

Comments of
The National Association of Manufacturers
Submitted to the House Ways and Means Committee
Small Business/Pass-Through Tax Reform Working Group
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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 or pass-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.

Manufacturing's Small and Medium-Sized Businesses

Manufacturers organized as flow-through entities—generally, small and medium-sized businesses—pay taxes at individual rates. Moving forward, any discussion about reforming the tax code must ensure that the tax reform plan does not disadvantage these manufacturers that play a critical role in the supply chain and broader economy. To that end, any tax reform plan must be comprehensive, and any changes or base broadening that occurs ought to ratably reduce the tax burden on flow-through entities and C-corporations.

For more than 60 years, manufacturers and other business owners have chosen to organize as S-corporations or other flow-through entities to benefit from comprehensive liability protection and a single level of federal taxation. According to IRS data, between 1980 and 2008,

the total number of flow-through businesses more than tripled to nearly 31 million, employing an estimated 54 percent of the entire private-sector workforce.¹

Manufacturing is a capital intensive industry and, in smaller companies, the capital to grow and expand operations, increase product lines and hire additional workers most often comes directly from the owners. In a March 2012 NAM/*IndustryWeek* Survey of Manufacturers, 56 percent of respondents said that the individual tax rate increases slated to go into effect in January 2013 would negatively impact business investment and job retention/creation plans. In the December 2012 edition of the same survey, 84.2 percent of respondents cited political uncertainties—including the then-looming individual tax rate increases and budget sequestration—as their top challenges, dampening hiring, investment and overall optimism.²

These data points also are relevant to the tax reform debate since the tax treatment of flow-through businesses will impact the decisions and the ability of small and medium-sized manufacturers to hire and retain workers and reinvest in their companies. Consequentially, Congress must consider the unique impact that individual tax rates and specific types of base broadening could have on these smaller manufacturers and ensure that tax reform does not increase the tax burden on these companies to pay for other tax reform measures. As we noted above, any changes or base broadening that occurs ought to ratably reduce the tax burden on flow-through entities and C-corporations.

As the working group and the full Committee consider issues of importance to small businesses in the context of comprehensive tax reform, they must also recognize that many small and medium-sized manufacturers are multigenerational family businesses. While manufacturers continue working toward the ultimate goal of repealing the estate and gift tax, we supported the estate tax provisions in the American Taxpayer Relief Act of 2012, enacted earlier this year, which included a permanent estate tax regime with a top tax rate of 40 percent and a \$5 million exemption indexed annually for inflation. As with all tax issues, manufacturers need these estate tax provisions as part of comprehensive tax reform.

Conclusion

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 very much appreciate the efforts of Chairman Camp and the members of the House Ways and Means Committee for their diligent work to reform the U.S. tax system. Manufacturers thank you for the opportunity to share our thoughts and concerns with you.

While the NAM strongly advocates for comprehensive reform of our current tax code, we also believe that it is important to keep our current tax system in place until policymakers agree on a final comprehensive reform plan. Piecemeal changes or repeal of longstanding rules will inject more uncertainty into business planning, making U.S. companies even less competitive, and threaten economic growth and U.S. jobs.

¹ Robert Carroll and Gerald Prante, *The Flow-Through Business Sector and Tax Reform: The Economic Footprint of the Flow-Through Sector and the Potential Impact of Tax Reform*, April 2011.

² Chad Moutray, *NAM/IndustryWeek Q4 Survey: Sharp Decline in Manufacturers' Optimism*, December 5, 2012.

Manufacturers look forward to further discussing these issues and working with the Small Business and Pass-Through Tax Reform Working Group and the rest of the Committee to achieve a pro-growth, pro-competitiveness and pro-manufacturing tax system.