SAF
SOCIETY of AMERICAN FLORISTS
Your Growth is Our Business

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TAX REFORM AFFECTING THE FLORAL INDUSTRY

Congress must recognize the distinctive position of floral industry businesses and draft a tax reform plan that does not unintentionally harm businesses and consumers throughout the country.

SAF's "ASK"

> ***Support comprehensive tax reform by simplifying the tax code and reducing rates, but exclude imported floral agricultural products from a border adjustment tax.***

WHAT IT IS:

America's outdated and complex tax code stifles economic growth and job creation.

The federal tax code contains 2.4 million words and there are about 7.7 million words of tax regulations. In addition, there are almost 60,000 pages of tax-related case law. Studies show that Americans spend over 8.9 billion hours annually complying with the tax code.

The last time comprehensive tax reform was signed into law in the United States was over 30 years ago. Since that time, other countries have reduced their tax rates, simplified their codes, and updated their systems to be globally competitive. However, the U.S. tax code has almost tripled in size from 26,000 pages to 70,000 pages and has failed to adjust to global tax competition.

A major issue on which President Trump campaigned was tax reform noting his goals were to provide tax relief to the middle class, simplify the tax code and grow the economy.

House Republicans developed a blueprint for reform to make the tax code "simpler, fairer, and flatter" by eliminating "loopholes," lowering overall tax rates and making America's tax system competitive with other countries.

One of the major provisions of the House Republican blueprint is a "border adjustment" tax. The provision would eliminate the ability of American businesses to deduct the cost of goods sold for imported products while eliminating taxes on American-produced goods that are exported.

In addition, the corporate tax rate would be reduced to 20% or lower from the current 35% rate, which is currently the highest in the developed world.

The House Republican tax plan would also change our system to one that is “territorial” rather than “international” so that profits earned overseas would not be double taxed when they are repatriated to the U.S. as they are now.

The intent of that change combined with a lower tax rate is to make the U.S. tax system more globally competitive while eliminating the incentives for companies to keep an estimated $2.6 trillion in profits overseas. U.S. companies would no longer see a need to shift profit offshore, because their profit wouldn’t be taxed a second time in the U.S. after it was first taxed overseas.

Here’s how the proposed border adjustment would be applied to two companies:

Company A does all of its business in the United States. Company B imports all of its goods and sells them in the United States. For simplicity, both companies have $100 in revenue, $60 in costs of goods sold, and $40 in profit. The businesses pay a tax rate of 20 percent which is $8, leading to an after-tax income of $32.

Under the current tax model, all else being equal, both companies pay the same tax. Under the House Republican proposal, a border adjustment would eliminate the deduction for the costs of imported goods and exempt sales of exported goods.

Company A would continue paying the same amount in taxes, since they do not import or export any products.

Company B, which imports all goods and sells domestically, would be unable to deduct its costs of goods sold. Therefore, the company would be taxed on its entire revenue of $100, paying $20, a tax increase of 150%.

Under the border adjustment proposal, economists predict that the U.S. dollar will appreciate, which, according to Republicans, will stabilize the effects of the tax changes and lead to less expensive input costs for Company B.

Lowering the tax rate is tied to border adjustability because the tax revenue lost in rate reduction would be offset by new revenue obtained from the taxation of imports. Without border adjustability, rates could not be reduced under the House Republican plan.

<u>WHERE IT IS:</u>

Concerns have been raised by groups like the Americans for Affordable Products, which includes retail associations like the National Retail Federation, retailers like Walmart, Best Buy, Walgreens, and others about the impact of the border adjustment tax.

Those groups believe that the cost of household products such as food, clothing and medicine will increase by more than $1,700 a year and that gasoline prices will rise by 35 cents a gallon.

The Tax Foundation strongly differs with those assessments. It points out that the U.S. ranks 31st in tax competitiveness among the 35 countries in the Organization for Economic Cooperation and Development (OECD) due to our tax code.

The foundation states that border adjustability would not raise prices for U.S. consumers in the long run, citing economists who assert that a border adjustment would lead to a much stronger U.S. dollar. That, in turn, would make it cheaper to import goods, and would offset the higher taxes on imports, leaving importers and their customers unharmed.

Groups supporting border adjustability, such as the Alliance for Competitive Taxation and the American Made Coalition, note that the U.S. tax system penalizes American companies and workers and puts them at a significant disadvantage.

Members of those groups include General Mills, Dow Chemical, Caterpillar, Coca-Cola, and others.

They want significant tax reform that simplifies the tax code, lowers tax rates, and modernizes our tax system to make American businesses competitive internationally, spur growth, and create jobs.

House Republicans, Senate Republicans and the Trump Administration are all interested reforming our tax code. However, they are not in complete agreement on specifics. While they agree that simplification and rate reduction are needed, they have not yet agreed to include border adjustability in reform.

WHAT TO SAY:

The U.S. has the highest corporate income tax among the leading industrialized nations.

Studies show that Americans spend almost 9 billion hours complying with a tax code that is 70,000 pages long, costing more than $400 billion per year.

Simplifying our tax code and reducing rates is critical to economic growth and job creation.

About 80 percent of the flowers sold in the U.S. are grown overseas, and imports are critically important to the health of the industry and the success of U.S. small businesses across the country. Domestic flower production is an essential part of the U.S. floral industry and is an important source of flowers for retail florists nationwide. But domestic production alone cannot meet current demand.

Dramatically increasing the tax on imported flowers will hurt America's floral industry. This is especially true for small Main Street retailers that already operate on very small profit margins.

Tax reform that will promote economic growth and job creation must exclude imported floral agricultural products from a border adjustment tax.

YOU MIGHT HEAR:

"A border adjustment tax is critical to reducing overall rates which will spur economic growth and employment."

- **We are not experts in tax policy. However, we are experts at our business. We operate on a very narrow profit margin and a significant tax increases on our primary products will be devastating. In an industry where many florists are struggling to make a profit, this would send many out of business. Excluding those goods from higher taxes will serve the goal of growing our economy and creating jobs.**

"If imported flowers become too expensive, domestic growers will meet market demand."

- **There is simply not the domestic capacity to replace imported flowers. There is no domestic option to entirely replace the industry's reliance on imported goods. Floral retailers depend on imported products to meet even those basic needs.**

"Consumers will just pay the higher prices for flowers."

- **Flowers are not a necessity like food or housing. If our products are taxed at a higher rate, those costs will translate to higher prices. Consumers may choose to shift their spending on other things where flowers have traditionally been appropriate. As a result, businesses will close and people will lose their jobs. Small Main Street shops are the most vulnerable.**