MEMORANDUM

TO: The Joint Committee on Taxation
FR: Congressman Peter J. Roskam
RE: Constituent feedback on manufacturing and tax reform
DA: April 15, 2013

On Wednesday, April 3, I hosted a roundtable discussion on Manufacturing and Tax Reform in the 6th district of Illinois. Over fifty representatives from Chicago-area manufacturers, large and small, multinational and local, attended the roundtable and provided constructive and productive feedback. There were remarkably consistent themes from these employers that ranged from small enterprises with less than 10 employees to much larger Fortune 50 employers.

Below are highlights of the feedback received:

- There was unanimity around a theme of needing to reduce tax rates by eliminating tax preferences to make our system less burdensome and more globally competitive.
- Predictability, certainty, and stability in the code are imperative for employers to plan ahead and invest in job growth. There was general agreement that employers are willing to give up preferences for a lower rate and a simplified system.
    - Relying on tax provisions that have expired and may or may not be extended is difficult to not only plan for but administer.
        - Ex. The R&D Tax Credit (§ 41) is considered a tax extender, and it expired in 2011. In the American Taxpayer Relief Act of 2012, the R&D credit was retroactively extended back one year for 2012 and extended forward one year to cover 2013. Due to the retroactive extension occurring in January 2013, some companies were unable to claim this credit due to their financial year-end occurring in the earlier months of 2012. Therefore, the time period to claim the credit and amend their financial statements had passed.
    - Retroactive application of tax preferences does not drive the behavior it's intended to incentivize, but rather becomes merely a tax planning tool to minimize tax liability.
- Changes to the international tax system need to be made to increase our competitiveness abroad and encourage investment in the United States.
    - The manufacturers with global operations overwhelmingly favor a territorial tax system. The ability to repatriate funds from overseas and use those funds to invest in America is a top priority.
    - Additionally, our current system of worldwide taxation puts our employers at a competitive disadvantage against foreign counterparts when pursuing business acquisitions in foreign jurisdictions. Our employers have to consider the additional cost burden of our worldwide system, while competing bidders headquartered in foreign jurisdictions with a territorial system do not. That means American-based employers start negotiations with the playing field slanted against them.

- Significant changes must be made to the R&D Tax Credit. The credit is of little value in its current application and burdensome compliance costs.
  - The burden of compliance:
    - Employers are placing funds aside for tax professionals to calculate whether it is even worth claiming the credit on their returns. One employer noted he has to pay a consultant $30,000 just to figure out if it is worth it or not to consider applying for the R&D credit.
    - R&D consultants and experts are hired not only to calculate the amount of the credit, but to ensure that the credit is properly documented in order to prevent an IRS audit.
    - Additionally, employers often have to set aside funds up front in anticipation of aggressive IRS auditing of the credit.
  - IRS administration of the credit:
    - The IRS audit process of the credit needs to be seriously analyzed and changed. The consensus among manufacturers is that the audits are time consuming, costly, and inefficient.
  - Employers noted that they do R&D to help grow their business, not solely because there is a tax credit for that activity. In fact, the credit today serves more as a tool for minimizing taxation than it does for incentivizing behavior.
- The Ways & Means Committee should consider tying financial reporting to tax reporting.
  - Some employers highlighted the difficulty of keeping numerous books and managing the differences between books, for instance a financial accounting book and a tax accounting book. One employer stated that they had over 500 differences between their financial and tax accounting books.
- The application of bonus depreciation had mixed reviews as an effective capital cost recovery method
  - Some companies found bonus depreciation to be an inefficient capital cost recovery method that didn't accurately reflect the economic lives of the asset.
  - Some larger employers noted that bonus depreciation did not affect their business in a significant manner, while other smaller employers conveyed that bonus depreciation is more impactful to their business.
  - A number of employers articulated that they would favor a depreciation system that has shorter asset lives and is more uniform among types of assets.