General Aviation Manufacturers Association
Comments on Tax Reform

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The General Aviation Manufacturers Association is pleased to provide these tax reform comments to policymakers on behalf of its member companies, which are more than 80 of the world's leading manufacturers of general aviation airplanes, rotorcraft, agricultural aircraft, avionics, engines, and other related products.

General aviation in the United States

The United States is a global leader in the design, development, and assembly of general aviation aircraft. In 2012, manufacturers worldwide produced 2133 general aviation aircraft, of which 1514 aircraft – 71 percent -- were made in the United States. General aviation is one of the few manufacturing industries that generate a trade surplus for the United States; nearly half of U.S.-manufactured general aviation aircraft were exported in 2012.

General aviation is an essential part of the U.S. transportation system, supporting many small and medium-sized businesses – especially those in rural areas – and connecting many communities lacking commercial air service. General Aviation is also a critical part of the emergency response and health delivery system in this country.

The general aviation industry employs more than 1.2 million people in the United States and contributes more than $150 billion to the economy each year. The industry supports highly skilled, high-paying jobs for engineers and manufacturing line workers who design, build, and complete aircraft and rotorcraft in places like Arkansas, Florida, Georgia, Kansas, Minnesota, Texas, Washington, and Wisconsin. In addition, the industry supports hundreds of engine, avionics and component manufacturers -- many of them small businesses -- in places like Arizona, California, Connecticut, Illinois, Iowa, Louisiana, Massachusetts, Michigan, Nebraska, North Carolina, Ohio, and Pennsylvania that supply and service these manufacturers with needed equipment and parts.

Reducing the U.S. corporate tax rate

As the Treasury Department and many other observers have noted, the United States imposes a higher corporate tax rate (federal plus state) than other developed countries. Our rate has essentially been fixed for a quarter century, while other countries have reduced their rate.

As a broad observation, a tax reform measure that reduced the federal corporate tax rate would enhance the competitiveness of U.S. general aviation manufacturing and thereby encourage both U.S.-based companies and foreign-based companies to manufacture aircraft in the United States. GAMA applauds the efforts in Congress to reduce the federal corporate tax rate.

The challenge for Congress in reducing the corporate tax rate (as well as in reducing the individual rates) is to make up the resulting revenue loss in ways that, on balance, would improve the tax system and not harm it. It would be a mistake for Congress to place on segments of industry a disproportionate burden of the offsetting tax increases. Congress must identify creative ways of spreading the burden of the tax increases broadly across industries. Not only would such an effort avoid economic harm to particular industry segments, such as manufacturing, it would help ensure the long-term durability of the reforms by fostering in the business community a perception of fairness. GAMA urges Congress to identify a broad array of tax offsets for reduced tax rates, to ensure that all industries that benefit from a lower corporate rate will be affected, and that no industries will be affected disproportionately or be singled out.

Tax incentives for U.S. manufacturing

Congress has long maintained a policy of fostering the competitiveness of U.S. manufacturing through the tax code. Specifically:

- Congress authorizes accelerated depreciation to encourage business to become more competitive by investing in the latest business equipment. In recent years, Congress has gone beyond accelerated depreciation in allowing "bonus" depreciation – an additional first-year deduction of 50% (or 100% in 2011) of the cost of equipment. Accelerated or bonus depreciation has the specific effect of reducing the cost of capital for businesses and rewarding new domestic investment.

- Congress also has long provided incentives for business research – i.e., for expenditures that are critical for maintaining a competitive edge. For most of the history of the income tax, the tax code has permitted businesses to deduct research costs, and for the last 30 years, Congress has provided a tax credit for businesses that increase their research expenditures from year to year (among other circumstances).

- In the 2004 Jobs Act, Congress enacted a nine percent deduction for domestic production activities – section199. That provision acts as a three percentage-point reduction in the corporate tax rate on domestic manufacturing and production income.

Each of these provisions directly helps improve the ability of U.S. manufacturers to compete in the global marketplace. Before considering curtailment of any of these tax incentives as an offset for lower rates, Congress should have a high level of confidence that the changes would not jeopardize the long-term competitiveness of U.S. manufacturing. A broad curtailment of these provisions could overwhelm the benefits of reduced tax rates and result in a net *increase* in the cost of capital for U.S. manufacturers. It would be a serious mistake for Congress to restructure the tax code in ways that would place a disproportionate burden of the reforms on domestic manufacturers.

