

Overview

This analysis highlights the immediate impacts of implementing a border adjustment tax on U.S. vehicle prices.

- The border adjustment mechanism is being considered as an integral part of the major corporate tax reforms that are expected to be introduced in the 115th Congress.
- Border adjustment is being considered as a way to generate sufficient tax revenues to offset the impact of lowering the overall corporate tax rate.
- The border adjustment mechanism functions by excluding cash-inflow from overseas (export revenue) and cash-outflow to foreign countries (import costs) in the taxable profit calculation.
- Automakers and suppliers that sell and manufacture in the United States are part of a highly globally-integrated industry.
- The automotive industry would see significant changes to their tax base under a border adjustment; the tax would be highly disruptive to U.S. vehicle sales and production.

Methodology

- This analysis is based on confidential financial data received from automakers representing over 50 percent of U.S. light vehicle sales.
- This analysis holds exchange rates constant, and examines only a price response to the implementation of border adjustment.
- The estimates are based on the impact of the proposed border adjustment tax on imported vehicles as well as parts used for vehicle production in the United States.
- This analysis estimates a price increase with no change in unit sales or domestic production—both of which would be affected by a price increase of this magnitude.

Findings

In response to the border adjustment:

- **U.S. light vehicle prices would increase 5.6 percent** in immediate response to border adjustment.
- Since the current U.S. average transaction price for new vehicles is \$34,968 (Kelley Blue Book, 2017), **average per vehicle price increases are estimated at \$1,970.**
- Assuming U.S. sales at 17.5 million vehicles in 2016, **the light vehicle price increase represents \$34.6 billion in higher costs to consumers.**
- The \$1,970 price increase resulting from the proposed border adjustment masks the turbulence and churn in the market which would significantly impact models, segments, and even entire companies.

<http://mediaroom.kbb.com/2017-02-01-New-Car-Transaction-Prices-Remain-High-Up-More-Than-3-Percent-Year-Over-Year-In-January-2017-According-To-Kelley-Blue-Book>