April 15, 2013

Representative Jim Gerlach
Vice Chair, Manufacturing Working Group
House Ways & Means Committee

Representative Linda Sanchez
Vice Chair, Manufacturing Working Group
House Ways & Means Committee

Representative Peter Roskam
Member, Manufacturing Working Group
House Ways & Means Committee

Subject: Comments to Manufacturing Tax Reform Working Group via email **-** tax.reform@mail.house.gov

Dear Representatives:

On behalf of the American Foundry Society (AFS), we appreciate the opportunity to provide comments to the bipartisan House Ways and Means Manufacturing Group on the impact of tax reform on American manufacturers, in particular the U.S. metalcasting industry.

AFS believes tax reform is an opportunity to make U.S. metalcasters (foundries and diecasters) and the entire manufacturing sector more competitive, thus spurring new investments in equipment, technology and facilities, as well as creating more jobs. U.S. manufacturing continues to play a vital role in our economy by providing good paying jobs, producing critical components for countless applications and sectors, and helping the country move out of the recession.

We recognize that the Congress is facing many difficult decisions in reforming a tax code that is flawed and discourages economic growth. Lawmakers will be deciding on how or whether to cut the corporate rate and/or individual rate, as well as which deductions and credits to eliminate or keep in place.

To remain globally competitive, U.S. metalcasters utilize tax credits and deductions to relieve their tax burden, free up resources to reinvest back in their plants, and lower their effective rates. A lower tax rate alone will not help capital-intensive industries, including metalcasting, if accelerated depreciation, last-in, first-out (LIFO) inventory accounting method, and the Section 199 manufacturing deduction are repealed.

The objective of eliminating credits and deductions in order to simplify and lower overall tax rates runs the risk of shifting tax burdens among different industry sectors. Metalcasters and other U.S.-based manufacturers should not disproportionately bear the cost of paying for tax reform.

Background on the U.S. Metalcasting Industry

AFS is the major trade and technical association for the North American metalcasting industry. AFS has more than 8,000 members representing over 2,000 metalcasting firms, their suppliers and customers. The industry is widely dispersed throughout the country, with the highest geographic concentration in the Great Lakes, Midwest and Southeast regions and California. There are over 100 metalcasting facilities operating in Pennsylvania, California and Illinois, respectively.

The practice of melting and casting metal into solid forms has served society's needs for more than 5,000 years. Metal castings are the foundation for all other manufacturing, and metalcasters have been a vital building block for every nation's economic wealth. Every sector relies on castings, 90 percent of all manufactured goods and capital equipment incorporate engineered castings into their makeup. The major industries supplied by metalcasting include agriculture, construction, mining, railroad, automotive, aerospace, communications, health care, defense and national security.

The American metalcasting industry provides employment for over 200,000 men and women directly and supports thousands of other jobs indirectly. The industry supports a payroll of more than $8 billion and sales of more than $32 billion annually. Metalcasting plants are found in every state, and the industry is made up of predominately small businesses. Approximately 80 percent of domestic metalcasters have fewer than 100 employees.

Continued Challenges to the Metalcasting Industry

The U.S. metalcasting industry is highly capital intensive and faces serious foreign competition. During the most recent recession, more than 100 metalcasters were forced to close their doors. In fact, already in 2013, three more plants have announced that they will be shutting down.

Imported castings now comprise 22% of the U.S. marketplace, with more than a quarter of these imports coming from China. Our foreign compettitors typically enjoy protected home markets, subsidized financing and energy costs, lower taxes, less stringent environmental regulations, as well as artificial currency advantages.

Metalcasters have significant capital equipment requirements. The variety of equipment we need to operate our facilities is very expensive and start at a few hundred thousand dollars and range upwards into the millions. For example, a new lathe utilized in the machine shop of a metalcaster typically costs $750,000. A new molding or air ventilation system can cost millions of dollars.

As any business owner knows, you typically purchase capital equipment in one of two ways – out of your profits or through loans from the bank. Unlike larger corporations, our small metalcasters are required to provide a personal guarantee for most loans when purchasing capital equipment or expanding their facilities. This means as a small business owner, they put their family's home on the line, and take significant risks if they want to grow their foundry. This is where tax deductions and credits come in as a critical tool to reduce their effective tax rates.

Tax Credits and Deductions Used by the Foundry Industry

The majority of AFS members utilize the following tax credits and deductions:

- Bonus Depreciation;
- Section 199 Domestic Production Activities Deduction;
- LIFO inventory accounting method;
- Section 179 Equipment Expensing; and,
- Research & Development Tax Credit (R&D).

The Congress needs to lower the tax rates for all manufacturers, no matter if they are organized as a C Corporation, S Corporation, Partnership or other pass-through entity. While our larger members are structured as C corporations, the majority of AFS members are organized as S corporations, limited liability companies, partnerships, and sole proprietorships and pay taxes at the individual rate.

Since metalcasters rely on after tax cash flow when making capital investments, reducing or eliminating accelerated depreciation will diminish after tax cash flows. In turn, this means metalcasters will have significantly less money to grow their businesses and purchase new equipment.

The Section 199 Domestic Production Activities Deduction is one of the few provisions in the tax code which directly incentivizes manufacturing in America. A large portion of our members claim Section 199, which amounts to an effective three percent rate reduction for most domestic manufacturers.

Furthermore, any tax reform plan must recognize the important role of research and technology investment in the growth of U.S. jobs and innovation. Many of our member s utilize the R&D tax credit.

<u>Conclusion</u>

AFS supports efforts by House Ways and Means Chairman Dave Camp (R-MI) and others to push for comprehensive tax reform which makes our system fairer, more competitive and predictable.

The metalcasting industry believes that a comprehensive tax reform plan must not only reduce the corporate tax rate, but also includes permanent lower rates for our members that are organized as flow-through or pass-through entities. Furthermore, accelerated depreciation, LIFO inventory accounting method, and the Section 199 manufacturing deduction must be retained.

In order to compete in the global marketplace, metalcasters need to continually invest in our employees, new equipment, and technology in order to reduce overall product costs. We cannot compete globally or even survive domestically without these types of investments. This is why tax reform is so important to metalcasters across the country.

AFS looks forward to further discussing these issues and working with the Manufacturing Tax Reform Working Group and the rest of the committee to achieve a pro-manufacturing tax system that will help keep our industry growing and competitive into the future.

Sincerely,

Jerry Call
Executive Vice President
American Foundry Society
jcall@afsinc.org

American Foundry Society
1695 North Penny Lane - Schaumburg, IL 60173
1-800-537-4237
www.afsinc.org