Border Adjustment Tax

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Why in News

Recently, a **NITI Aayog** member has favoured imposing a **Border Adjustment Tax** (BAT) on imports to provide a level-playing field to domestic industries.

- This suggestion comes in the backdrop of the **USA-China trade tensions** (**trade war**) which are expected to rise even further **post-Covid-19.**

Key Points

- **BAT** is a duty that is proposed to be **imposed on imported goods in addition to the customs levy that gets charged at the port of entry.**
- BAT is a **fiscal measure** that imposes a charge on goods or services in accordance with the **destination principle of taxation.**
  - Under this principle, a government taxes products based on the location of their sale to the final consumer rather than on the location of their production or origin.
- Thus, to adjust a tax **"at the border,"** a country:
  - taxes imported products and domestically produced products sold on its market on the same basis and at the same rate; and
  - exempts from this tax products exported for sale to foreign consumers.
- Generally, BAT seeks to **promote "equal conditions of competition"** for foreign and domestic companies supplying products or services within a taxing jurisdiction.
- The **World Trade Organisation** (WTO) rules allow for the adjustment of certain types of internal taxes at the border under certain conditions. The main conditions are:
  - The tax must be applied equally to imports and "like" domestic products.
  - The tax must be "borne" by a product and not be "direct".
  - A permitted border tax adjustment must not subsidize exports.

- **Impact of BAT on trading partners:**
    - At the macro level, with imports reduced and exports increased, a country can cut its trade deficit.
    - If a country is a major export market for many developing countries, the tax plan will have serious adverse effects on them after implementation.
    - BAT may render some firms less profitable and if the prices are forced upwards they may lose competitiveness with substitute products or locally-made similar products.
- Various taxes such as electricity duty, mandi tax, clean energy cess and royalty are **imposed on domestic goods leading to the escalation of price.** This **gives imported goods a price advantage** in India.
    - Complaints have always been raised by Indian industries about such domestic taxes that get charged on domestically produced goods as these duties get embedded into the product.
    - However, many imported goods do not get loaded with such levies in their respective country of origin and this gives such products a price advantage in India.
- It was highlighted that advocating self-reliance under **Atmanirbhar Bharat** vision, **should not imply that India would embrace isolationist policies.** India has to go global but with a supply chain which is more local.