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THE IMPACT OF THE **BORDER ADJUSTMENT TAX** ON THE STATES

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EXECUTIVE SUMMARY

IT'S NOT A QUESTION OF **WHICH STATES** WILL LOSE UNDER A NEW 20% IMPORT TAX, IT'S **HOW MUCH**:

- For 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 a lot of the benefits that would come from these laudable reforms.

- The proposed Border Adjustment Tax (BAT) would impose a new 20 percent tax on everything that is imported into the U.S. — from tennis shoes and t-shirts, to crude oil and auto parts. But the size and scope of the trillion-dollar tax on consumers — as it relates to impacts on individual state economies — is staggering.

- This study 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.

- Economists and analysts do not know how much U.S. currency would adjust under a BAT system. While it's accepted that the dollar would experience at least some appreciation in value, it would likely not be enough to offset the 20 percent import tax.

- Even with partial appreciation of U.S. currency, every state would lose under a 20 percent import tax hike — the only question is how much?

- In fact, in many states, the tax burden from a 20 percent import tax would be larger than the total amount of corporate taxes businesses in those states already pay.

- The question when evaluating the BAT's impact on the states is not which states stand to lose under the proposal, *but how much will each state lose?* Our findings show that even with partial dollar appreciation, a BAT could mean billions in new taxes. And these increases would fall directly on importers — and subsequently consumers — with the auto and retail industries among the hardest hit.

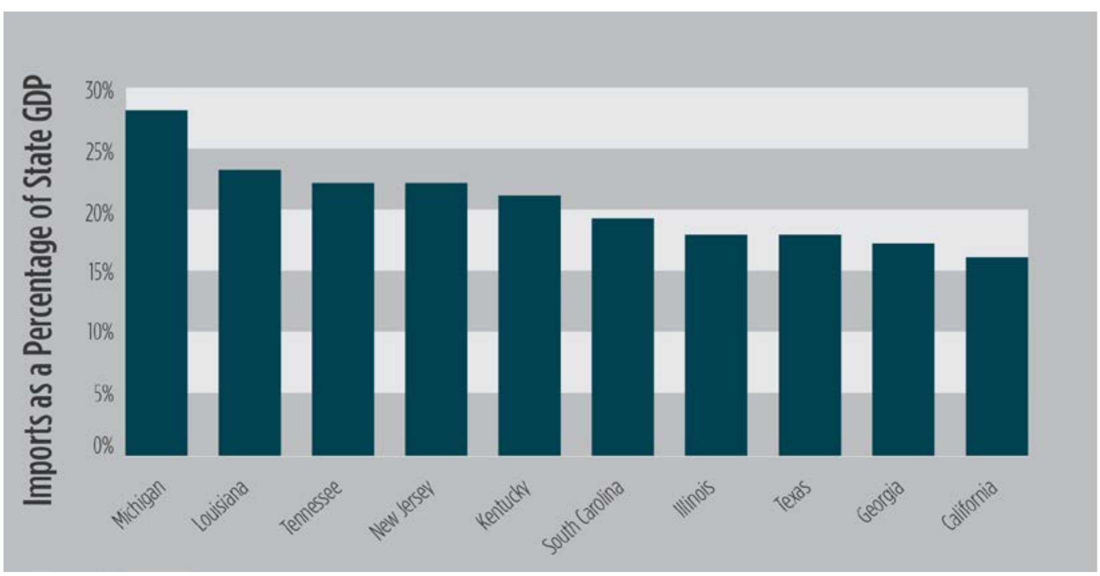
- Lawmakers should consider the large and vital role of importers in their states, and ask themselves whether they are willing to put so much at risk just as state and local economies are starting to turn around after our nation's long economic recovery.

- Americans deserve comprehensive, pro-growth tax reform — but a new tax on every U.S. consumer is the wrong approach.

KEY FINDINGS:

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. The states that would be most sensitive to a 20 percent import tax, because of the high relative value of imports to gross domestic product (GDP), are Michigan, Louisiana, Tennessee, New Jersey, Kentucky, South Carolina, Illinois, Texas, Georgia, and California.

