



January 27, 2017

Dear House Ways and Means Chairman Kevin Brady:

On behalf of 3.2 million activists in all 50 states, I write deeply concerned about the House tax plan currently under consideration. I urge you and the members of your committee to consider the serious problems that border adjustability would impose on American consumers and businesses.

Under the House tax plan, using border adjustability, corporate income from exported goods would not be taxable. However, U.S. companies that source goods from foreign suppliers would no longer be allowed to deduct those purchases, effectively implementing a new tax on a multitude of products at the corporate rate, which under the plan would be 20 percent. This would equate to a whopping tax hike of more than \$1 trillion on American families and small businesses over 10 years using border adjustability.

In addition to raising taxes, border adjustability would also pick winners and losers in the market. Because imports would be taxed while exports would not, the market would be skewed in favor of exporters and domestic producers while burdening American companies, large and small, that need to source materials from abroad. Under border adjustment, domestic producers that source their materials from abroad but sell domestically would be hit twice—unable to deduct their input costs but also taxed on the entire proceeds from the sale. Exporters that rely on domestic inputs, meanwhile, will get to deduct twice—once for the cost of inputs and once for any profits made overseas. It is easy to see the distortions this scheme would create.

Supporters argue that the impact of the House tax plan will be lessened by currency adjustment, because the dollar will increase in value to balance out any distortion. This argument, however, is based on a perfect, textbook scenario in which all global currencies immediately and completely adjust based on the implementation of the new tax. In reality, however, this is highly unlikely and the exact outcome is too unpredictable to make a gamble that consumers will not take a hit.

Ideal comprehensive tax reform will work to eliminate all economic distortions and loopholes while lowering the rates for all American individuals and businesses. Unfortunately, the House tax plan that includes border adjustability would create a new, wide-reaching distortion that would impact all sectors of the economy and every consumer. We urge this committee to take into consideration the negative impacts of this provision and to oppose including it in future comprehensive tax plans.

Sincerely,

Brent Gardner
Chief Government Affairs Officer
Americans for Prosperity

Americans for Prosperity (AFP) exists to recruit, educate, and mobilize citizens in support of the policies and goals of a free society at the local, state, and federal level, helping every American live their dream – especially the least fortunate. AFP has more than 3.2 million activists across the nation, a local infrastructure that includes 35 state chapters, and has received financial support from more than 100,000 Americans in all 50 states. For more information, visit www.AmericansForProsperity.org.