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HKICPA Taxation Faculty Seminar

Practical planning on Customs/VAT on exporting to the US and Europe

Hong Kong

Speaker

Sidney Rouwenhorst
Senior Manager Indirect Tax, Asia-Pacific Tax Center

Direct Tel: (852) 2629 3407
Email: sidney.rouwenhorst@hk.ey.com

Relevant experience

- Sidney started his career at EY in 2006 and joined the Operating Model Effectiveness (OME) team in the Amsterdam office.
- He has more than 7 years experience in the Dutch OME team with assisting multinationals on VAT, Customs and Regulatory compliance issues in international restructuring projects.
- Sidney completed a six months assignment as an interim indirect tax manager with a global manufacturer and supplier of chemicals and innovative plastics in order to support their indirect tax practice.
- Next to his specialty in European indirect taxes, Sidney gained experience in the OME possibilities in other regions of the world like Asia-Pacific, Japan, Russia, Turkey and the Americas (United States, Mexico, Brazil).
- He worked on multidisciplinary cross border OME assignments since 2006 for multinationals operating in a variety of industries, such as chemical, consumer goods, industrial products and high tech.
- Mid 2013, Sidney joined the Asia-Pacific Tax Center (APTC) team in Hong Kong. He is working in close cooperation with the indirect tax practices in Greater China, ASEAN and Oceania.

Professional qualifications

- Sidney Rouwenhorst is an indirect tax senior manager in EY's APTC team and is part of the OME practice in Greater China.
- Sidney has more than 10 years working experience and joined EY 's OME practice in Amsterdam in 2006. He is currently based in Hong Kong.
- BA in Management, Economics and Law from the Amsterdam School of Business , the Netherlands.
- Master degree (LL.M) in Tax Law from the University of Amsterdam, the Netherlands.

Today’s agenda

- First sale
- Border adjustment cash flow tax (BACFT)
- US trade developments
- Union Customs Code
- Brexit
- Case study: Alternatives to consider (EU)

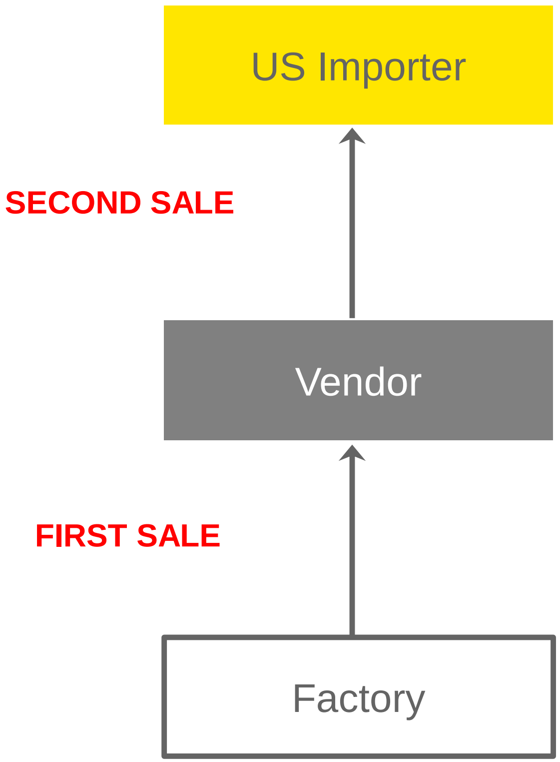
First sale

First sale Principle

- First Sale is a strategy that allows an importer to save US Customs duties
- Many overseas purchases involve multiple tiers/transactions
  - In a common situation, a US importer issues a purchase order to a related company or middleman, that, in turn, places a corresponding order for the goods to the manufacturer
  - Thus, there are two back-to-back sales
- When first sale criteria is satisfied
  - The importer can use the lower manufacturer's sale price to the middleman (plus assists, if any) as the customs value rather than the higher middleman sales price
  - Result is that the middleman markup is excluded from the dutiable value and customs duty is saved; that is, a lower landed cost for the same purchase

First sale Principle

When a chain of sales for export to the US exists, importer may select the earlier sale, with appropriate supporting documentation

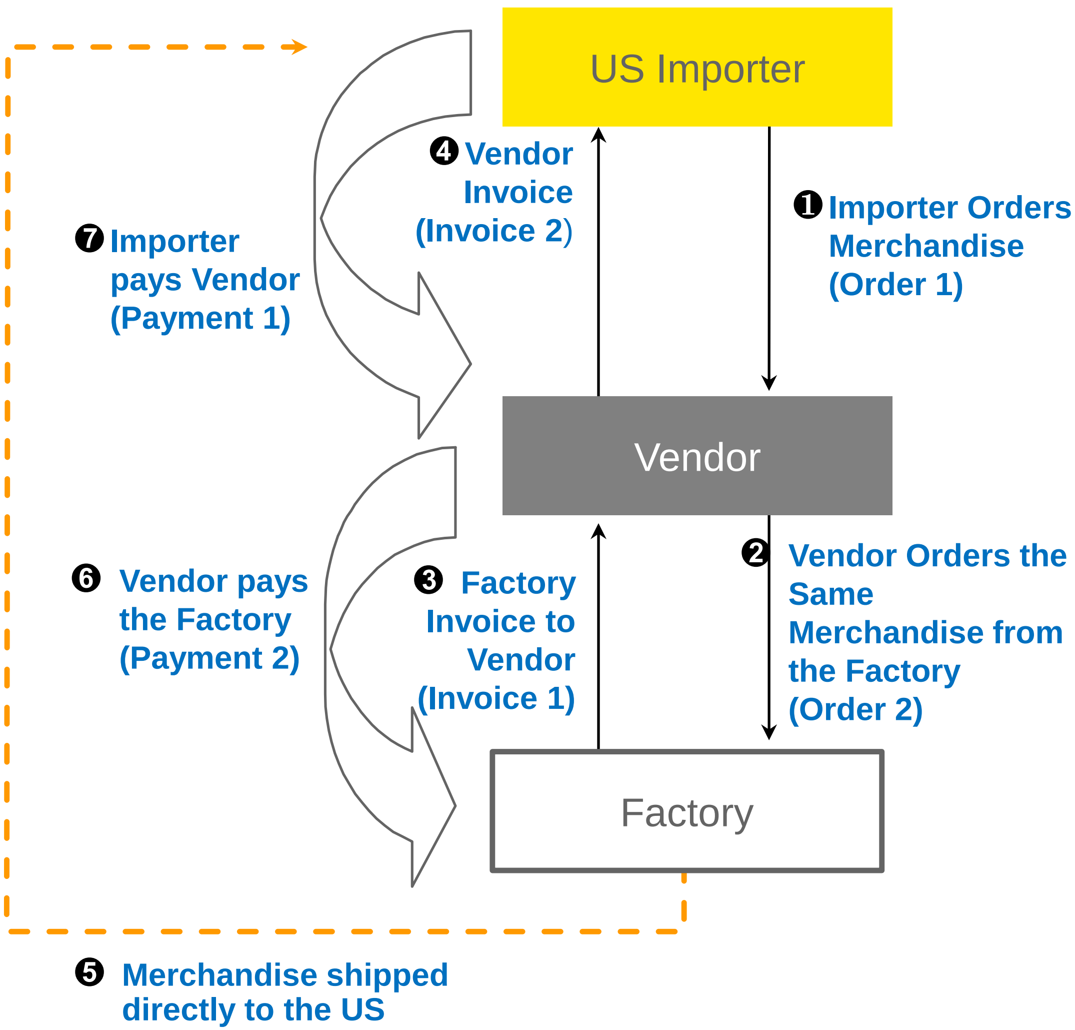


Second sale invoice includes vendor markup.
$10,000 vendor invoice of apparel @ average duty rate of 20% = **$2,000 customs duty**

