



# THE IMPACT OF THE BORDER ADJUSTMENT TAX ON THE STATES

ALAN NGUYEN, SENIOR POLICY ADVISER, FREEDOM PARTNERS  
MARY KATE HOPKINS, SENIOR POLICY ANALYST, AMERICANS FOR PROSPERITY

**F**or the first time in more than 30 years, federal lawmakers have an opportunity to replace our nation's broken tax code with a simple, efficient, equitable, and predictable system that promotes long-term economic growth and opportunity for all Americans.

There are plenty of excellent tax reform proposals on the table that would lower rates, eliminate loopholes and deductions, and simplify tax filing. But one proposal currently being debated would undo many of the benefits that would come from these laudable reforms. It is called a border adjustment tax (BAT), and it includes a provision that would impose a new 20 percent tax on everything that is imported into the United States, increasing the price of all types of consumer goods—from tennis shoes and t-shirts, to crude oil and auto parts.

Supporters argue that a BAT will increase the value of the U.S. dollar, which would offset any increase in consumer prices. But this is unproven economic theory and fails to take into account a number of important factors that could limit the impact of currency adjustment. These factors include, for example, the different tax rates between corporations and pass-through businesses, the fact that some of our trading partners don't float their currencies, and whether or not a proposed export credit will be refundable. With the border adjustment provision, supporters make a big bet that this will be a textbook transition. In reality, consumers will likely take a big hit when the dollar appreciation doesn't perfectly offset their price increases.

It is impossible to predict the real world impact of the BAT because something like this has never been done before. This proposed system is unlike anything in existence (though proponents will misleadingly compare it to the treatment of value-added taxes (VATs) in other countries) and there is a tremendous amount of risk surrounding its implementation.

Further, it is important to note the imbalanced, targeted nature of this provision. It falls on a very specific sector of American business: importers. It singles out businesses that import and prevents them from deducting the cost of imports as a business expense.

The question when evaluating the border adjustment tax's impact on the states is not which states stand to lose under the proposal, but how much will each state lose. This report examines the state-level impact potential of implementing a border adjustment tax, and the results should raise alarms for lawmakers as they work to draft a tax reform package that works for the benefit of all Americans.

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## THE BORDER ADJUSTMENT TAX: NOT ONE-SIZE-FITS-ALL

Though much of the discussion surrounding the proposed BAT centers around its impact on the nation as a whole, the level of potential risk from a more than \$1 trillion consumer tax<sup>1</sup> actually varies from state to state. In Texas, for instance, lawmakers, economists, and business leaders—recognizing the importance of trade between Texas and Mexico—have warned about the impact of levying a 20 percent tax on imports. Tom Fullerton, an economist at the University of Texas at El Paso, notes that such a tax would threaten supply chains between the two trading partners, hurt industrial performance, and drive up unemployment.<sup>2</sup>

These impacts could spell disaster for U.S. businesses. Business owners have been very vocal about how the BAT poses an existential threat to their livelihood. Take Learning Resources, a Chicago-based educational toy company. The company imports 98 percent of the products it sells in the United States, and there is no U.S. supplier that can make the same products at the cost it needs. Under the border adjustment, the company's tax bill would balloon to 165 percent of its earnings according to its president, Rick Woldenberg.<sup>3</sup> "This plan is not good for me if it kills me," says Woldenberg. "You know John Maynard Keynes said in the long run we're all dead. I just don't want to be dead now."<sup>4</sup>

The story is the same for small businesses across the country. Katherine Gold, CEO of an Aurora, Colorado-based children's shoe store, said her company does not have the cash cushion to absorb the impact of the BAT and that it "would put us out of business if we can't pass [the cost of the tax] on immediately."<sup>5</sup> Shutting the company would put more than 100 people out of work.

This would be the outcome in many other cases, driving up costs for consumers and threatening the livelihood of businesses that rely on imports. Businesses like these are major drivers of our economy, providing opportunities and creating well-paying jobs all across the country. With many businesses dependent on both finished products and raw materials that they import from abroad, the BAT is a major threat to economic development and employment in every state.

Though every state stands to lose under a BAT, the extent to which individual states are integrated into the global economy helps illustrate the magnitude of the potential impact that a BAT could have on a state's businesses and residents.

