



TaxNewsFlash

United States

No. 2017-173

April 26, 2017

CRS report on border adjustment tax and exchange rates

The Congressional Research Service (CRS) on April 18, 2017, released a report entitled “Border-Adjusted Consumption Taxes and Exchange Rate Movements: Theory and Evidence.”

The [CRS report](#) [PDF 571 KB] discusses the “border adjustment tax” proposed in the House Republican tax reform blueprint released in June 2016 and provides a basic framework for understanding how exchange rates might respond to such a proposal.

The summary of the report states that:

“Although no other countries have implemented a destination-based cash flow approach to taxation, studies of closely related tax systems may provide some empirical insight into how exchange rates react to border adjustments. The existing literature includes some studies that are broadly supportive of a full exchange rate response and limited timing concerns. Other research has found evidence suggestive of a full exchange rate response in the long run but less clarity in short-term adjustments and industry-specific effects.”

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