First sale invoice excludes vendor markup.
$9,000 factory invoice @ average duty rate of 20% = **$1,800 customs duty**

Importer duty savings on $10,000 transaction using First Sale = $200 or 2%

First sale Requirements



First Sale Criteria

1. "Clearly Destined" for US

Merchandise must be shipped directly from the Factory to the US at the time of sale from the Factory to Vendor.

2. Bona Fide Sale

Circumstances and documentation demonstrate that all parties are functioning as traditional buyers and sellers of merchandise

3. Arm's Length Transaction

US importer must substantiate that the Factory to Middleman sale is at Arm's Length

4. Reasonable Care

Reasonable care must be exercised to substantiate the First Sale Price

Documentation Must Be Available to Substantiate a First Sale Price On A Shipment-by-Shipment Basis

First sale Requirements

- The First Sale shipment must be “clearly destined” for export to the US
  - Key criteria include:
    - Manufactured after the middleman creates a purchase order (made to order)
    - Labels/tags indicate the US Importer purchased for the US
    - Merchandise cannot be diverted (transshipment may be acceptable)
- Two bona fide sales must exist, first from the manufacturer to the vendor and second from the vendor to the US importer
  - Key criteria include:
    - Documentation indicates two sales
    - Transfer of title and risk of loss for both sales

First sale
Requirements

- The First Sale value must be an arm's length price where the vendor is considered related to the manufacturer
  - Customs presumes unrelated party sales are arm's length
  - For related party sales, an analysis must be completed to demonstrate arm's length prices (e.g., negotiations; operate as unrelated parties; profitability)
- Importers must exercise reasonable care when importing under First Sale and the value declared must be documented and auditable by US Customs
  - Reasonable care is a standard established by US Customs for the US importers
  - Importer is responsible to ensure the first sale value is valid
  - Documentation must support first sale and must be auditable

First sale
Documents

- Document package checklist
  - Purchase orders
  - Invoices
  - Payment support
  - Shipping documents
  - Packing list
  - Invoice for sending finished goods from factory to the port
  - Bill of materials (for CMP transaction)
  - Support on how the dutiable assist is calculated, where applicable
  - TVW, where applicable
  - Financials
  - Signed statements
    - Transaction flow
    - Bona fide sale questionnaire

First sale
Common challenges

- US Customs has increased scrutiny on the existence of bona fide sale – how to address the risks:
  - Confirming accuracy and commercial validity of incoterms
  - Confirm accuracy of transactions
    - Review contracts and commercial documentation
    - Where flash title, looking for language allocating title and risk of loss as well as appropriate accounting treatment, credit risk and entrepreneurial risk
- China customs handbook pricing
- Factory profitability
- Identifying dutiable assists
- Negative style margins

First sale
Common challenges

- Push back from vendors
  - No First Sale structure
  - No document flow between the relevant entities
  - The current selling price is already the lowest
  - Not willing to restructure
  - Not willing to disclose confidential data (e.g. profitability, costing)
  - Related factory's profitability is not in range
  - Not enough orders placed by the US importer
  - Extra workload involved in preparing and maintaining documents

First sale
Ongoing maintenance

- US customs statute of limitation is five years
- Confirm accuracy of transaction flow
- Confirm accuracy of details in representation letter
- Be sure costing data is updated, including R&D assists
- Importer initiated reviews
  - Periodic request of commercial documentation to support US entry
  - Each importer may have different cadence for review
  - Many are risk based

Border adjustment cash flow tax (BACFT)

Border adjustment cash flow tax (BACFT)
Major drivers of US tax reform

- High corporate tax rate and complex system puts US companies at a competitive disadvantage
- Patent box regimes in other countries lure intellectual property income and research and development jobs from the United States
- European Union State aid investigations have been criticized for appearing to target US multinationals

Border adjustment cash flow tax (BACFT)
Impact on current corporate income tax

The Blueprint's BACFT represents a major departure from the current corporate income tax system.

Current state

Corporate income tax levied on firm profits

Calculation of tax:

- ✓ Profits defined as revenue minus costs
- ✓ Taxed at 35% rate
- ✓ Capital investment – depreciated over period
- ✓ Tax on profits earned overseas minus credit for foreign taxes paid (worldwide tax regime)

BACFT

Destination-based tax on domestic consumption

Major modifications:

- ✓ 20% corporate tax rate (25% tax rate on pass-through owners' income)
- ✓ Capital investments fully expensed
- ✓ Corporate net interest expense deduction eliminated
- ✓ All special business provisions repealed except for R&E credit and LIFO
- ✓ Corporate AMT repealed
- ✓ "Border adjustability" exempting exports and taxing imports
- ✓ Territorial tax regime and tax on previously untaxed accumulated foreign earnings

Border adjustment cash flow tax (BACFT) Principle

- The Blueprint transforms the current corporate income tax into a destination-based tax on domestic consumption and can best be described as resulting in a 20% “border adjusted” cash flow tax (BACFT).
- “Border adjusted” means the BACFT is applied to all domestic consumption and excludes any goods or services that are produced domestically but consumed elsewhere (i.e., excludes US exports from the tax base while including imports):
  - Cash flow from exports (i.e., US export sales) is excluded from the tax base.
  - Cash flow used to purchase imports is included in the tax base (e.g., no cost of goods sold (COGS) deduction).
  - The value-added taxes (VATs) imposed in most other countries are examples of border-adjusted taxes.

Border adjustment cash flow tax (BACFT) Mechanics

Border adjustments are a way to tax imports and refund (or credit) taxes paid on business purchases used in the production of exports. Under the BACFT, revenue from US export sales are not taxable, and the cost of imported goods and services are not deductible (or taxed separately).

Note: The arrows below are cash flow directional.