FIGURE 1: STATES THAT RELY HEAVILY ON IMPORTS WOULD BE HARDEST HIT BY BAT



Businesses in each state already pay federal business income taxes, yet these figures would be dwarfed by the new taxes owed under BAT. In some states, the tax bill on imports could be double, triple, or even quadruple the size of all federal business taxes normally collected in those states. These findings help highlight the scale of a 20 percent import tax — the impact on importers could be devastating even if the BAT is paired with other business tax cuts.

TABLE 2: FOR MANY STATES THE BAT WOULD REPRESENT A MASSIVE TAX INCREASE SHOULDERED ENTIRELY BY IMPORTERS AND CONSUMERS

STATE	2014 TOTAL VALUE OF IMPORTS BY STATE OF DESTINATION (MILLIONS) [1]	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)[2]	TAX BURDEN V. TOTAL FEDERAL BUSINESS INCOME TAXES PAID
New Hampshire	11,216	2,243	1,122	236	474%
Louisiana	57,605	11,521	5,761	1,604	359%
Montana	6,237	1,247	624	194	321%
Mississippi	17,254	3,451	1,725	694	249%
Michigan	122,739	24,548	12,274	5,023	244%
South Carolina	37,729	7,546	3,773	1,568	241%
Idaho	5,692	1,138	569	334	170%
Kentucky	39,266	7,853	3,927	2,324	169%
Alabama	22,210	4,442	2,221	1,485	150%
Hawaii	5,330	1,066	533	377	141%

A 20 percent import tax could prove to be devastating for domestic automakers, who rely on an integrated supply chain for components and vehicles that are made in the United States. 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 BAT.

TABLE 4: STATES WITH A SIGNIFICANT AUTO INDUSTRY ARE ESPECIALLY VULNERABLE TO COST INCREASES UNDER BAT

SENSITIVITY RANK	STATE	2014 DIRECT MOTOR VEHICLE MANUFACTURING JOBS[3]	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

SENSITIVITY RANK	STATE	2014 DIRECT MOTOR VEHICLE MANUFACTURING JOBS[3]	DIRECT MOTOR VEHICLE MANUFACTURING JOBS RANK
8	Texas	11,500	9
9	Georgia	5,800	13
10	California	13,000	6

The retail industry would be particularly vulnerable to a 20 percent import tax, considering that most retailers heavily rely on imports to stock their shelves with consumer goods. In Florida, for example, retail jobs account for more than 15 percent of the private job market, with over 1 million employees. In fact, in every state, the retail industry employs more than 10 percent of total private employees.

TABLE 5: STATES WITH A SIGNIFICANT RETAIL INDUSTRY WILL BE ESPECIALLY SUSCEPTIBLE TO HARM UNDER BAT

STATE	AVERAGE 2015 RETAIL TRADE EMPLOYMENT (THOUSANDS)[4]	2015 CURRENT DOLLAR RETAIL TRADE CONTRIBUTION TO GDP (MILLIONS)[5]	2015 RETAIL EMPLOYMENT V. TOTAL PRIVATE EMPLOYMENT
New Hampshire	95.0	$5,083	16.8%
Maine	81.6	$4,851	16.0%
Montana	58.8	$2,967	15.8%
Mississippi	138.2	$8,878	15.5%
Florida	1081.1	$68,589	15.4%
South Dakota	52.9	$3,505	15.1%
Idaho	83.6	$5,541	15.1%
Vermont	37.9	$2,315	14.8%
South Carolina	241.8	$14,347	14.7%
New Mexico	93.5	$5,796	14.7%
Alabama	230.7	$14,364	14.7%

SOURCES:

1. "A Profile Of U.S. Importing And Exporting Companies, 2013 – 2014," U.S. Census Bureau, 4/5/16
2. "Internal Revenue Service Data Book, 2014," IRS, 3/24/15
3. Kim Hill And Debra Maranger Menk, "Contribution Of The Automotive Industry To The Economies Of All Fifty States And The United States," Center For Automotive Research, 1/15
4. "State And Area Employment, Hours And Earnings—Retail Trade," BLS, Accessed 3/27/17
5. "Gross Domestic Product (GDP) By State—Retail Trade," BEA, Accessed 3/27/17