Fiscal Affairs Department

# THE DESTINATION-BASED CASH FLOW TAX—A PRIMER

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# How it would work

"Cash flow" means:

- Immediate expensing of investment (instead of depreciation)
- No interest deduction

Base of DBCFT is thus 'rents' (= profits in excess of minimum required)

"Destination-based" means:

- 'Border tax adjustment" (BTA) Imports are taxed, exports not taxed

# Key things to remember

- Not a tariff! Domestic sales taxed same as imports
- Equivalent to broad-based (subtraction) VAT plus wage subsidy at the same rate
- To get to DBCFT from 'standard' corporate tax:
  - Remove tax on normal return
  - Border adjust: move tax base from production to consumption

# Adjustment to BTA

In simplest case, no real effects. Either:

- Exchange rate appreciates
  - Lower cost of imports offsets the tax imposed
  - Lower receipts in domestic currency offsets removal of tax
- Increase in all prices
- Or some combination

Many qualifications….

# Things to like about the DBCFT

- Eliminates debt bias
- Does not distort level or location of investment
- Eliminates whole range of avoidance (BEPS) possibilities
  - e.g., Currently, if country A has higher statutory rate than B, set artificially low price for exports from A to B ….but under DBCFT, export price irrelevant in both A (not taxed) and B (not deductible)

# Some issues

- Inconsistency with WTO and, perhaps, tax treaties

    —but not for VAT-based approach

- BEPS problems lightened for adopter, but worsened for non-adopters

- Treatment of losses: principle clear but risk of fraud/adverse perception

- Many design issues…