Purchases and expenses		US business		Sales receipts
Import	← No deduction		← Exempt	Export
Domestic	← Deductible		← Taxable	Domestic

Imports into US

- ✓ No COGS deduction associated with imported goods
- ✓ Cost of imported services not deductible

Domestic expenses

- ✓ Domestic expenses generally deductible
- ✓ Includes salaries/wages, capital expenditures, business expenses

Exports out of US

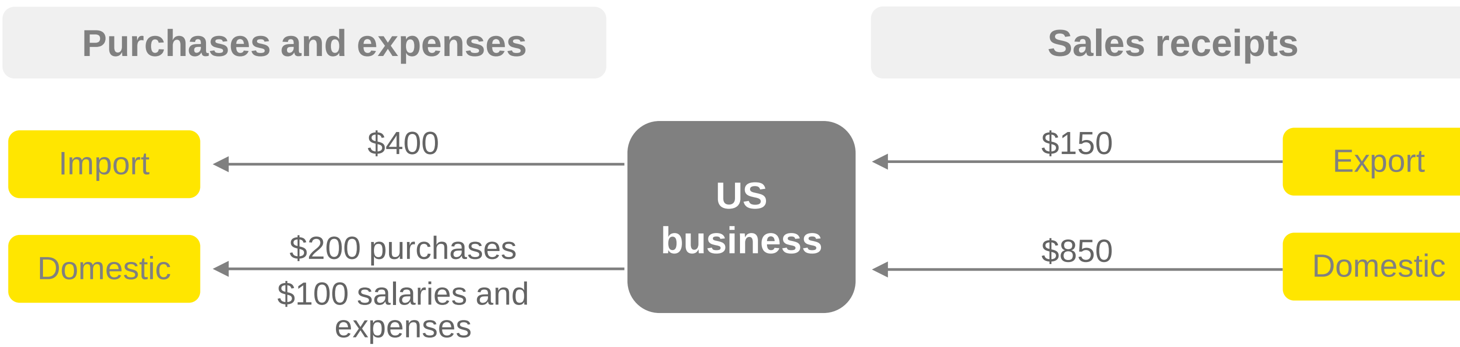
- ✓ No tax on revenue associated with exported product

Domestic sales

- ✓ Pay tax on revenue associated with product

Border adjustment cash flow tax (BACFT) Mechanics

<u>Note</u>: The arrows below are cash flow directional.



Current system

Income	$ 1,000
COGS	(600)
Expenses	(100)
Taxable income	$ 300
Tax rate	35%
Tax	$ 105

BACFT

Taxable receipts	$ 850
COGS	(200)
Expenses	(100)
Taxable base	$ 550
Tax rate	20%
Tax	$ 110

US trade developments

US trade developments
Withdrawal from TPP

- Trans-Pacific Partnership (TPP) is a Pacific regional trade agreement negotiated by 12 countries bordering the Pacific Ocean.
- To be effective, TPP requires ratification by the all participating countries, or by six countries including Japan and the US.
- TPP has only been ratified by Japan and New Zealand, so is not yet in effect.
- President Trump formally withdrew the US from TPP on January 23.
- The US already has free trade agreements with six of the TPP countries (Canada, Mexico, Chile, Australia, Peru, and Singapore). Those agreements remain in effect.
- The US does not have any current free trade agreement with the remaining five TPP countries (Japan, New Zealand, Vietnam, Malaysia and Brunei). Trade with those countries continues to be governed by the general US rules.

US trade developments
Renegotiate NAFTA

- On July 17, US Trade Representative (USTR) Robert Lighthizer has formally notified Congress and the public of the Trump Administration's objectives for the North American Free Trade Agreement (NAFTA) renegotiation.

- USTR Lighthizer noted, "The America that existed when NAFTA was signed is not the America that we see today," and while NAFTA provided much-needed market access for some, it also "created new problems for many American workers … [and] trade deficits [that] have exploded."

US trade developments
Renegotiate NAFTA

- The Administration is focused on addressing America's "persistent trade imbalances in North America" by promoting US exports
- Specific objectives to that end include:
  - a focus on non-tariff barriers (such as tariff rate quotas that limit access), and
  - "stronger" rules of origin to qualify goods for NAFTA preference to ensure that NAFTA benefits are given only to "products genuinely made in the United States and North America."

US trade developments
Preference for bilateral agreements

- Comments have been made by several members of the Administration to the effect that bilateral trade agreements are preferred over multilateral agreements
- Potentially presents opportunities for TPP members, and others to pursue new bilateral FTA with the US
  - Japan
  - Vietnam
  - Malaysia
  - UK
- Future of Transatlantic Trade and Investment Partnership (TTIP), the EU-US FTA under negotiation is unclear

US trade developments
Duty drawback

- Drawback permits refunds of customs duties, fees and taxes paid in connection with the importation of articles into the US when those articles, or like-kind articles, are exported or destroyed (subject to certain conditions)
  - Exports can include manufactured products in which imported articles, or a like-kind article, were used as a raw material or component

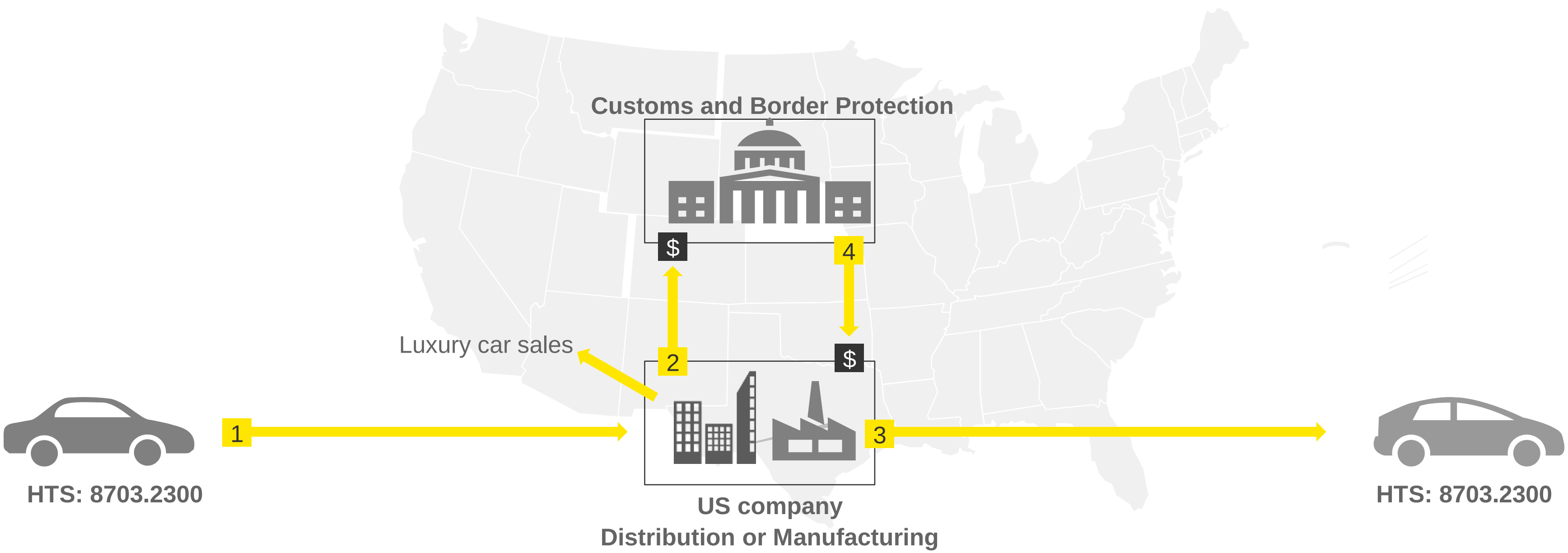
- Drawback refunds have a long history — the Tariff Act of 1789 permitted drawback on 99% of duties paid on imported merchandise if exported within a year

