BAT & Tax Reform: How You Can Prepare

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Tax reform has once again become a hot-button issue since the election of Donald Trump as president. In particular, Republicans and President Trump have floated the idea of a border adjustment tax, or BAT, on imported goods. The stated goal of a BAT would be to encourage U.S. companies to manufacture goods here instead of overseas, thus helping preserve American manufacturing jobs.

A border adjustment tax is a value-added tax levied on imported goods sold domestically. *The Wall Street Journal* [1] explains a BAT this way:

> *"Companies wouldn't be able to deduct the cost of imports from their revenue, a move that today enables them to lower their overall tax burden. At the same time, exports and other foreign sales would be made tax-free. The plan would operate like a tax on the trade deficit and raise about $1 trillion over a decade, according to independent estimates, which could help pay for lower tax rates and other provisions."*

Start Planning Now

We are still a long way away from tax reform of any kind, much less a border adjustment tax. But it's not too early to start planning for how a BAT might impact your company. In short, a BAT could either help or hurt your company based primarily on whether you are an importer or an exporter.

Given this, you may need to review your supply chain structure to maximize your potential tax benefits. At the same time, you must be careful not to take your eye off the operations of your business. In other words, don't let the "tax tail wag the dog." Also, there is some concern that any type of border adjustment tax, since it's a tax on imported goods, could have an impact on foreign currency exchange rates. To the extent possible, you should consider this as well.

As you plan for the possible effects of a BAT on your business, keep in mind the following potential negative impacts:

- A BAT could dramatically increase your cost of goods if you're an importer.
- There might be retaliatory action from other countries that view the BAT as an import tariff, thus potentially reducing export revenue.
- Short-term changes to the supply chain in reaction to a change in tax policy can potentially have damaging long-term effects on your business.
- As a result, even though you may see a positive benefit in reduced incremental tax rates, you could end up in the same competitive position, if not an even more challenging position.

How an Outsourced CFO Can Help

One way to prepare for the possible impact of a BAT is to hire an outsourced CFO services provider to help you plan strategies for taking advantage of the tax or combating any negative effects of the tax. An outsourced CFO is a skilled tax and financial professional who will take a portfolio approach when providing financial management to your company. He or she will not be focused on just the tax implications, but on all aspects of your income statement.

An outsourced CFO will have a thorough understanding of the supply change implications resulting from any change in tax structure or strategy. In addition, an on-demand CFO will understand the need to balance long-term and short-term interests and make an optimal decision in terms of the actions your company should take in the face of tax reform.

Another tax reform proposal that has been discussed would allow for the repatriation of foreign-based earnings. An outsourced CFO will have a clear understanding of the potential impact of this policy and help ensure that your company maximizes any possible benefits if it becomes law.

By hiring an outsourced CFO services provider now to help you prepare for a BAT and other possible tax reform provisions, you will benefit from a corporate structure that takes advantage of the current tax climate but does not impair your long-term prospects. You'll also benefit from stronger supply chain relationships so that any proposed tax law changes will not adversely impact your cost of goods. With proper guidance from an outsourced CFO, you can take advantage of changes in tax law while retaining a flexible corporate structure that minimizes risk if the tax situation changes again.

Concluding Thoughts

Republicans and President Trump have floated the idea of a border adjustment tax (BAT) on imported goods to encourage U.S. companies to manufacture goods here instead of overseas, thus helping preserve American manufacturing jobs. A BAT could either help or hurt your company, based primarily on whether you are an importer or an exporter. An outsourced CFO services provider can help you plan strategies to maximize benefits and minimize negative impacts if a BAT or other proposed tax reform provisions become law.

1 What is the Border Adjustment Plan? - Wall Street Journal
/www.wsj.com/graphics/border-tax/

About CFO Edge

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