CLIFFORD CHANCE VIEW:

WHY THE BORDER ADJUSTMENT TAX CAN BE A TARIFF, BUT VAT CAN'T

	VAT	BAT/DBCFT
DOMESTIC		
	VAT – domestic sale of goods Sells goods for 50 plus 10 of VAT → Sells goods for 100 plus 20 of VAT → **Overall VAT: 20** Pays VAT of 10 Pays VAT of 10 (20 output -10 input)	**DBCFT – domestic sale of goods** Labour cost 10 Sells goods for 50 → Labour cost 40 → Sells goods for 100 → **Overall DBCFT: 10** Pays DBCFT of 8 (20% of 50-10) Pays DBCFT of 2 (20% of 100-50-40)
	VAT – imported goods sold domestically Sells goods for 50 10 VAT @ customs → Sells goods for 100 plus 20 of VAT → **Overall VAT: 20** Pays VAT of 10 (20 output -10 input)	**DBCFT – imported goods sold domestically** Labour cost 10 Sells goods for 50 → Labour cost 40 → Sells goods for 100 → **Overall DBCFT: 12** Pays DBCFT of 12 (20% of 100-40)
	VAT – direct import of goods to consumer Sells goods for 50 → Sells goods for 100 20 VAT @ customs → **Overall VAT: 20**	**DBCFT – direct import of goods to consumer** Labour cost 10 Sells goods for 50 → Labour cost 40 → Sells goods for 100 → **Overall DBCFT: 20** Import DBCFT: 20
EXPORT		
	VAT – exporting goods with domestic supply chain Sells goods for 50 plus 10 of VAT → Sells goods for 100 No VAT → **Overall VAT: zero** Pays VAT of 10 VAT refund of 10 (zero output -10 input)	**DBCFT – exporting goods with domestic supply chain** Labour cost 10 Sells goods for 50 → Labour cost 40 → Sells goods for 100 → **Overall DBCFT: credit of 10** Pays DBCFT of 8 (20% of 50-10) DBCFT credit of 18 (20% of zero-50-40)
	Sells goods for 50 10 VAT @ customs → Sells goods for 100 No VAT → **Overall VAT: zero** VAT refund of 10 (zero output -10 input)	**DBCFT – exporting goods with foreign supply chain** Labour cost 10 Sells goods for 50 → Labour cost 40 → Sells goods for 100 → **Overall DBCFT: 2** Import DBCFT: 10 DBCFT credit of 8 (20% of zero-40)

Domestic **Foreign**

Examples assume no exchange rate adjustment.
Other assumptions: rate 20%, prices/labour costs remain static, all payments in same period, all transactions fully taxable

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