- Among the drawback simplifications enacted in 2016 are rules for determining “like kind” product for substitution drawback

- New rules determine “like kind” based on customs classification, permitting substitution when the Harmonized Tariff Number (HTS) of the import matches the export at the 8 digit level

- As an anti-abuse provision, refund on an import is limited by a hypothetical calculation of the duties, fees, and taxes that would have been paid on the exported product if it had been imported.

US trade developments
Duty drawback



1

Luxury vehicle imported by US company

- Import value: $50,000
- Duty rate: 2.5%

2

Customs duty paid

$50,000 x 2.5% =

Total duty: $1,250

3

Economy vehicle exported

Eight-digit HTSUS classification code is the same, based on engine size

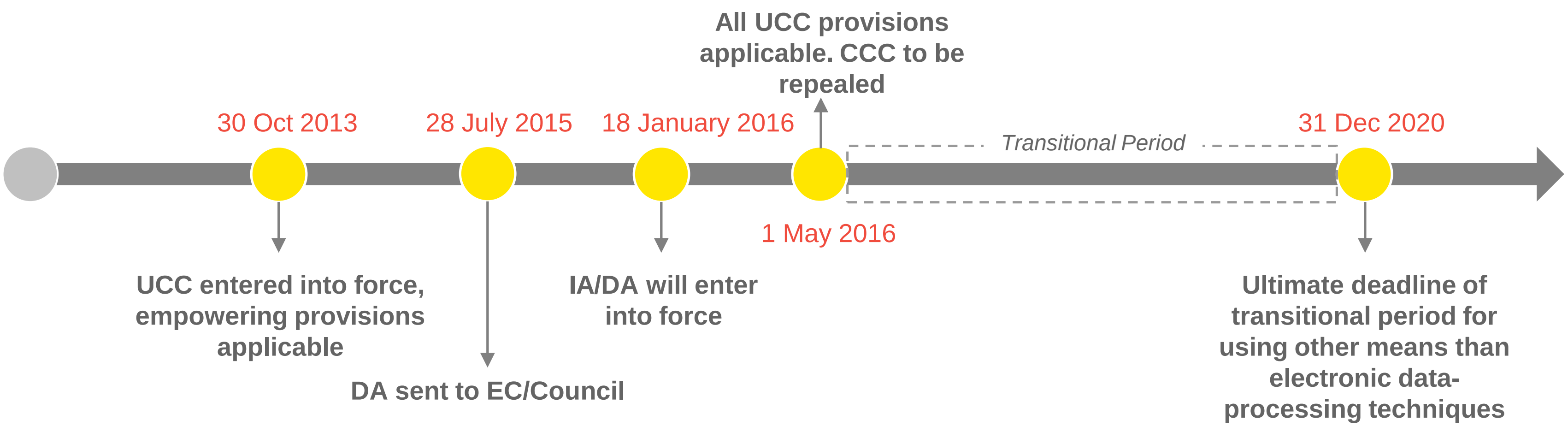
4

US company eligible for duty drawback

- Export value: $30,000 Duty rate: 2.5%
- Hypothetical duty limit: **$30,000 x 2.5%= $750**
- Drawback amount: **$742.50**
- Net impact: Duty liability reduced by 59.4%

Union Customs Code

Union Customs Code Timeline



Union Customs Code
Most notable UCC changes

- Value of goods for customs purposes
  - First sale, royalties and license payments, bonded warehousing

- Approved treatment and special procedures
  - From 5 customs approved treatments or use to 3:
    - Release for free circulation
    - Special procedures
    - Export
  - From 8 to 4 special procedures
    - Transit
    - Storage (bonded warehouse, free zone)
    - Processing (Inward and Outward processing)
    - Specific destination (special destination, temporary import)

Union Customs Code
Value of goods for customs purposes

- Customs value is a factor on the basis of which import duties are applied: **Customs Value X Duty Rate = Duties Payable**

- The WTO Customs Valuation Agreement provides the legal framework for determining the customs value, containing the following valuation methods:

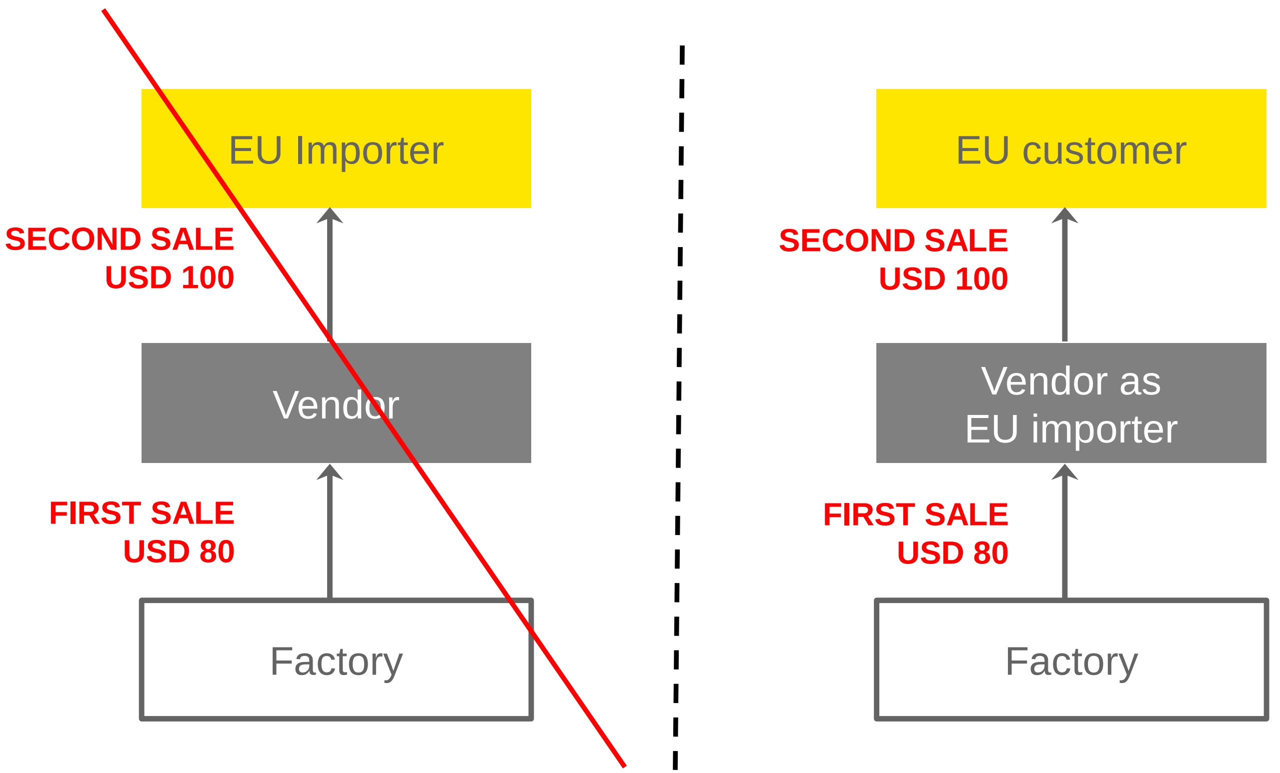
1. Transaction value
2. Identical goods
3. Similar goods
4. Resale minus
5. Computed value
6. Fall back

