Comments of

The National Association of Manufacturers

Submitted to the House Ways and Means Committee

Debt, Equity and Capital Tax Reform Working Group

April 2013

Overview

The National Association of Manufacturers (NAM)—the largest manufacturing association in the United States representing manufacturers in every industrial sector and in all 50 states—has long held that our current tax system is antiquated, fundamentally flawed and discourages economic growth and U.S. competitiveness. NAM members strongly support efforts to make the tax code more pro-growth, pro-competitive, fairer, simpler and predictable. We very much appreciate the current focus in the White House and on Capitol Hill on improving our nation's tax system.

Because of manufacturing's critical importance to our nation's economy, any effort to rewrite the federal tax code should result in a balanced, fiscally responsible plan that allows manufacturers in the United States to prosper, grow and create jobs and also enhances their global competitiveness.

To achieve these goals, manufacturers have long held the belief that we need a comprehensive tax reform plan that both reduces the corporate tax rate to 25 percent or lower and includes permanent lower rates for the nearly two-thirds of manufacturers organized as flow-through entities. We also believe that comprehensive tax reform must include a shift from the current worldwide system of taxation to a competitive territorial tax system, a permanent and strengthened research and experimentation (R&D) incentive and a strong capital cost-recovery system. The NAM discusses many of these goals in greater detail in its submissions to other working groups.

Encouraging Investment

NAM members know firsthand that capital investment is key to economic growth, job creation and competitiveness. Consequently, promoting investment should be a focus of any tax reform effort and an integral part of U.S. tax policy. An effective way to spur business investment and make manufacturing in the United States more competitive is through a strong capital cost-recovery system.

Manufacturers also believe that any tax reform plan should recognize that capital is not income, but that investment in capital produces income, and only the resulting income stream should be subject to an income tax. The tax rate on capital gains for both individuals and corporations should be as low as possible.

The tax treatment of dividends is also important to investment. Under current federal tax law, dividend income is taxed twice: once to the corporation and again to the individual recipient. The NAM has long held that this double-tax burden creates a bias against corporate earnings and should be eliminated. Absent elimination, keeping the tax rate on dividends as low

as possible and maintaining the parity with capital gains will help dividend-paying public companies attract investors and allow them to finance investment and create jobs. An Ernst & Young study released in February 2012 found that most developed countries provide relief from the double tax on corporate profits because it distorts important economic decisions that waste economic resources and adversely affect economic performance.[1]

NAM members also favor keeping the deductibility of interest as an important capital structure measure, as impacting the deductibility of interest would have a chilling impact on capital markets and reduce the ability to invest to spur the economy.

Tax Increases and the Cost of Capital

Raising taxes on investment income will increase the cost of capital, slowing economic growth and hurting investors, retirees and the companies that rely on investment capital. The Ernst & Young study concluded that investment tax increases discourage capital investment, particularly in the corporate sector, reducing capital formation and, ultimately, living standards.[2]

In addition, a tax policy that discourages the payment of dividends can impact corporate governance as investors' decisions about how to allocate capital are disrupted by the absence of signals that dividend payments would normally provide.[3]

Finally, capital-intensive businesses, such as manufacturing, use some debt financing to reduce the cost of their investment. Some have suggested a change to the interest rules that would impose a limit on all corporate taxpayers' interest expense. This change would disproportionately and negatively impact the manufacturing sector.

Recent Changes to Investment Taxes

Nearly a decade ago, policymakers acknowledged the importance of the taxation of investment income to economic growth and lowered the top dividend tax rate in 2003 to 15 percent to mirror the capital gains tax rate that had been reduced in 2001. Reducing the tax rate on capital gains and dividends was an important and significant step toward eliminating the double tax on corporate profits and removing taxes from economic decisions.

Unfortunately, the American Taxpayer Relief Act of 2012, enacted earlier this year, raised the top tax rate on capital gains and dividends to 20 percent. An additional 3.8 percent surtax included in the Affordable Care Act also will apply to investment income for individuals earning more than $200,000 and couples earning more than $250,000 which began in January of this year. With the surtax, individuals with income greater than $400,000 (individuals) and $450,000 (couples) will pay a top dividends and capital gains tax rate of 23.8 percent.

Because of the benefit of lower investment taxes to economic growth, jobs and competitiveness, manufacturers believe that any tax reform effort should keep taxes on investment income as low as possible. The NAM has long held that an important objective of long-term tax policy is to maintain competitive tax rates that are low enough to attract the capital formation and investment necessary to ensure durable economic growth. In the context of

---

[1] Robert Carroll and Gerald Prante, *Corporate Dividend and Capital Gains Taxation: A comparison of the United States to other developed nations,* February 2012.
[2] Ibid.
[3] Ibid.

comprehensive tax reform, maintaining today's synchronized, lower rates on capital gains and dividends is essential to that task.

Conclusion

During the tax reform debate, it is important to keep in mind that capital in today's world is more mobile than ever before, and tax policy can influence investors' decision-making both on the individual and institutional level.

As outlined in the NAM's *A Growth Agenda: Four Goals for a Manufacturing Resurgence in America*, a key objective for the association is to create a national tax climate that enhances the global competitiveness of manufacturers in the United States and avoids policy changes that would increase the tax burden on the manufacturing sector. Manufacturers thank you for the opportunity to share our thoughts and concerns with you, and we look forward to further discussing these issues and working with the Debt, Equity and Capital Tax Reform Working Group and the rest of the committee to achieve a pro-growth, pro-competitiveness and pro-manufacturing tax system.