Effect of tax reform on purchasers of general aviation aircraft

A potential cutback in accelerated depreciation is of particular concern to general aviation manufacturers not only because of the effect of the cutbacks on the manufacturers themselves, but also because of the effect on their customers. The purchase of a general aviation aircraft is a highly discretionary purchase – a decision that businesses can postpone or forego as circumstances change. During the recent recession, many businesses reached precisely that conclusion; sales of general aviation aircraft fell sharply with the economic downturn and still have not recovered. A cutback in accelerated depreciation would have the practical effect of increasing the cost of capital for a business purchaser of a general aviation aircraft. At the margin, such a change would deter some purchase decisions every year.

The administration and some in Congress have proposed to increase the depreciation period for general aviation aircraft from five years to seven years, which is the current period for commercial aircraft. Outside a comprehensive review of the depreciation schedules in tax reform, there is no justification for such a change. There is no depreciation "loophole" for general aviation; there is no special depreciation provision in the tax code for general aviation. The five-year period for general aviation aircraft results from the standard application of the IRS's class life system and the general depreciation rules established by Congress in 1986. Attached to these comments is a one-page history of the five-year depreciation period.

If Congress embarks on an effort to curtail accelerated depreciation to offset the cost of reduced tax rates in major tax reform, GAMA certainly would be part of that conversation. However, for such an effort to target general aviation aircraft outside a comprehensive rewrite of the depreciation rules for all industries would be unjustifiable. Some contend that since the depreciation period for commercial aircraft

is seven years, the five-year depreciation for general aviation must be an anomaly. In fact, however, the depreciation period for *most* types of assets depends on the use of the asset. Under IRS rules, for example, equipment used in agriculture is depreciable over seven years, while the same equipment used in refining is depreciable over 10 years; equipment used in making yarn is depreciable over 10 years, while the same equipment used in making sugar is depreciable over seven years. IRS tables set forth the depreciation period for myriad different uses to which property is put. In short, there is nothing anomalous about aircraft in general aviation having a different depreciation period from aircraft in commercial use.

Nor is there anything anomalous about the five-year depreciation period itself. IRS rules apply a five-year depreciation period to other assets such as construction equipment, drilling equipment, trucks, and information systems, as well as to equipment used in manufacturing such products as chemicals, clothing, textiles, electronic components, and semiconductors. Furthermore, many uses to which assets are put qualify the assets for a shorter, three-year depreciation period.

In sum, GAMA recommends that Congress proceed with caution in seeking to curtail acceleration depreciation in tax reform. Any changes should be made in the context of a broad review of the rules, and Congress should avoid changes that would undermine the benefits of reduced tax rates and disproportionately harm domestic manufacturing industries, such as general aviation.

Energy tax

Some observers speculate that, at the eleventh hour in a tax reform debate, Congress will broaden the range of potential tax offsets to include a national energy tax, such as a carbon tax. This conjecture recognizes the difficulty of curtailing popular tax incentives.

GAMA supports the traditional use of energy taxes to fund related infrastructure and services – such as the use of the aviation fuel tax to fund FAA and airport development. We believe Congress would be making a serious mistake in attempting to break the link between energy taxes and related services or infrastructure. Over time, if the link were broken, energy taxes could become an all-purpose revenue source for the government, available to be dialed up whenever the budget demanded. Therefore, we urge Congress not to implement new energy taxes as part of tax reform.

Level of corporate taxation

For Congress to achieve meaningful reductions in tax rates, difficult cutbacks in tax expenditures – offsetting tax increases -- will be required. In the Tax Reform Act of 1986, Congress selected an array of tax increases that, in combination with the individual and corporate rate reductions, caused the act to be a net tax increase on

corporations (and a net tax cut on individuals). Congress must resist that outcome this time; a tax increase on corporations is not the prescription for increasing the competitiveness of U.S. corporations and boosting the U.S. economy. The 1986 outcome was politically attractive to many members of Congress at that time but is a policy response the country cannot afford in 2013. The primary goal of tax reform should be to improve the business climate of the United States and to generate jobs.

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In summary, GAMA companies support the effort to reduce the corporate tax rate in a fundamental reform of the tax system. However, we also urge Congress to ensure that the offsetting tax increases to pay for the rate cuts are spread broadly throughout the economy and are not targeted at domestic manufacturers. We urge Congress to be cautious in curtailing any of the existing incentives for domestic manufacturing; such changes could harm, rather than improve, the U.S. economy.