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Target, Best Buy CEOs to meet with Trump on tax plan

CEOs will push to stop possible 20 percent border adjustment tax in meeting with president.

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The CEOs of Target Corp. and Best Buy will urge President Donald Trump and members of Congress on Wednesday not to enact a 20 percent border adjustment tax that analysts believe could result in significant cost increases to their customers and worrisome hits to their bottom lines.

The Retail Industry Leaders Association (RILA) confirmed the trip to the Star Tribune.

Retail chief executives, including Target's Brian Cornell and Best Buy's Hubert Joly, are scheduled to meet with Trump at 10:15 a.m. Wednesday and with members of Congress later in the week to explain that the border adjustment tax proposal, which is essentially a 20 percent tax on imports, will translate into price hikes to customers. Those price increases could become permanent, retailers fear.

"In the short term, most of an import tax increase will land on consumers," predicted Luis Resendiz, who for 20 years has advised businesses with international trade as an attorney at Fredrikson & Byron in Minneapolis. "At the end of the day, businesses will need to make a profit. If they get whacked with a 20 percent tax, prices will go up."

That means customers could pay up to 20 percent more for Target clothing or housewares, virtually all of which are foreign-made, at a time when the chain is already struggling to increase sales, said Brian Yarbrough, an analyst with the financial advisory firm Edward Jones.

Resendiz said the same reasoning applies to Best Buy, which sells TVs, laptops, game consoles and other electronics that come mostly from foreign sources.

Target CEO Brian Cornell, shown last week at the Minneapolis Downtown Council's annual meeting, is scheduled to meet with President Donald Trump on Wednesday morning.

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The tax could also rest heavily on other Minnesota companies, including those in medical technology, such as Medtronic, and some manufacturers, such as Polaris Industries, which have foreign production facilities or use foreign parts in finished products assembled in the U.S.

But by far the biggest cries of protest have come from retailers, with Best Buy reportedly circulating a flier showing that a 20 percent border adjustment tax could turn the company’s bottom line from black to red.

“Given that retail is the largest private sector American employer, retailers support sound policies that spur economic growth and job creation,” RILA said Tuesday in a prepared statement. “Later this week, several top retail executives will visit Capitol Hill to meet with lawmakers and discuss progrowth policies that will benefit both American consumers and job creators.”

Sen. Amy Klobuchar and Sen. Al Franken will each meet with Cornell, and the border adjustment tax is expected to come up during the discussions, staff members confirmed.

A source told the Star Tribune that Joly will be among a group of CEOs meeting with Rep. Kevin Brady, R.-Texas, the chairman of the House Ways & Means Committee.

The Trump administration injected the border adjustment tax into a national discussion a few weeks ago when administration spokesman Sean Spicer suggested that a 20 percent tax on Mexican imports to the U.S. could pay for a wall along the U.S.’s southern border.

The tax is actually part of a House Republican tax reform plan and applies to imports from any country. It creates a border tax by ending retailers’ ability to deduct the cost of merchandise that they import. That means companies would be taxed at nearly the full selling price of imported merchandise and not just their profit from those sales.

It is supposed to work in concert with an overall reduction in the U.S. corporate tax rate and with tax-free U.S. exports to increase American production facilities and create U.S. jobs while simultaneously balancing trade, making the U.S. dollar more valuable, sustaining profits and keeping prices down.

But RILA has argued that the tax will raise consumer prices and may never be fully offset. Information included in Target’s and Best Buy’s Securities and Exchange Commission (SEC) filings explain the risks.

“A large portion of our merchandise is sourced, directly or indirectly, from outside the United States, with China as our single largest source,” Target said in its 2016 annual report, noting that “trade restrictions” could hurt operations.

“Changes in the costs of procuring commodities used in our merchandise or the costs related to our supply chain ... could have an adverse effect on gross margins.”

Best Buy reported that more than half of the merchandise it purchased in 2016 came from five companies — Apple, Samsung, Hewlett-Packard, Sony and LG Electronics — all of which are either foreign-based or have extensive foreign sourcing networks for their parts and products.

The tax reform plan, said Dan Mitchell, an economist and senior fellow at the conservative Cato Institute, is untested on the scale at which it has been proposed. No one can say how much prices might rise, how long they will stay up or when a lower corporate tax rate and export incentives will offset a 20 percent border adjustment tax.

“We’re in uncharted territory,” Mitchell said. “I’m guessing the adjustment period will be bumpy at best.”

In any scenario, Resendiz said the border adjustment tax on U.S. imports will not do what the Trump administration suggested it could: Make Mexico pay for a wall along the U.S. border to keep out undocumented immigrants.

“The tax is a U.S. tax,” Resendiz said. “The tax will be paid by U.S. companies or by consumers to whom it is passed on. It’s not going to be paid by Mexico or any other foreign country.”