## STATE SENSITIVITY TO BAT

In 2014, state imports ranged from \$1 billion in South Dakota to more than \$400 billion in California. Comparing the value of a state's imports to its overall level of economic activity shows the relative importance of imports to a state's economy and helps demonstrate how sensitive each state would be to a blanket tax on imported goods.

Though gross domestic product (GDP) measures the value of *final* goods and services, it still provides a useful benchmark against which to measure the relative value of imported goods (both intermediate and final). The total value of imports in South Dakota, for example, are 2.29 percent of the state's overall GDP; in California, imports are more than one-sixth the value of the state's economy.

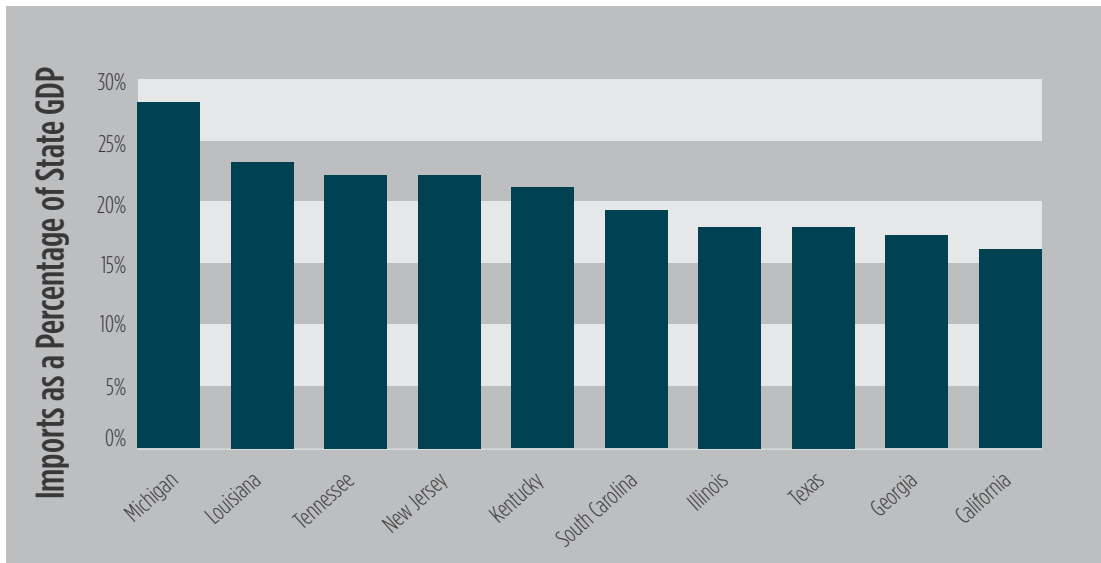
**TABLE 1: 2014 IMPORTS AND GDP BY STATE**

STATE	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) <sup>6</sup>	2014 CURRENT DOLLAR GROSS DOMESTIC PRODUCT (MILLIONS) <sup>7</sup>	IMPORTS AS A PERCENTAGE OF STATE GDP	SENSITIVITY RANK
Alabama	22,210	194,421	11.42%	21
Alaska	2,008	58,253	3.45%	48
Arizona	19,716	280,166	7.04%	33
Arkansas	7,603	117,854	6.45%	40
California	403,369	2,350,807	17.16%	10
Colorado	14,237	304,943	4.67%	45
Connecticut	23,892	245,160	9.75%	24
Delaware	10,690	65,419	16.34%	12
Florida	71,782	833,369	8.61%	27
Georgia	83,765	473,562	17.69%	9
Hawaii	5,330	76,588	6.96%	36
Idaho	5,692	63,050	9.03%	26
Illinois	140,123	745,810	18.79%	7
Indiana	48,794	324,901	15.02%	16
Iowa	10,081	169,661	5.94%	41
Kansas	11,806	147,493	8.00%	30
Kentucky	39,266	186,344	21.07%	5
Louisiana	57,605	242,785	23.73%	2
Maine	3,861	55,250	6.99%	34
Maryland	30,072	349,605	8.60%	28
Massachusetts	34,436	455,979	7.55%	32
Michigan	122,739	447,961	27.40%	1

