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ECONOMY

To Understand a Tax on Mexican Imports, Consider the Avocado

By KEITH BRADSHER JAN. 27, 2017

Enjoy the guacamole as you watch the Super Bowl on Feb. 5. Some of the ingredients might be a little more expensive next year.

House Republicans and President Trump have been talking about imposing a 20 percent tax on imported goods, with a White House spokesman suggesting on Thursday that such a tax might start with goods from Mexico. With the tax, the price for some heavily imported items could go up. But other foods produced mainly in the United States might become slightly cheaper.

While many details remain unclear, here are a few indications of how the tax might work and how it would affect prices in the fruit and vegetable aisle at the supermarket.

Chances are good that the avocados you eat come from Mexico.

A third of all avocados eaten by Americans are grown in the United States and the rest are imported. More than nine of every 10 imported avocados come from Mexico, while most of the rest come from Chile, Peru and the Dominican Republic.

The average retail price of an avocado varies considerably. Prices can creep up toward $1.50 for the Super Bowl and Fourth of July, the two biggest spikes in demand. The retail price falls toward $1 apiece around Christmas, as demand falters but the trees, grown in mild, subtropical climates, keep producing. Organically grown avocados have been commanding a premium of about 30 percent lately, a premium that has widened over the last few years.

You may bear the brunt of a tax on imported avocados — but not necessarily by how much you may think.

The tax would not end up being 20 percent of a $1 to $1.50 avocado, which would be 20 to 30 cents. That is because the import tax would only be on what is known a the dutiable value — the wholesale price of the avocado assessed when it crosses the border.

That does not include the cost of trucking it from the border to a grocery store in the United States, the store's rent, the store's bills for air-conditioning and other utilities, or the wages for the store's staff. None of these costs would be subject to the tax, but can help determine the retail price of the avocado.

For the first 11 months of last year, the average wholesale price of avocados crossing the border was 50 cents apiece.

So a 20 percent tax on that wholesale price at the border would only add a dime to the cost of each avocado.

It takes four or five years for a newly planted avocado tree to bear fruit. If an import tax were to be imposed on foreign avocados, American farmers could not increase production quickly. That means many Americans might have to pay for taxed avocados imported from Mexico and elsewhere for a few years, or potentially do without.

Guacamole does not just consist of avocados: don't forget the onions, which may benefit from a border tax.

That is right — a good guacamole needs onions, lime juice and a few other ingredients as well. Just look at onions.

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Seven out of eight onions eaten by Americans are grown in the United States. They also tend to be grown by companies — even the smaller-scale onion farmers tend to incorporate their farms — so they owe corporate tax.

That is notable because various plans being circulated call for a border tax to be used to help reduce the corporate profits tax.

Right now, the corporate profits tax is 35 percent. Multinationals like Apple actually pay a lot less, in part because much of their profits are held offshore. That is harder for an onion farmer to do, although there are tax breaks for farmers.

With those qualifiers, the introduction of a border tax is expected to produce enough revenue to offset the losses from lowering the tax on corporate profits to 25 percent, 20 percent or even 15 percent, depending on the proposal. That would ultimately help cut the tax bill for onion farmers.

The whole idea behind the House Republicans' plan is that companies producing in the United States should pay lower taxes, so those companies can hire more workers. The tax burden would be shifted toward importers, but also toward people who buy imported goods.

Would America's onion farmers share their tax savings?

Companies tend to pass on the cost of taxes to consumers, while pocketing any tax savings, when there are only a few businesses in the industry and limited competition. The opposite can also be true: companies in highly competitive industries tend to pay extra taxes out of their own profits, because raising prices might result in lower market share. In those cases, they tend to pass on tax savings to consumers.

Onion farmers might also use their tax savings to hire more workers and export more. The United States imports a few more onions than it exports, but most onion farmers simply grow for the domestic market. A corporate tax cut linked to a border tax might prompt them to expand globally, which is the whole idea behind a border tax.

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So how much will your guacamole cost for next year's Super Bowl?

That is tough to predict, and also depends on inflation and other factors, not just the border tax. The odds are that a border tax would drive up the cost of guacamole, because avocados, not onions, account for most of the cost of making it, and most avocados are imported. But the details of the tax, and how markets respond to it, will also make a big difference.

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