NATIONAL ASSOCIATION OF
Manufacturers

Chris Netram

Vice President
Tax and Domestic Economic Policy

September 24, 2018

The Honorable Orrin Hatch
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch and Ranking Member Wyden:

The National Association of Manufacturers (NAM) is the nation's largest industrial trade association and a voice for more than 12 million men and women who make things in America. The NAM supports tax policies that grow the manufacturing economy and appreciates the work that your Committee has done to increase the competitiveness of the United States. I urge the Committee to continually examine our tax code and respectfully request that you consider key policies that could make manufacturers in America even more competitive.

The Tax Cuts and Jobs Act ("TCJA") included many key reforms necessary to boost manufacturing in America: a lower corporate tax rate, a reduced tax burden on pass-through business income, the preservation of the R&D tax credit, adoption of a modern territorial tax system and incentives for investment in capital equipment. As a result, confidence is high for manufacturers. The NAM's quarterly Manufacturers' Outlook Survey has measured key data in the industry for two decades. Immediately after the passage of tax reform, manufactuers' optimism reached the highest level in the survey's history. Moreover, when the NAM asked manufacturers about their post tax reform plans, 86 percent said that would increase investment in their business, 77 percent said they would hire more workers and 72 percent said they would increase wages and benefits. In short, the men and women of manufacturing are using tax reform's benefits to grow the economy, create more jobs and provide increased prosperity for hardworking families – just like they said they would.

Clearly, a more competitive tax code benefits manufacturers and manufacturing workers. So, with an eye to keeping this momentum going, here are five key steps that Congress can take to further boost manufacturing.

1. **Make permanent, and consider increasing, the new 20 percent deduction for business income earned through a pass-through entity.** Making the pass-through deduction permanent would provide certainty to many small businesses. The NAM notes that this new provision provides the largest possible benefit to industries that invest in capital equipment and provide reasonable wages to their workers – in other words, manufacturers. Industry-wide, U.S. manufacturing workers earn more than $84,000 per year, include pay and benefits. Nearly two-thirds of manufacturers are organized as pass-through entities; making the new deduction permanent and further increasing the amount of the benefit would allow manufacturers to provide well-paying jobs for years to come.

2. **Further reduce the corporate rate to make America an even more attractive place to invest.** As a result of the TCJA, the U.S. statutory corporate tax rate moved from the worst among advanced economies to slightly better than average. Further reducing the tax burden on manufacturers organized as corporations would create favorable conditions for additional investment, which benefits the overall economy. Manufacturing has the highest multiplier effect of any economic sector. For every $1.00 spent in manufacturing, another $1.81 is added to the economy. Some analysts suggest that this multiplier effect could be significantly larger, concluding that hiring one manufacturing employee creates an additional 3.4 jobs elsewhere in the economy.

3. **Roll back provisions that make research more expensive.** Our tax code should reflect the longstanding, bipartisan commitment to ensuring that the United States remains a leader in global innovation. For decades, costs associated with performing research were immediately deductible. However, the TCJA changed a key provision in the tax code, requiring R&D expenses to be amortized over a period of years. These changes take effect in 2022, and would increase the cost of research. Research is the lifeblood of manufacturing; new products, new materials and new processes help drive American manufacturing forward. As an industry, manufacturers perform more than three-quarters of all private sector R&D in the U.S. In 2014 alone, manufacturers spent nearly $230 billion on research. Making it more costly to innovate in the United States will inevitably harm manufacturers.

4. **Ensure that key incentives for capital equipment purchases remain in the tax code.** By its nature, manufacturing is a capital-intensive industry. The TCJA provides ability to immediately deduct capital expenditures (often referred to as “full expensing” or “bonus depreciation”), which significantly reduces the cost of acquiring machinery and equipment. Unfortunately, bonus depreciation begins to phase out in 2023. Not only should Congress make this provision permanent, it should do so as soon as possible. Years can pass between the time a company decides to purchase a complex piece of machinery and the time it is delivered and placed in service. Given this potentially long lead time, early action is critical for manufacturers.

5. **Prevent changes to the deductibility of interest expense from taking effect.** Capital equipment purchases can be a significant cost for many manufacturers, particularly for smaller entities. Oftentimes, manufacturers must incur debt to make such large purchases. Starting in 2022, it will become more expensive to debt-finance these critical investments. In that year, amendments made to Section 163(j) are scheduled to take effect that would limit the base of earnings from which allowable interest deductions are calculated. These changes would hurt manufacturing more than many other industries. Under current law, interest deductions are limited to 30 percent of a company’s earnings. Depreciation and amortization – expenses related to capital equipment that manufacturers use in their daily operations – are “added back” to determine the earnings base. Starting in 2022, depreciation and amortization are excluded from the earnings base, which limits available interest deductions for industries that invest heavily in machinery. This change would increase the cost of financing equipment purchases and impose a financial burden on manufacturers.

More than 30 years passed between the Tax Reform Act of 1986 and enactment of the TCJA. In the intervening decades, our tax code became a drag on American businesses. This is why we ask Congress to continually re-assess the competitiveness of our tax system.

As part of that analysis, we also ask that you examine whether wholly new provisions of the TCJA are having their desired economic effect and being implemented in a manner consistent with legislative intent. For example, we would highlight that the TCJA included a provision to ensure that no business would pay less than a 13.125 percent tax rate on income earned abroad. As the conference committee report states, "the minimum foreign tax rate, with respect to [Global Intangible Low Tax Income], at which no U.S. residual tax is owed by a domestic corporation is 13.125 percent."[1] However, when integrated into the existing rules for taxing international income, the statutory language can be interpreted in a manner that would impose an ***additional*** U.S. tax on income that is subject to a foreign rate of tax well in excess of 13.125 percent. The creation of a new tax burden on manufacturers with overseas operations seems contrary to Congress's intent.

The NAM appreciates the Committee's work to construct a more competitive tax code. For decades, manufacturers argued that such a change would help the industry grow. As demonstrated by the NAM's *Keeping Our Promise* campaign, which can be viewed at nam.org/taxstories, manufacturers are delivering. To fuel further growth in American manufacturing, we respectfully ask that the Committee consider the foregoing suggestions as it crafts further revisions to the tax code.

Sincerely,

Chris Netram

cc: Members of the Senate Committee on Finance

---

[1] H. Rept. No. 115-466 at p. 626 (Dec. 15, 2017).