STATE	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) <sup>6</sup>	2014 CURRENT DOLLAR GROSS DOMESTIC PRODUCT (MILLIONS) <sup>7</sup>	IMPORTS AS A PERCENTAGE OF STATE GDP	SENSITIVITY RANK
Minnesota	34,693	316,578	10.96%	23
Mississippi	17,254	103,828	16.62%	11
Missouri	18,284	282,874	6.46%	38
Montana	6,237	44,448	14.03%	17
Nebraska	4,050	111,297	3.64%	47
Nevada	7,850	133,784	5.87%	42
New Hampshire	11,216	71,153	15.76%	14
New Jersey	126,365	543,787	23.24%	4
New Mexico	2,237	94,731	2.36%	49
New York	134,580	1,382,933	9.73%	25
North Carolina	52,864	473,471	11.17%	22
North Dakota	3,829	59,308	6.46%	39
Ohio	70,269	591,333	11.88%	20
Oklahoma	13,589	194,466	6.99%	35
Oregon	13,788	203,606	6.77%	37
Pennsylvania	83,086	685,420	12.12%	19
Rhode Island	8,354	53,898	15.50%	15
South Carolina	37,729	190,773	19.78%	6
South Dakota	1,042	45,588	2.29%	50
Tennessee	69,754	299,158	23.32%	3
Texas	302,277	1,627,865	18.57%	8
Utah	11,118	140,296	7.92%	31
Vermont	4,760	29,259	16.27%	13
Virginia	24,287	460,151	5.28%	43
Washington	52,379	423,795	12.36%	18
West Virginia	3,811	74,148	5.14%	44
Wisconsin	23,525	291,754	8.06%	29
Wyoming	1,902	42,021	4.53%	46

States that are more reliant on imported goods as a part of their overall economic mix stand to be affected the most by a massive tax on imports. The states that would be most sensitive to a BAT because of the high relative value of imports to GDP are Michigan, Louisiana, Tennessee, New Jersey, Kentucky, South Carolina, Illinois, Texas, Georgia, and California.

**FIGURE 1: STATES MOST SENSITIVE TO A BAT**



Though these states are the *most* vulnerable to a BAT, businesses in *every* state would face a very real cost from the enactment of this massive consumer tax. One estimate of the net revenue raised by a BAT—that is, the amount raised by the 20 percent tax on imports minus the cost of exempting exports—placed the figure at \$1.2 trillion over ten years, an average of roughly \$100 billion each year.<sup>8</sup> The *net* revenue estimate, however, obscures the targeted effect that a BAT would have on importers. If a BAT had been in effect in 2014, for example, importers in just three states—California, Texas, and Illinois—would have faced a potential combined \$170 billion liability under a 20 percent tax on imports on top of their regular income tax liability.

Proponents of a BAT, including House Ways and Means Committee Chairman Kevin Brady, argue that currency rates would adjust to strengthen the dollar, thereby increasing the purchasing power of importers and offsetting the higher taxes.<sup>9</sup> Economists and analysts, though, doubt that a BAT would result in the rapid and large appreciation necessary to fully offset the cost of the tax.<sup>10 11 12</sup> Bill Dudley, president of the New York Federal Reserve, commented, “I’m not of the view that import prices would go up 10 percent, the dollar would appreciate by exactly 10 percent, so that the value that retailers pay for imported goods would be exactly the same in dollar terms.”<sup>13</sup> Fed Chairwoman Janet Yellen expressed doubt about the fate of the dollar under a BAT, noting “[i]t’s very uncertain exactly what would happen to the dollar. There has been a lot of discussion of that and I think it’s complicated and uncertain.”<sup>14</sup>

Using data from 2014, Table 2 illustrates the effects of a 20 percent tax on imports under a scenario where the dollar imperfectly adjusts by only half of what would be necessary to offset the increased tax burden. It also compares that potential tax burden under a partial-adjustment scenario to the amount of federal business income taxes paid from each state.<sup>15</sup> In New Hampshire, for example, businesses paid \$236 million in federal business income taxes in 2014, but New Hampshire importers would have faced a potential tax burden of \$1.1 *billion* under a BAT in this scenario—nearly five times more than the state’s federal business income tax liability. The amount owed under this tax increase would be *in addition to* a business’s regular federal income tax liability.

