



TaxNewsFlash

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JCT report: Destination-based taxation and border adjustments; report for Ways and Means hearing

The Joint Committee on Taxation (JCT) today released a report that provides an overview and analysis of destination-based taxation and border adjustments.

The JCT report is being provided in advance of a hearing by the U.S. House Committee on Ways and Means on border adjustments and international tax reform, scheduled for Tuesday, May 23, 2017. The Ways and Means today released a [list of witnesses](#) for the hearing.

Overview

The JCT report—[JCX-20-17](#) (May 22, 2017)—explains that, although origin and destination principles traditionally have been considered principles of indirect tax (e.g., sales tax and other consumption taxes), these principles may also be used to describe tax bases more generally.

- The tax base for a country with a pure origin-based tax consists of proceeds from the sale of goods and services produced in that country, regardless of where the sales occur.
- On the other hand, the tax base for a country with a pure destination-based tax consists of proceeds from the sale of goods and services to purchasers located in that country, regardless of where the goods and services were produced. The taxation of cross-border sales of goods and services under a destination-based tax is accomplished through border adjustments, by which imports are taxed and exports are exempt from tax.

As explained by the JCT, the U.S. tax system is neither a pure origin-based tax nor a pure destination-based tax. However, it may be considered to be more origin-based in the sense that income from the sale of goods and services produced in the United

States is generally part of the U.S. tax base, regardless of where sales occur. The U.S. tax system is not destination-based because U.S. persons are subject to tax on their worldwide income, which may include income from the sale of goods and services neither produced nor purchased in the United States.

The JCT release notes that some policymakers have suggested establishing a destination-based tax as a way of promoting certain economic policy goals and addressing problems arising from the more origin-based U.S. tax system. As such, the JCT report:

- Describes the economic rationale for implementing a destination-based tax
- Summarizes some recent proposals that would move the United States toward a destination-based tax
- Provides an economic analysis of the border adjustment mechanism of a destination-based tax

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