Union Customs Code
Value of goods for customs purposes

- Customs value is generally based on the transaction value of goods:
  - *"the price actually paid or payable for the goods when sold for export to the customs territory of the Community, adjusted, where necessary …"*
    - ***Included*** *in transaction value:*
      - *Commissions (except buying commissions), transport costs to place of introduction to the EU, assists, royalties & license fees*
    - ***Excluded*** *from transaction value:*
      - *Transport in the EC, Finance costs, Distribution rights, Buying commissions, Marketing activities, Discounts*
- The CCC allowed first sale but the UCC changed this rule to refer to the "Last Sale for Export"
- Transitional arrangement for existing first sale for export arrangements allowing application of first sale.

Union Customs Code
Value of goods for customs purposes

- Is there a first sale alternative?
  - Overseas entity as importer of record and register for VAT purposes



Union Customs Code
Royalties and license fees

- Royalties and license fees are included in the customs value to prevent the undervaluation of goods

- Payments in respect of patents, designs, trademarks, copyrights etc. are added to the price paid or payable if:

  - These elements are **related to the goods** being valued
  - The buyer must pay these elements, either directly or indirectly, as a **condition of sale**
    - If royalties or license fees are paid to a third party, these payments are currently only considered a condition of sale if the seller or a person related to the seller requires that payment to be made

Union Customs Code
Royalties and license fees

- Under the UCC, the "condition of sale" requirement is deemed to be met if:
  - The seller or a person related to the seller requires the buyer to make this payment; or
  - The payment by the buyer is made to satisfy an obligation of the seller, in accordance with contractual obligations; or
  - The goods cannot be sold to, or purchased by the buyer without payment of the royalties or license fees to **a** licensor.

- The third element seems to include a variety of situations and leaves ample room for interpretation:
  - Taxable scope seems to be increased under the UCC. As a consequence royalties which under current legislation are not added to the customs value, are under UCC likely to be added to the customs value.

Union Customs Code
Trademark royalties

- With regard to trademark royalties, the CCC provided an exception to the general treatment of royalties and license fees:
  - A royalty or license fee relating to trademarks only have to be included in the customs value of imported goods where the buyer is not free to source such goods from other suppliers unrelated to the seller
    - Hence, where the buyer is allowed to source freely, in the current practice many trademark related royalty / license fees are considered to be non dutiable
  - Trademark contracts often include a “freedom of source” clause which enables that trademark royalties do not have to increase the taxable scope
- This exemption is abolished under the UCC

Union Customs Code
Bonded warehouse

- Under the CCC, the type D and E customs warehousing procedures, it is currently allowed to import goods using the customs value at the moment the goods were introduced into the warehouse

- Under the UCC, the type D and E warehousing procedures will be abolished
  - A transitional period up to 1 January 2019 is available for goods placed under the type D warehousing procedure before 1 May 2016

- Where goods are sold for export into the EU from a customs bonded warehouse, the transaction value has to be determined <u>based on that sale</u>

Brexit

Brexit
Background

- Wednesday 29 March 2017, Theresa May has officially notified the EU Council of the UK's intention to withdraw from the EU

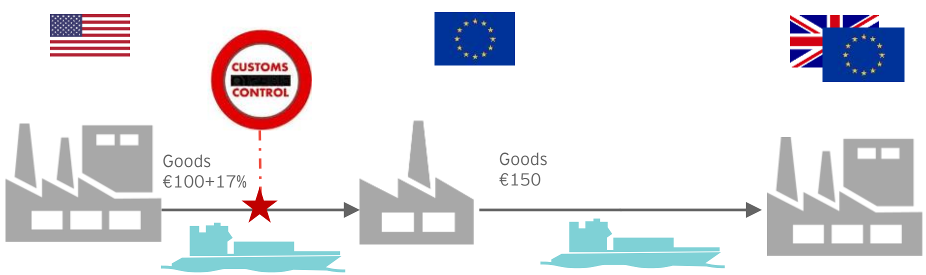
- This notice marks the beginning of a two year period in which the EU and the UK will negotiate and try to conclude agreements on the terms of leaving the EU and on the future relationship between them

- Official negotiations kicked of on 19 June 2017, and tough talks are expected

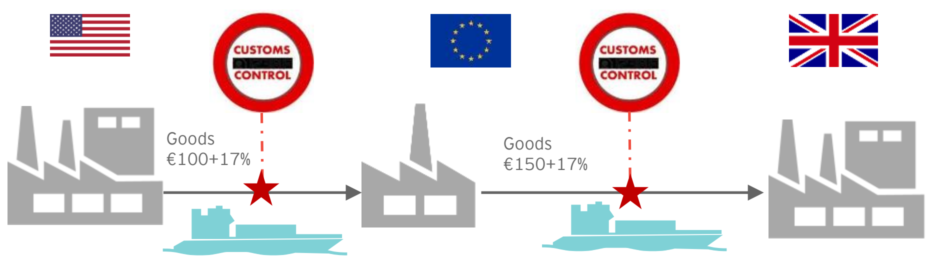
- The UK will officially leave the EU as of Monday April 1, 2019

Brexit Impact

1 Current state / pre-Brexit



2 Future state / post-Brexit



Scenarios

Customs Union	Free Trade Agreement	Third Country (WTO)
		

Brexit Impact

Scenarios

1 Customs Union

- No customs duties
- Additional customs formalities
- Import VAT, VAT formalities and VAT cash flow

Example: Turkey

2 Free Trade Agreement

- Additional customs duties
- Additional customs formalities
- Import VAT, VAT formalities and VAT cash flow

Examples: Switzerland, Norway, South Africa, Korea & Mexico

3 Third Country (WTO)

- Additional customs duties
- Additional customs formalities
- Import VAT, VAT formalities and VAT cash flow

