

March 24, 2013

The Honorable Jim Gerlach
Chair
Manufacturing Tax Reform Working Group
Committee on Ways & Means
United States House of Representatives
Washington, DC 20515

The Honorable Linda Sanchez
Vice Chair
Manufacturing Tax Reform Working Group
Committee on Ways & Means
United States House of Representatives
Washington, DC 20515

Dear Congressman Gerlach and Congresswoman Sanchez,

Several individuals and groups have already commented on the desirability of improving the competitiveness of American businesses by reforming our system of corporate income taxes. Some, such as the Biotechnology Industry Organization, point out the severe disadvantage imposed on our international biotechnology companies by our corporate income tax rate, particularly with respect to global competitors, and would like to see the corporate rate lowered.

Others, such as the Coalition of Small Business Innovators, wish to see rules relating to how investors are taxed changed to encourage more investing and support for innovation by investment groups. They point out that the long lead times associated with leading edge research requires better returns for investors and improved opportunities to avoid high taxes once that research finally starts to pay off (passive activity loss rules).

Both of their proposed solutions would provide some benefit, but only at the expense of increasing the complexity of our already massive tax code and, as with almost every revision to our tax code over the last 100 years, would create other problems as well.

Only one tax reform proposal has the ability to address both of these legitimate concerns. The FairTax, already before the committee as HR-25, addresses the issue of international competitiveness by eliminating the corporate income tax for not only our international companies, but for all US-based companies. It is estimated this would reduce the price of goods and services produced by American companies by approximately 20% (Jorgenson, 1997). It would also reduce the price of domestically produced goods and services by a similar amount, allowing domestic manufacturers to compete more effectively against imported goods. It should be noted that American manufacturing jobs have dropped from 21 million, and 23.5% of total employment, in 1979, to 8.4 million, and 5.8% of total employment in 2013. Reducing the price of our exports by 20% would have a significant effect in return many of these lost jobs to American workers.

The FairTax also address the need to more actively support Small Businesses by making it more likely that investors will support their efforts. Under the current income tax system, investors are limited in the deductions they can take against other income for their investment losses. Investors are also taxed on whatever profits they realize from their investments in small businesses.

Under the FairTax, deductions, along with taxation of income, are eliminated. Individuals with surplus cash are free to use it to fund investments, make purchases, or save it, in the manner they find most efficient and comporting with their short and long term desires. And all incomes realized from those investments are untaxed until spent on retail purchases. In other words, the FairTax supports investments in small businesses by reducing the disincentives to investing and maximizing the potential gains from such investments.

True tax reform has the potential to revolutionize our Small Business, Manufacturing, and Research and Development communities by removing the obstacles created by our current income tax code, but only if the Ways and Means Committee has the courage to avoid the temptation to "nibble around the edges" of our existing tax code, trying to make incremental improvements or fix a few of the worst problems. American manufacturers lead the world in technology, innovation, employee training, and research. They need an American tax system worthy of them, and capable of dealing with the global trade environment.

American manufacturers need the FairTax.

I look forward to working with you and your committee as you push forward on tax reform.

Yours truly,

Ohio FairTax
Steve Curtis
State Director

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