**TABLE 2: POTENTIAL TAX BURDEN UNDER IMPERFECT ADJUSTMENT V. 2014 FEDERAL BUSINESS INCOME TAXES PAID**

STATE	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) <sup>16</sup>	20% TAX ON TOTAL VALUE OF IMPORTS (MILLIONS)	TAX BURDEN ASSUMING DOLLAR IMPERFECTLY ADJUSTS BY HALF OF OFFSET (MILLIONS)	FY2014 FEDERAL BUSINESS INCOME TAXES PAID BY STATE (MILLIONS) <sup>17</sup>	TAX BURDEN V. TOTAL FEDERAL BUSINESS INCOME TAXES PAID
Alabama	22,210	4,442	2,221	1,485	150%
Alaska	2,008	402	201	180	112%
Arizona	19,716	3,943	1,972	4,380	45%
Arkansas	7,603	1,521	760	7,611	10%
California	403,369	80,674	40,337	46,237	87%
Colorado	14,237	2,847	1,424	7,339	19%
Connecticut	23,892	4,778	2,389	8,633	28%
Delaware	10,690	2,138	1,069	4,335	25%
Florida	71,782	14,356	7,178	9,016	80%
Georgia	83,765	16,753	8,377	10,737	78%
Hawaii	5,330	1,066	533	377	141%
Idaho	5,692	1,138	569	334	170%
Illinois	140,123	28,025	14,012	20,035	70%
Indiana	48,794	9,759	4,879	4,562	107%
Iowa	10,081	2,016	1,008	1,544	65%
Kansas	11,806	2,361	1,181	2,166	55%
Kentucky	39,266	7,853	3,927	2,324	169%
Louisiana	57,605	11,521	5,761	1,604	359%
Maine	3,861	772	386	292	132%
Maryland	30,072	6,014	3,007	3,176	95%
Massachusetts	34,436	6,887	3,444	9,278	37%
Michigan	122,739	24,548	12,274	5,023	244%
Minnesota	34,693	6,939	3,469	19,418	18%
Mississippi	17,254	3,451	1,725	694	249%
Missouri	18,284	3,657	1,828	9,947	18%
Montana	6,237	1,247	624	194	321%
Nebraska	4,050	810	405	7,269	6%
Nevada	7,850	1,570	785	778	101%
New Hampshire	11,216	2,243	1,122	236	474%
New Jersey	126,365	25,273	12,637	21,814	58%
New Mexico	2,237	447	224	231	97%
New York	134,580	26,916	13,458	28,665	47%
North Carolina	52,864	10,573	5,286	8,698	61%
North Dakota	3,829	766	383	560	68%

STATE	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) <sup>16</sup>	20% TAX ON TOTAL VALUE OF IMPORTS (MILLIONS)	TAX BURDEN ASSUMING DOLLAR IMPERFECTLY ADJUSTS BY HALF OF OFFSET (MILLIONS)	FY2014 FEDERAL BUSINESS INCOME TAXES PAID BY STATE (MILLIONS) <sup>17</sup>	TAX BURDEN V. TOTAL FEDERAL BUSINESS INCOME TAXES PAID
Ohio	70,269	14,054	7,027	12,286	57%
Oklahoma	13,589	2,718	1,359	4,049	34%
Oregon	13,788	2,758	1,379	1,920	72%
Pennsylvania	83,086	16,617	8,309	12,619	66%
Rhode Island	8,354	1,671	835	3,684	23%
South Carolina	37,729	7,546	3,773	1,568	241%
South Dakota	1,042	208	104	405	26%
Tennessee	69,754	13,951	6,975	5,905	118%
Texas	302,277	60,455	30,228	32,586	93%
Utah	11,118	2,224	1,112	1,558	71%
Vermont	4,760	952	476	352	135%
Virginia	24,287	4,857	2,429	11,378	21%
Washington	52,379	10,476	5,238	5,613	93%
West Virginia	3,811	762	381	375	102%
Wisconsin	23,525	4,705	2,353	6,021	39%
Wyoming	1,902	380	190	186	102%

New Hampshire, Louisiana, Montana, Mississippi, and Michigan round out the top five states with the greatest disparity between their tax burden under a 20 percent import tax and the amount paid under the federal business income tax in 2014. What's clear, though, is that the border adjustment tax stands to extract a significant amount of revenue from importers in every state.