Example: Russia, USA, Japan, China

Brexit
Customs implications

	**Customs duties**	► The scenarios of Free Trade Agreements (FTAs) and WTO result in the levying of customs duties ► WTO-scenario results in an average of 3% import duties (non-refundable)
	Administrative costs	► All scenarios result in additional administrative costs ► Higher product costs are expected: WTO +13%, FTA + 6%
	**Imports / Exports**	► Every EU-UK/UK-EU transfer of goods will result in import and export ► In all scenarios this will result in customs formalities (delays and costs)
	EU FTAs	► All EU-FTAs are no longer applicable for the UK ► UK needs to negotiate new FTAs, this generally takes a long time
	EU origin	► UK Products will lose EU origin ► Products predominantly from UK components no longer qualify for EU FTAs
	Customs valuation	► Application of customs valuation rules will be necessary ► Inclusion of royalties, R&D costs etc in customs value may be necessary
	EU Licenses / Authorisations	► Customs licenses / authorisations (e.g. license for export) will not be available for UK entities
	UK Distribution center	► Most EU-FTAs require direct transport to the EU ► If goods are transported via a UK distribution center, it may not always possible to benefit from the EU FTA

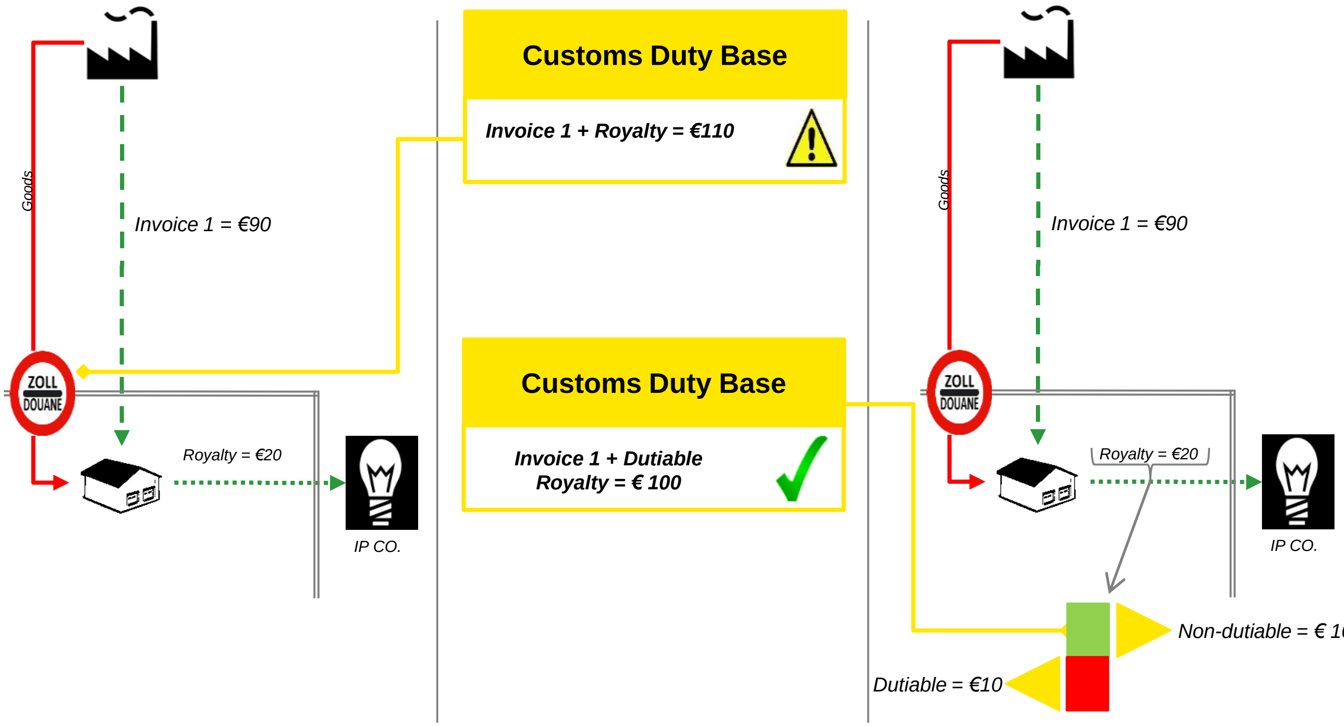
Brexit
VAT implications

Import VAT	► Contrary to VAT on intra-Community Trade, import VAT is always due and must be financed. ► Some countries have facilitations to off-sett import VAT (e.g. NL), however foreigners must have a fiscal representative and/or set a bankguarantee
EU VAT refunds	► Normal refund procedures no longer apply, EU countries can invoke reciproxity and put additional requirements on VAT refunds, so can the UK.

Movement of own goods	► Every EU-UK/UK-EU transfer of goods will be imports and exports resulting in VAT and customs formalities (delays and costs) ► Impact for semi-finished goods, repairs, consignments, research and similar activities in the UK.
eCommerce and distance sales	► UK based or registered entities may no longer use the EU simplifications (e.g. Mini One Stop Shop VAT registration) – new VAT reporting needs to be set-up
Administration abroad	► EU based companies may face limitations to keep administration in the UK. ► Impact on UK shared service centers and headquarters.
Financial services	► Material impact on partial VAT deduction right for UK banks operating in Europe and vice versa
Legal certainty	► EU law and jurisprudence will no longer be binding resulting in uncertainty and potential deviations of rates, VAT treatments of transactions and industries. ► No protection against double taxation (VAT)
Real borders	► Northern Ireland-Ireland, Dover-Calais and Gibraltar-Spain will have real land borders and border control
Effective Use and enjoyment	► Services between EU and UK may attract (irrecoverable) local VAT based on Effective Use and Enjoyment rules

