AFL-CIO VIEWS ON TAX REFORM AND MANUFACTURING
U.S. HOUSE COMMITTEE ON WAYS AND MEANS
MANUFACTURING TAX REFORM WORKING GROUP

We are submitting these comments in response to a request from the Ways and Means Committee Manufacturing Working Group for our views on several questions. We greatly appreciate the opportunity to share our views on these important subjects.

The AFL-CIO is concerned that corporate tax reform could hurt the domestic manufacturing sector if its general thrust is to lower statutory rates while eliminating or reducing certain business deductions and credits. Manufacturing activities are critical to the economic well-being of our country, to our security, and as a source of high-quality jobs for working people. The objective and the effect of tax reform should be to strengthen domestic manufacturing, encourage investment in the United States, and promote domestic employment.

1. **Which provisions of the current tax code do you consider most important to manufacturers?**

   The domestic production activities deduction provides a strong incentive to firms that employ American workers. Because the deduction is linked to wages, it encourages high-road employment and discourages outsourcing. The deduction should be maintained.

   It is important for the manufacturing sector that the current modified accelerated cost recovery system currently in place not be weakened.

   The business aircraft sector is finally beginning to show improvement, and we strongly believe there should be no change in the depreciation schedule for these aircraft. The current schedule of seven years is consistent with other like types of equipment, and we should avoid raising the effective cost of these aircraft.

2. **Of these provisions, which of these would you be willing to give up in return for a lower tax rate?**

   None of them. Eliminating these provisions in return for a lower corporate tax rate would disadvantage U.S. production.

3. **Are the tax incentives available to U.S. manufacturers similar to tax incentives available to your international competitors? If not, please provide examples.**

   The goal of U.S. tax and economic policy should not be the competitiveness of U.S. firms, but rather the competitiveness of workers in the U.S.

Foreign firms can obtain refunds on value added taxes when they export.

Also, the United States is falling behind our international counterparts in investing in modern infrastructure, education, and skills; providing support for a vibrant manufacturing sector; developing cost-effective and globally responsible energy practices; and supporting innovation.

4. **What impediments in the tax code make it difficult for American manufacturers to compete in a global marketplace?**

   The goal of U.S. tax and economic policy should not be the competitiveness of U.S. firms, but rather the competitiveness of workers in the U.S. The deferral of taxation on foreign source income undermines the competitiveness of U.S. workers and communities because it gives firms a tax incentive to relocate their production and employment outside the U.S. Repealing deferral would generate $583 billion over 10 years that could be invested in infrastructure, clean energy, and education, laying the foundation for long-term economic prosperity.

5. **Are companies at a competitive disadvantage due to the fact that the U.S. currently has the highest statutory corporate tax rate of all OECD countries?**

   No. The premise of the question is misleading. Although the U.S. has a statutory corporate income tax rate of 35%, GAO estimates the average effective tax rate of large U.S. corporations with positive income is 25.2% and the average effective tax rate on worldwide income of controlled foreign corporations is 16.1%.

   As a percentage of GDP, overall corporate tax revenues in the U.S. are the third lowest in the OECD. Corporations as a group pay too low a share of taxes to support the kind of infrastructure investment and education and skills upgrades that are so urgently needed and that are so essential to the success of business.

   It is sometimes argued that our current rules for taxation of foreign-source income disadvantage U.S. corporations and that we should therefore adopt a “territorial” tax system. We strongly disagree. A “territorial” tax system amounts to eliminating taxation of the foreign income of U.S. corporations, which would encourage firms to send more jobs overseas. We need to eliminate the tax benefit of sending jobs overseas, not increase it.

6. **Would eliminating all tax expenditures listed in Question 1 and replacing them with a meaningful reduction in the statutory corporate tax rate help manufacturers better compete domestically and/or internationally?**

   There is no empirical evidence to support this proposition. In an era of difficult budget choices, cutting the revenue we receive from corporate taxes or even leaving the revenue level unchanged is fundamentally inconsistent with any notion of shared sacrifice.

What about pass-through entities and smaller manufacturers if the individual marginal rate is reduced?

We cannot afford to increase the deficit by lowering the individual marginal rate. To lower the individual marginal rate while cutting non-defense discretionary spending to its lowest share of the economy in 60 years is regressive.

7. **Should any of the manufacturing tax provisions be modified to ease the administrative burden of compliance, such as R&D? If so, how should such provisions be modified?**

   The research and experimentation tax credit should encourage firms not only to innovate in the U.S., but also to make their products here.

8. **Can you discuss how your company relies on or takes advantage of certain cost recovery provisions in the tax code such as accelerated depreciation? Do you think there are areas in the rules governing depreciation that should be evaluated or modified in tax reform?**

   Accelerated depreciation is important to U.S. manufacturers and should be maintained.

9. **How can the tax code better encourage manufacturers to innovate and develop new products here in the U.S.?**

   The research and experimentation tax credit should encourage firms not only to innovate in the U.S., but also to make their products here. The credit is especially important to the manufacturing sector, and we believe that both the traditional credit and the alternative simplified credit should be retained. Congress should also improve the simplified credit by increasing the level to more than 14%.