Given the uncertainty over how currency rates will respond to border adjustment, importers are understandably concerned about how the BAT would affect their businesses. Using 2014 data, Table 3 shows the maximum amount a 20 percent import tax could have cost individual importers absent any currency adjustment—an average of \$276,000 each in South Dakota ranging up to nearly \$3.4 million each in Louisiana.

**TABLE 3: MAXIMUM AVERAGE POTENTIAL COST PER IDENTIFIED IMPORTER**

STATE	2014 NUMBER OF IDENTIFIED IMPORTERS <sup>18</sup>	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) <sup>19</sup>	20% TAX ON TOTAL VALUE OF IMPORTS (MILLIONS)	MAXIMUM AVERAGE COST PER IDENTIFIED IMPORTER (THOUSANDS)
Alabama	3,130	22,210	4,442	1,419.2
Alaska	729	2,008	402	550.9
Arizona	4,812	19,716	3,943	819.5
Arkansas	1,741	7,603	1,521	873.4

STATE	2014 NUMBER OF IDENTIFIED IMPORTERS <sup>18</sup>	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) <sup>19</sup>	20% TAX ON TOTAL VALUE OF IMPORTS (MILLIONS)	MAXIMUM AVERAGE COST PER IDENTIFIED IMPORTER (THOUSANDS)
California	58,971	403,369	80,674	1,368.0
Colorado	4,839	14,237	2,847	588.4
Connecticut	3,913	23,892	4,778	1,221.2
Delaware	1,395	10,690	2,138	1,532.6
Florida	23,005	71,782	14,356	624.1
Georgia	10,832	83,765	16,753	1,546.6
Hawaii	2,054	5,330	1,066	519.0
Idaho	1,293	5,692	1,138	880.4
Illinois	16,948	140,123	28,025	1,653.6
Indiana	5,546	48,794	9,759	1,759.6
Iowa	2,467	10,081	2,016	817.3
Kansas	2,431	11,806	2,361	971.3
Kentucky	3,603	39,266	7,853	2,179.6
Louisiana	3,413	57,605	11,521	3,375.6
Maine	1,344	3,861	772	574.6
Maryland	5,054	30,072	6,014	1,190.0
Massachusetts	7,510	34,436	6,887	917.1
Michigan	8,386	122,739	24,548	2,927.2
Minnesota	5,854	34,693	6,939	1,185.3
Mississippi	1,717	17,254	3,451	2,009.8
Missouri	4,842	18,284	3,657	755.2
Montana	913	6,237	1,247	1,366.3
Nebraska	1,665	4,050	810	486.5
Nevada	3,330	7,850	1,570	471.5
New Hampshire	1,779	11,216	2,243	1,260.9
New Jersey	17,020	126,365	25,273	1,484.9
New Mexico	1,127	2,237	447	397.0
New York	30,866	134,580	26,916	872.0
North Carolina	8,013	52,864	10,573	1,319.5
North Dakota	1,034	3,829	766	740.6
Ohio	9,766	70,269	14,054	1,439.1
Oklahoma	2,261	13,589	2,718	1,202.0
Oregon	4,715	13,788	2,758	584.9
Pennsylvania	9,965	83,086	16,617	1,667.6
Rhode Island	1,385	8,354	1,671	1,206.4
South Carolina	5,022	37,729	7,546	1,502.5
South Dakota	755	1,042	208	276.0
Tennessee	5,799	69,754	13,951	2,405.7
Texas	23,170	302,277	60,455	2,609.2
Utah	3,327	11,118	2,224	668.3
Vermont	1,070	4,760	952	889.7
Virginia	5,905	24,287	4,857	822.6
Washington	8,965	52,379	10,476	1,168.5
West Virginia	878	3,811	762	868.1
Wisconsin	5,448	23,525	4,705	863.6
Wyoming	579	1,902	380	657.0



## BAT BACKFIRES ON AMERICAN AUTO MANUFACTURING

Though proponents of a BAT argue that it would rejuvenate American manufacturing,<sup>20</sup> taxing imports at 20 percent would be devastating for domestic automakers that rely on an integrated supply chain for components and vehicles made in the United States. (Raw materials and components for cars manufactured in the United States can cross the border repeatedly before being assembled at an American factory, potentially being taxed at every crossing.)<sup>21</sup>