Appendix
Case studies

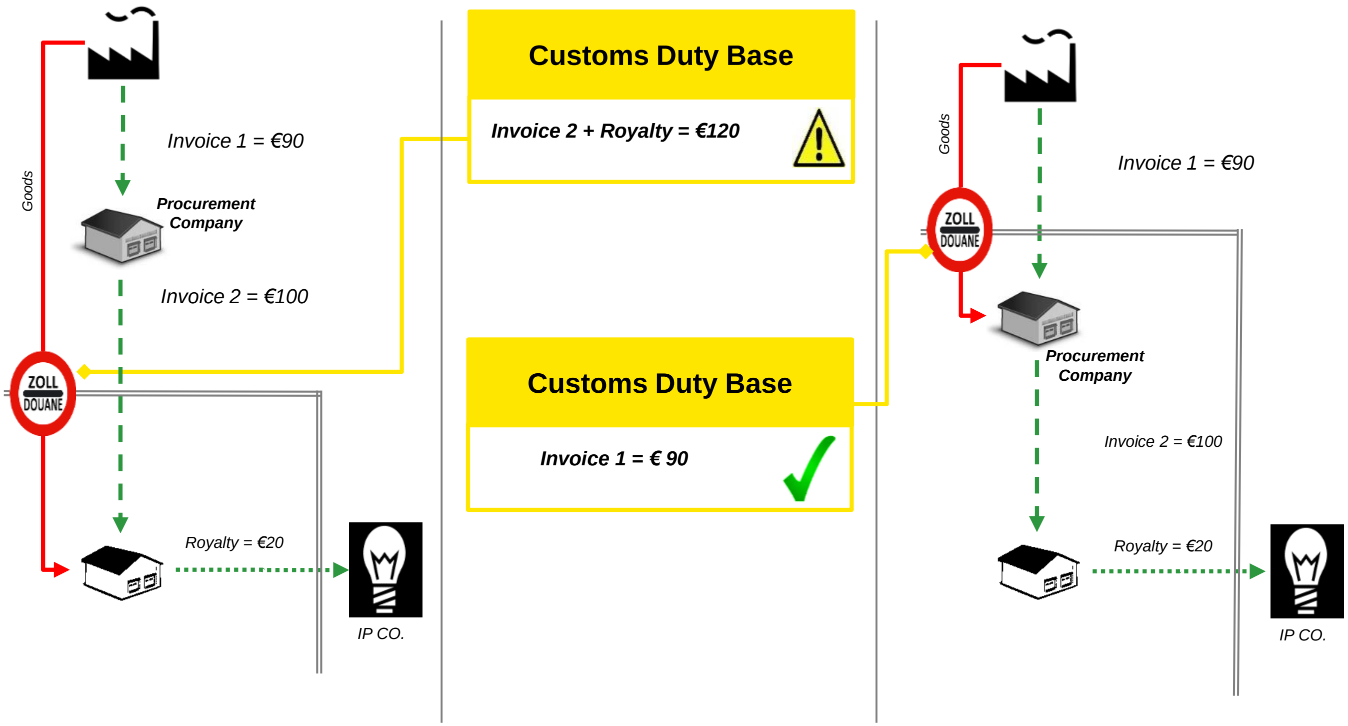
Case study: Alternatives to consider Bifurcation of royalty



Considerations:

- No need to adjust operating model or transactional flow.
- An analysis will need to be performed to determine the dutiable and non-dutiable components of the royalty.
- In the majority of cases a component of the royalty will always remain dutiable.

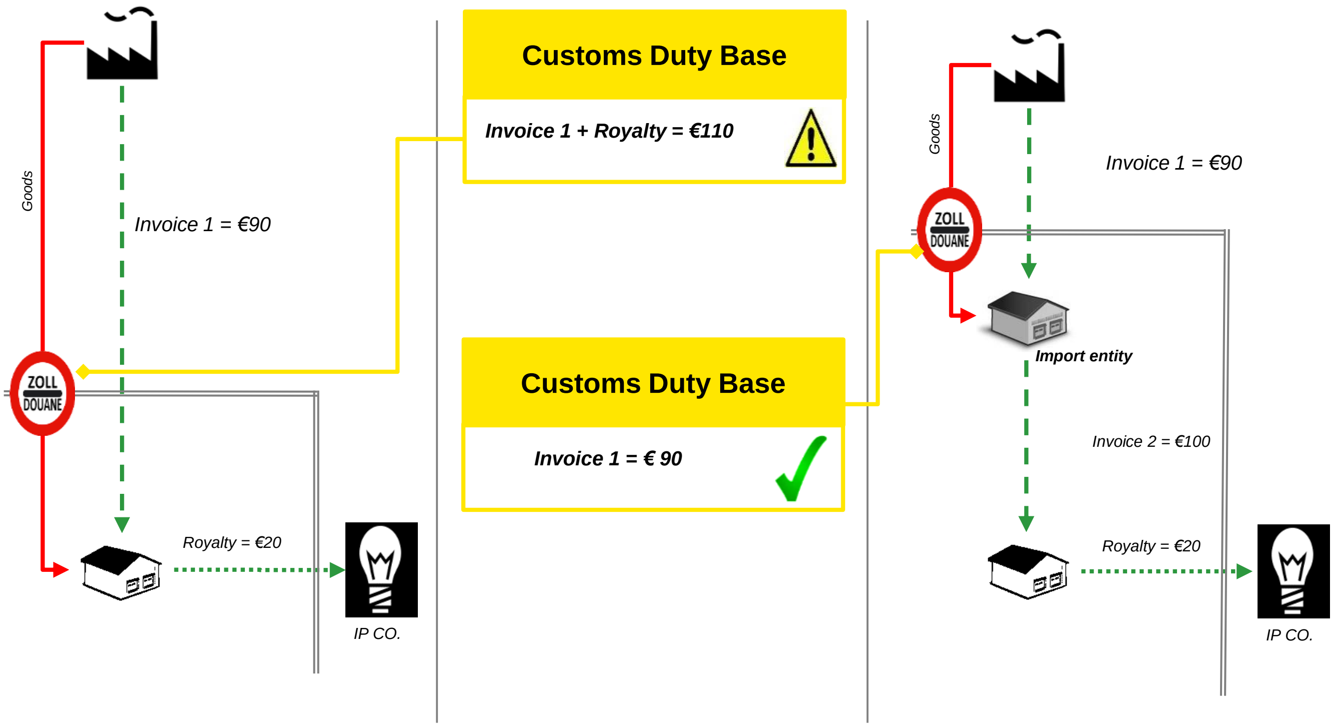
Case study: Alternatives to consider
Buy/sell procurement company imports



Considerations:

- Import function would need to be shifted.
- Potential impact on IT requirements.
- Business impact limited.
- Limited operating model considerations.

