



A tax at the border could be the next big Republican disagreement in Congress

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President Donald Trump wants to tackle tax reform after his health care overhaul failed, a massive effort considering the nation's tax code hasn't changed substantially since Ronald Reagan's administration.

Trump has a fellow businessman in Congress eager to tackle taxes. Rep. Roger Williams, the longtime Weatherford, Texas-based car dealer who now lives in Austin, proposed his own tax reform plan a year ago in anticipation of a friendly face in the White House. Now, he wants to work with Trump to get something done.

But there's a potential hangup.

A tax reform proposal cannot increase the federal deficit after 10 years, or else it will need 60 votes in the Senate to pass, and Republicans only hold 52 seats. So House GOP leadership must raise taxes or cut spending to pay for a lower tax rate.

The current proposal, trumpeted by House Speaker Paul Ryan and Ways and Means Committee Chairman Kevin Brady, also a Texan, imposes a border adjustment tax on imported goods. The tax will supposedly raise \$1.2 trillion over 10 years to offset decreased federal revenues due to lower corporate and personal taxes, and its proponents argue the tax will benefit American-based manufacturing.

But the border adjustment tax is a non-starter for Williams and some Senate Republicans.

"In my business, if I want to cut my car prices to try and sell more cars, I don't raise prices, I lower prices and cut expenses," Williams said. "That's what you do in your family, that's what we all do. This is no different. And a five percent border tax increases the cost of goods, it flows to the consumer and it's just a tax increase."

Instead of the border adjustment tax, Williams argues that conservatives need to get serious about cutting expenses to make a tax reform effort deficit-neutral. Williams wants to cut the Department of Education, but that effort would come nowhere near the required savings to lower tax rates.

Harry Stein, director of fiscal policy at the Center for American Progress, a liberal think tank, said Republicans don't have a plan to make tax reform revenue-neutral in the long term, even if a boarder adjustment tax passes.

“On the House side, Ryan and Brady have been very clear they want to do something permanent, but the Better Way tax plan isn’t revenue neutral,” Stein said. “I think there’s a rhetoric versus reality disconnect there that’s important. Even if you take most dynamic score it loses \$1.9 trillion in the second decade.”

Williams said he’s been in contact with Gary Cohn, Trump’s chief economic adviser and former COO of Goldman Sachs, over his tax reform proposal, but it’s unclear where Trump stands on the border adjustment tax. Proponents of the measure were hopeful that Trump would embrace the idea after railing against free trade agreements during the campaign, and that a tax on foreign-made goods would appeal to Trump’s populist streak. However, Trump has been largely silent on the proposal since assuming office.

Big importers such as Wal-Mart and Target are pushing the White House to reconsider the House plan.

“We have a great relationship with Chairman Brady, but on this one we just flat out disagree with the approach,” said Texas Retailers Association president and CEO George Kelemen. “Specific to Texas, it’s our grocery sector...we import avocados, bananas and coffee. Those are products we don’t produce or grow enough of and if you put a 20 percent tax on all that imagine what that does to the household grocery bill.”

A number of Senate Republicans have also voiced opposition to the border adjustment tax. Arguably the biggest opponent is Arkansas Sen. Tom Cotton, as Wal-Mart is based in his state. Texas Sen. John Cornyn said, “There’s many unanswered questions about proposed border adjustment tax” in a [January tweet](#). Georgia Sen. David Perdue [sent a letter](#) to his colleagues in February blasting the proposal.

If three senators vote against a tax reform plan, it will fail.

Williams said the White House can learn a lot to prepare for a tax reform fight after the Obamacare replacement bill failed in spectacular fashion last week. He said speeding the bill through Congress would result in a half-baked proposal that satisfies no one.

“We have to have this conversation so we don’t have another health care debacle,” Williams said. “But tax reform in my mind is pretty easy.”

Chris Edwards of the Cato Institute, a libertarian policy institute funded by the Koch Brothers, said the border adjustment tax is solely a political instrument to pass the bill in the Senate and has nothing to do with promoting American industry.

“I suspect they (House leadership) thought it was sort of a parallel to Trump’s comments on international trade and Trump administration would support that sort of tax change,” Edwards said. “Strangely, it really hasn’t worked out that way, and Cohn made some comments the other day that were negative on it. The GOP has to get rid of border adjustment thing, it’s splitting the business community and they all need to be on board.”

Williams and GOP leadership agree on the need to lower corporate and personal taxes, and on the nuts-and-bolts they aren’t too far off.

“I’m talking about a 20 percent corporate tax across the board, Trump’s talking 15,” Williams said.

But in addition to the border adjustment tax there’re two other cost-saving solutions Williams vehemently opposes: getting rid of tax deductions for charitable giving and home mortgages.

“There’s people talking about doing away with charitable giving? That’s America for crying out loud,” Williams said. “America is a giving nation with compassion. We’re talking about doing away with mortgage interest, well how the hell do you buy a house?”

The House Republican proposal keeps the charitable giving and mortgage deductions but eliminates all other itemized deductions.