THE CORPORATE TAX? IN OTHER WORDS, WILL THE BLUEPRINT CREATE TWO LAYERS OF TAX ON BUSINESSES?

- No. Our plan does not create two layers of tax on American businesses. Quite the opposite. We are proposing the lowest corporate tax rate in history – 20% – and completely transforming our corporate tax code based on <u>one</u> pro-growth principle: If your product is sold in the United States, it will be taxed at this one low business rate regardless of where it was made.

WILL THIS HURT AMERICAN CONSUMERS BY RAISING THE COST OF IMPORTS?

- While some have raised concerns that this could cause the price of foreign-made goods to go up, we are confident that markets and competition will adjust to prevent price increases for consumers.
- Overall, economists and tax experts believe there is little reason to worry that our proposal will raise prices for U.S. consumers in the long run. One reason is that, as a result of our proposal, it is anticipated that the U.S. dollar will grow much stronger, ultimately offsetting any change in prices.
- Additionally, our proposal will promote true competition based on price, quality, and service, empowering U.S. consumers by making all companies compete harder for their business.

WHY WOULD THE DOLLAR GROW STRONGER? HOW DOES THIS WORK?

- When we end the "Made in America" tax on the sale of U.S. products overseas, this will make our exports more attractive and increase global demand for "Made in America" products as well as U.S. dollars.
- At the same time, by taxing imports and "Made in America" products at an equal rate here in the United States instead of not taxing them at all, there will be less demand for foreign-made products as well as foreign currencies.
- In the end, many economists and tax experts predict that these combined effects will lead to a much stronger U.S. dollar, which will offset price changes by making it cheaper for U.S. companies and consumers to purchase products made overseas.

WILL THE WORLD TRADE ORGANIZATION BLOCK THIS?

- Naturally, our foreign competitors will not be happy about losing their tax advantage over "Made in America" products. One way they might respond is to challenge this change at the World Trade Organization, a global body that reviews whether countries are playing fairly when it comes to selling goods and services to each other.
- We believe any such challenge by our foreign competitors will fail, for a very simple reason. By ending the current "Made in America" tax, the U.S. would be adopting the same sort of tax system currently used by more than 160 countries around the world.
- Our legislation will be written in a way that is WTO consistent and compliant – and we will meet and prevail over challenges brought by our international competitors.