In 2016, the United States imported auto parts totaling more than \$141 billion.<sup>22</sup> One study concluded that a BAT could increase the cost of imported parts for domestically-made vehicles by \$23.8 billion and raise the cost of each car made in the United States by more than \$2,000 on average.<sup>23</sup> That cost would have to be passed onto consumers — reducing auto sales, making automakers unprofitable, and ultimately leading to job losses.<sup>24</sup>

Of the ten states that are most sensitive to a BAT overall, nine are home to a significant number of auto manufacturing jobs, representing more than 214,000 combined jobs that would be imperiled by a border adjustment tax. Michigan — perhaps not coincidentally — is both the most sensitive state to a border adjustment tax and the state with the most auto manufacturing jobs.

**TABLE 4: STATES MOST SENSITIVE TO A BAT AND DIRECT MOTOR VEHICLE MANUFACTURING JOBS**

SENSITIVITY RANK	STATE	2014 DIRECT MOTOR VEHICLE MANUFACTURING JOBS <sup>25</sup>	DIRECT MOTOR VEHICLE MANUFACTURING JOBS RANK
1	Michigan	124,500	1
2	Louisiana	50	36
3	Tennessee	17,500	5
4	New Jersey	3,500	15
5	Kentucky	18,500	4
6	South Carolina	7,400	12
7	Illinois	12,500	7
8	Texas	11,500	9
9	Georgia	5,800	13
10	California	13,000	6

A BAT stands to impact not only automakers but the wider auto industry as well. Automotive suppliers would face margin pressure as manufacturers try to offset increased costs and would be forced to cut jobs as overall vehicle sales decline.<sup>26</sup> Higher prices and fewer sales would also put pressure on auto dealers. The president and CEO of one of the nation’s largest automotive dealership groups — Wisconsin-based Russ Darrow Automotive Groups—recently warned about the “unintended consequences” of a BAT as he cautioned that the import tax could be passed along to consumers.<sup>27</sup> One dealership owner based in Plover, Wisconsin expressed concern over how a BAT would affect jobs: “I have 52 employees ... Forty of them are married with kids. How much of a ripple effect could this have?”<sup>28</sup>

## BAT WOULD SPELL DISASTER FOR RETAIL INDUSTRY

The retail industry would be particularly vulnerable to serious harm from the implementation of a BAT, considering that most retailers heavily rely on imports to stock their shelves with consumer goods. The retail industry typically operates on a model of low profit margins, foregoing larger price markups in favor of a high volume of sales.<sup>29</sup> This model is mutually beneficial for the consumer and retailer, but provides very little cushion to absorb an additional 20 percent tax on imported goods.

Consider a shoe retailer that imports the shoes it sells from a manufacturer in China. It buys a pair of shoes from the manufacturer for \$50 and pays \$10 in shipping costs. The retailer sells the shoes for \$70, earning a \$10 profit. Under the current tax system, the retailer would owe 35 percent in taxes on the \$10 profit, because it would get to deduct the \$60 it paid in business costs acquiring the shoes. The total tax bill would be \$3.50.

Under the proposed tax reform plan with a border adjustment tax, the retailer would pay a 20 percent (the proposed corporate rate) tax on the \$10 profit, or \$2. However, the retailer would also pay a 20 percent BAT on the \$50 cost of the imported shoes, bringing the total tax bill to \$12 — which is more than the retailer’s profit from the sale.

It is easy to see how devastating a BAT could be for the retail industry, which faced with skyrocketing tax bills, would need to raise prices, cut jobs, or shut their doors altogether.

To provide a better understanding of the state-level impact this tax could have on the retail industry, Table 5 looks at the overall impact the retail industry has in each state. Consider, for example, a state like Florida, in which retail jobs account for more than 15 percent of the private job market, with more than 1 million employees. In fact, in every state, the retail industry employs more than 10 percent of total private employees.

Lawmakers should consider the retail industry’s large and vital role in their states, and consider if they are willing to put so many good jobs at risk just as state and local economies are beginning to turn around after our nation’s long economic recovery.