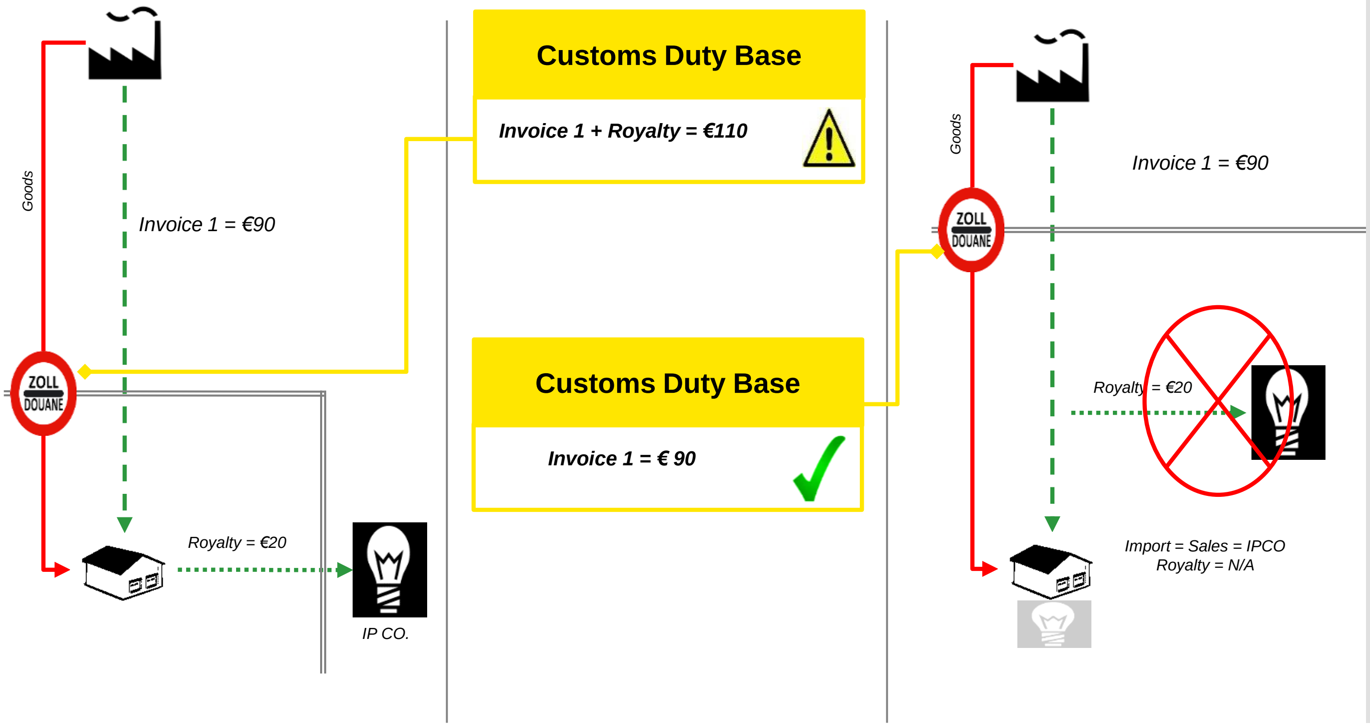
Case study: Alternatives to consider
New import entity



Considerations:

- Import entity / trading company would need to be established.
- Import function would need to be shifted.
- Low/medium impact on the business.
- Medium operating model considerations, including IT, tax and transfer pricing

Case study: Alternatives to consider
Onshore IP Co



Considerations:

- Medium/high operating model impact.
- No or limited impact on legal structure, limited IT impact
- Requires shift in IP/risk management functions
- Local country tax impact of IP movement
- Specific structure of IP transfer to be determined

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27 July 2017

Tax Reform Statement Released by 'Big Six' Negotiators

The "Big Six" group of Administration and congressional negotiators today (July 27, 2017) issued a statement on tax reform that largely affirms previously stated goals for the effort but newly states that the group will not be considering the House border adjustability proposal.

"While we have debated the pro-growth benefits of border adjustability, we appreciate that there are many unknowns associated with it and have decided to set this policy aside in order to advance tax reform," said the joint statement by House Speaker Paul Ryan (R-WI), Senate Majority Leader Mitch McConnell (R-KY), Treasury Secretary Steve Mnuchin, National Economic Council Director Gary Cohn, Senate Finance Committee Chairman Orrin Hatch (R-UT), and House Ways and Means Committee Chairman Kevin Brady (R-TX).

The group said they have always been in agreement that "tax relief for American families should be at the heart of our plan," which should also provide "a lower tax rate for small businesses so they can compete with larger ones, and lower rates for all American businesses so they can compete with foreign ones." The statement said the goal is a plan that reduces tax rates as much as possible, allows "unprecedented" capital expensing, places a priority on permanence, and encourages US companies to bring back jobs and profits from overseas.

"And we are now confident that, without transitioning to a new domestic consumption-based tax system, there is a viable approach for ensuring a level playing field between American and foreign companies and workers, while protecting American jobs and the U.S. tax base," the group said.

The statement said "the time has arrived for the two tax-writing committees to develop and draft legislation that will result in the first comprehensive tax reform in a generation." They expect the legislation to move through the committees this fall, "under regular order, followed by consideration on the House and Senate floors."

The statement was released as the House is preparing to go out of session for the August recess; the Senate is planning to stay in session longer.

The statement is attached.

Joint Statement on Tax Reform

July 27, 2017

WASHINGTON, D.C. – Today, House Speaker Paul Ryan (R-WI), Senate Majority Leader Mitch McConnell (R-KY), Treasury Secretary Steven Mnuchin, National Economic Council Director Gary Cohn, Senate Finance Committee Chairman Orrin Hatch (R-UT), and House Ways and Means Committee Chairman Kevin Brady (R-TX) issued the following joint statement on tax reform:

> *"For the first time in many years, the American people have elected a President and Congress that are fully committed to ensuring that ordinary Americans keep more of their hard-earned money and that our tax policies encourage employers to invest, hire, and grow. And under the leadership of President Trump, the White House and Treasury have met with over 200 members of the House and Senate and hundreds of grassroots and business groups to talk and listen to ideas about tax reform.*
>
> *"We are all united in the belief that the single most important action we can take to grow our economy and help the middle class get ahead is to fix our broken tax code for families, small business, and American job creators competing at home and around the globe. Our shared commitment to fixing America's broken tax code represents a once-in-a-generation opportunity, and so for three months we have been meeting regularly to develop a shared template for tax reform.*
>
> *"Over many years, the members of the House Ways and Means Committee and the Senate Finance Committee have examined various options for tax reform. During our meetings, the Chairmen of those committees have brought to the table the views and priorities of their committee members. Building on this work, as well as on the efforts of the Administration and input from other stakeholders, we are confident that a shared vision for tax reform exists, and are prepared for the two committees to take the lead and begin producing legislation for the President to sign.*
>
> *"Above all, the mission of the committees is to protect American jobs and make taxes simpler, fairer, and lower for hard-working American*

families. We have always been in agreement that tax relief for American families should be at the heart of our plan. We also believe there should be a lower tax rate for small businesses so they can compete with larger ones, and lower rates for all American businesses so they can compete with foreign ones. The goal is a plan that reduces tax rates as much as possible, allows unprecedented capital expensing, places a priority on permanence, and creates a system that encourages American companies to bring back jobs and profits trapped overseas. And we are now confident that, without transitioning to a new domestic consumption-based tax system, there is a viable approach for ensuring a level playing field between American and foreign companies and workers, while protecting American jobs and the U.S. tax base. While we have debated the pro-growth benefits of border adjustability, we appreciate that there are many unknowns associated with it and have decided to set this policy aside in order to advance tax reform.

"Given our shared sense of purpose, the time has arrived for the two tax-writing committees to develop and draft legislation that will result in the first comprehensive tax reform in a generation. It will be the responsibility of the members of those committees to produce legislation that achieves the goals shared broadly within Congress, the Administration, and by citizens who have been burdened for too long by an outdated tax system. Our expectation is for this legislation to move through the committees this fall, under regular order, followed by consideration on the House and Senate floors. As the committees work toward this end, our hope is that our friends on the other side of the aisle will participate in this effort. The President fully supports these principles and is committed to this approach. American families are counting on us to deliver historic tax reform. And we will."

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