UNITED STATES MANUFACTURING COUNCIL

January 14, 2014

The Honorable Penny Pritzker
Secretary of Commerce
U.S. Department of Commerce
Washington, D.C. 20230

Dear Madam Secretary:

The members of the Manufacturing Council (Council) have extensively evaluated the issue of corporate tax reform and believe that now is the time to aggressively pursue a set of tax policy recommendations that encourage American job growth, investment, and a robust U.S. manufacturing sector. It is the Council 's opinion that the current U.S. corporate tax system, including the treatment of the many manufacturing companies who are organized as S Corporations or LLCs, places American companies at a disadvantage, has created incentives that encourage the investment of manufacturing jobs, fixed assets and intellectual property outside the United States and has made American companies less competitive in their manufacturing operations overseas for foreign customers. The urgent need for reforrn was highlighted by the past Council and the White House's Advanced Manufacturing Partnership report in 2012.

The Council acknowledges that the issues involved in comprehensive tax reforrn are complex and that there are many divergent opinions on the subject. We draft this letter knowing that tax reforrn has not been accomplished for lack of ideas, but because it is difficult. However, our members are united in the belief that difficulty should serve to sharpen our resolve, as it has for previous generations of Americans. We also recognize that smaller businesses have provided some of the fastest employment and output growth for the United States. According to BLS and Census data, 98 percent of America's manufacturing firrns are small. More than one in three Americans who work in manufacturing, work at a small business. Many tax issues differentially affect those businesses, even when not expressly related to manufacturing. For this reason, we intend to provide you with a summary of recommendations to ensure that smaller businesses' needs are appropriately addressed in tax overhaul efforts.

With this in mind, the Council proposes the following set of specific recommendations that focus particularly on manufacturing. We commit to work with you, the Department, and the Administration to:

- **Move to a Competitive System for Taxing Multinational Firms.** The current U.S. system of taxing U.S. corporations on their worldwide income is in sharp contrast to the territorial tax systems that govern most foreign competitors. The U.S. system was developed at a time when the United States was the primary source of capital investment and dominated world markets.[1] However, the world has changed and the system no longer serves the current global economic marketplace and places U.S. companies at a disadvantage by introducing radical distortions in capital allocation by treating income earned outside the U.S. and retained there differently than income earned in the United States or reinvested here. The recommendation to move to a hybrid tax system, with base erosion protections, is supported by numerous institutions and commentators, including among them the White House, the U.S. Treasury Department, the Senate Finance Committee, and the House Ways and Means Committee.

- **Reduce nominal top tax rates applicable to manufacturing income to a more globally competitive level, effective rate of 25% or lower.** The nominal corporate tax rates are the highest in the developed world, higher than any other OECD member state; in fact, the OECD non-U.S. average rate is 25 percent, and is forecast to fall to 24.2 percent by 2016 based on already-enacted reductions, compared to the U.S. 35 percent nominal rate. The Council makes this recommendation while also remaining cognizant of the fact that there are concerns raised by various commentators to make sure that reduced corporate rates do not cause a revenue loss and are offset with appropriate base broadening and protection against base erosion, as reflected in both Ways and Means Committee "Option C" and Administration proposals, as a result of tax planning strategies.

- **Maintain effectiveness of programs sucb as IC-DISC tbat benefit small- and medium-sized manufacturing companies.** The IC-DISC program provides export tax incentives to small and medium companies. By offsetting risk and improving competitiveness with export tax credits, the IC-DJSC program assists manufacturers in global markets. Being able to effectively compete for export opportunities allows small- to medium-sized U.S. manufacturers to provide more jobs and make additional investments. This is a vital part of the growth engine of the U.S. economy.

- **Make permanent and improve the R&D tax credit, and, to the extent feasible given a lower rate, retain depreciation incentives for investment in plant and eguipment.** In the 1980s, the United States was the leader in providing tax incentives for R&D. However, that has changed. Today, many other nations provide more generous tax incentives for research. Making matters worse, the Tax Code provision allowing the R&D credit expired at the end of 2013, resulting in uncertainty for American businesses, encouraging them to invest in foreign jurisdictions where there is certainty and stronger incentives for R&D. The Research and Experimentation Tax Credit (R&E Tax Credit) has been extended temporarily 14 times since its creation and 1981 and has lapsed twice, including once since January 1, 2012.[2] The time has come to make the R&E tax credits permanent and improved, as has previously been proposed by

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[1] Office of Tax Policy, U.S. Department of the Treasury, *Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century* (Dec, 2007). P.54

[2] The White House and the Department of the Treasury, *The President's Framework for Business Tax Reform* (Feb, 2012) P. 11

the President and in legislation introduced in the past by Chainnan Baucus and Congressman Brady. As documented in the President's framework for business tax refonn, studies have found that the R&E Tax Credit is a cost-effective policy for stimulating additional private sector investment-that each dollar of foregone tax revenue through the R&E Tax Credit causes finns to invest at least a dollar in R&D, with some studies finding a benefit to cost ratio of2 or 2.96.

- **Retain the domestic production deduction under Section 199, to the extent feasible given a lower rate, which provides a tax benefit when goods are manufactured in the United States.** Given the manufacturing multiplier effect on job creation, as documented in numerous studies, strengthening the domestic production deduction under section 199 is one policy that encourages manufacturers to invest in the U.S. economy. In this respect, it is important to simplify the computation to include owner's compensation to avoid disadvantaging small business. According to National Association of Manufacturers figures place direct manufacturing employment at 11.8 million and indirect employment at 6.8 million. That means a typical manufacturing facility that employs 100 people actually supports 158 jobs.

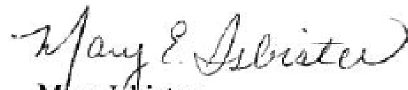
We appreciate your commitment to work together to implement these recommendations so that we can create a tax system that encourages U.S. based jobs, investment, manufacturing assets, and intellectual property now and for future American generations to come.

Sincerely,

Mark Chandler
Chair, Tax Policy and Export
Growth Subcommittee

Steve Braig
Vice-Chair, Tax Policy and Export
Growth Subcommittee

Mike Laszkiewicz
Chair, Manufacturing Council



Mary Isbister
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