**TABLE 5: IMPACT OF THE RETAIL INDUSTRY BY STATE**

STATE	AVERAGE 2015 RETAIL TRADE EMPLOYMENT (THOUSANDS) <sup>30</sup>	2015 CURRENT DOLLAR RETAIL TRADE CONTRIBUTION TO GDP (MILLIONS) <sup>31</sup>	2015 RETAIL EMPLOYMENT AS A PERCENT OF TOTAL PRIVATE EMPLOYMENT
Alabama	230.7	14,364	14.7%
Alaska	37.3	2,264	14.5%
Arizona	321.8	22,828	14.5%
Arkansas	140.5	8,503	14.1%
California	1,661.2	141,358	12.2%
Colorado	262.8	17,421	12.4%

STATE	AVERAGE 2015 RETAIL TRADE EMPLOYMENT (THOUSANDS) <sup>30</sup>	2015 CURRENT DOLLAR RETAIL TRADE CONTRIBUTION TO GDP (MILLIONS) <sup>31</sup>	2015 RETAIL EMPLOYMENT AS A PERCENT OF TOTAL PRIVATE EMPLOYMENT
Connecticut	184.7	14,103	12.9%
Delaware	53.0	2,991	13.8%
Florida	1,081.1	68,589	15.4%
Georgia	483.3	30,639	13.5%
Hawaii	70.8	5,398	13.8%
Idaho	83.6	5,541	15.1%
Illinois	615.4	39,881	12.0%
Indiana	324.8	20,109	12.4%
Iowa	180.4	9,483	13.8%
Kansas	148.8	9,639	13.0%
Kentucky	209.6	11,286	13.4%
Louisiana	233.0	15,395	14.0%
Maine	81.6	4,851	16.0%
Maryland	290.8	19,298	13.4%
Massachusetts	353.0	20,532	11.6%
Michigan	467.4	30,375	12.8%
Minnesota	293.2	18,445	12.0%
Mississippi	138.2	8,878	15.5%
Missouri	311.7	18,699	13.2%
Montana	58.8	2,967	15.8%
Nebraska	109.7	6,051	13.1%
Nevada	143.2	10,555	13.0%
New Hampshire	95.0	5,083	16.8%
New Jersey	460.8	33,197	13.5%
New Mexico	93.5	5,796	14.7%
New York	946.6	70,071	12.1%
North Carolina	483.9	26,623	13.7%
North Dakota	50.8	3,268	13.6%
Ohio	570.8	36,513	12.3%
Oklahoma	183.2	11,190	13.9%
Oregon	202.4	10,656	13.7%
Pennsylvania	633.0	36,163	12.3%
Rhode Island	48.0	3,089	11.3%
South Carolina	241.8	14,347	14.7%
South Dakota	52.9	3,505	15.1%
Tennessee	325.2	22,283	13.2%
Texas	1,297.2	96,396	13.0%
Utah	158.0	10,200	13.8%
Vermont	37.9	2,315	14.8%
Virginia	415.7	25,109	13.2%
Washington	355.0	33,899	13.7%
West Virginia	86.9	5,023	14.4%
Wisconsin	304.8	17,938	12.3%
Wyoming	30.8	2,212	13.9%

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## AMERICANS LOSE UNDER A BORDER ADJUSTMENT TAX

Every state will be impacted by a border adjustment tax, and those states that rely more on imports face a graver threat from the tax hike. At a cost of more than \$1 trillion, this tax on businesses and consumers is on par with the Affordable Care Act<sup>32</sup> or former presidential candidate Hillary Clinton's plans to reshape the American tax system.<sup>33</sup>

American importers—95 percent of whom are small businesses employing fewer than 250 workers<sup>34</sup>—could see their tax bills skyrocket to unsustainable levels. In today's highly-integrated global economy, every consumer in every corner of the country would feel the effects of the BAT, in the form of higher costs at the department store, grocery store, gas pump, and online. Lawmakers who think that the BAT can't impact their states are mistaken; the risks and costs that would come along with border adjustment are too much for American consumers and businesses to bear.

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## METHODOLOGY

**Sensitivity Rank:** The U.S. Census Bureau tracks the value of imports by state of destination, which accounts for where the merchandise is destined as known at the time of entry summary filing. This value is then divided by a state's gross domestic product (GDP) and compared to all other states to derive a sensitivity rank.

**Potential Tax Burden Under Imperfect Adjustment v. Federal Business Income Taxes:** The 2014 value of imports for each state is multiplied by 20 percent to determine the potential amount owed from each state under a BAT and then halved to reflect a possible scenario of imperfect currency adjustment. That value is then divided by 2014 IRS data on federal business income taxes paid by each state as a point of comparison.

**Maximum Average Potential Cost Per Identified Importer:** The potential amount owed from each state under a BAT is divided by the number of identified importers per state to determine the maximum potential average cost of a BAT per identified importer. According to the U.S. Census Bureau, the total import value that could not be linked to specific companies was 12.4 percent in 2014, and therefore the number of importers could be understated. Please see full report for limitations on data.<sup>35</sup>

**Average 2015 Retail Trade Employment:** A simple average of monthly retail trade employment by state for 2015 using payroll data from the Bureau of Labor Statistics.

**2015 Retail Employment v. Total Private Employment:** The 2015 annual average of monthly retail trade employment by state is divided by the annual average of total private employment by state.

Calculations have been rounded.

## APPENDIX

### STATES BY SENSITIVITY TO A BAT

RANK	STATE	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) <sup>36</sup>	2014 CURRENT DOLLAR GROSS DOMESTIC PRODUCT (MILLIONS) <sup>37</sup>	IMPORTS AS A PERCENTAGE OF STATE GDP
1	Michigan	122,739	447,961	27.40%
2	Louisiana	57,605	242,785	23.73%
3	Tennessee	69,754	299,158	23.32%
4	New Jersey	126,365	543,787	23.24%
5	Kentucky	39,266	186,344	21.07%
6	South Carolina	37,729	190,773	19.78%
7	Illinois	140,123	745,810	18.79%
8	Texas	302,277	1,627,865	18.57%
9	Georgia	83,765	473,562	17.69%
10	California	403,369	2,350,807	17.16%
11	Mississippi	17,254	103,828	16.62%
12	Delaware	10,690	65,419	16.34%
13	Vermont	4,760	29,259	16.27%
14	New Hampshire	11,216	71,153	15.76%
15	Rhode Island	8,354	53,898	15.50%
16	Indiana	48,794	324,901	15.02%
17	Montana	6,237	44,448	14.03%
18	Washington	52,379	423,795	12.36%
19	Pennsylvania	83,086	685,420	12.12%
20	Ohio	70,269	591,333	11.88%
21	Alabama	22,210	194,421	11.42%
22	North Carolina	52,864	473,471	11.17%
23	Minnesota	34,693	316,578	10.96%
24	Connecticut	23,892	245,160	9.75%
25	New York	134,580	1,382,933	9.73%
26	Idaho	5,692	63,050	9.03%
27	Florida	71,782	833,369	8.61%
28	Maryland	30,072	349,605	8.60%
29	Wisconsin	23,525	291,754	8.06%
30	Kansas	11,806	147,493	8.00%
31	Utah	11,118	140,296	7.92%
32	Massachusetts	34,436	455,979	7.55%
33	Arizona	19,716	280,166	7.04%
34	Maine	3,861	55,250	6.99%
35	Oklahoma	13,589	194,466	6.99%
36	Hawaii	5,330	76,588	6.96%
37	Oregon	13,788	203,606	6.77%
38	Missouri	18,284	282,874	6.46%

RANK	STATE	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) <sup>36</sup>	2014 CURRENT DOLLAR GROSS DOMESTIC PRODUCT (MILLIONS) <sup>37</sup>	IMPORTS AS A PERCENTAGE OF STATE GDP
39	North Dakota	3,829	59,308	6.46%
40	Arkansas	7,603	117,854	6.45%
41	Iowa	10,081	169,661	5.94%
42	Nevada	7,850	133,784	5.87%
43	Virginia	24,287	460,151	5.28%
44	West Virginia	3,811	74,148	5.14%
45	Colorado	14,237	304,943	4.67%
46	Wyoming	1,902	42,021	4.53%
47	Nebraska	4,050	111,297	3.64%
48	Alaska	2,008	58,253	3.45%
49	New Mexico	2,237	94,731	2.36%
50	South Dakota	1,042	45,588	2.29%

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