Comments of

The National Association of Manufacturers

Submitted to the House Ways and Means Committee

Energy 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 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.

Since manufacturing accounts for roughly one-third of the energy consumed in the United States, it also is critically important that any tax reform plan allows our nation's energy producers to make the necessary investments to ensure our nation's energy security and avoids increasing the tax burden on this vitally important industry sector. Maintaining diverse, reliable and affordable energy sources is crucial to jobs, competitiveness and overall economic growth.

Investment Key to Energy Security

Providing the energy needed to support manufacturers and the broader U.S. economy requires large capital investments by the private sector. Promoting investment should be an integral part of comprehensive tax reform, particularly as it relates to investments in developing our nation's energy supplies.

In particular, finding and producing domestic oil and natural gas requires large and continuing capital investments. Drilling oil and gas wells involves a number of costs, including labor, repairs, fuel, chemicals, supplies and other expenses that have no salvage value. Under longstanding tax policy rules, energy companies can deduct these costs—known as intangible drilling costs (IDCs)—as ordinary and necessary business expenses, reducing the cost of exploring for and producing oil and gas.

For manufacturers and other energy consumers, the development of shale natural gas in the United States has been a “game-changer” in terms of reduced energy costs, increased access to secure energy supplies and availability of a low-cost raw material. The chemistry industry alone has generated billions of dollars of new investment thanks to this innovation. IDCs cover about 70–80 percent of the cost of a shale gas well

Preserving U.S. energy companies’ access to global natural resources is also critical to U.S. energy security. Unlike their competitors, U.S. energy companies with overseas exploration and production operations—so-called “dual-capacity” taxpayers—pay both U.S. and foreign taxes. Current tax rules for dual-capacity taxpayers—already stricter than rules for other taxpayers—reduce the potential of double taxation of income in the U.S. worldwide tax system and limit foreign tax credits to payments that are truly in the nature of income taxes. Existing rules specifically deny foreign tax credits for some payments, such as royalties paid to access a natural resource.

Unfortunately, some policymakers support provisions that will deny foreign tax credits even for income taxes paid by dual-capacity taxpayers. These proposals will unfairly and retroactively overturn well-established and longstanding rules, subjecting American energy companies to harmful double taxation on new and existing investments.

Promoting Energy Efficiency and Renewable Energy Sources

As major consumers of energy in the United States, manufacturers are committed to reducing our energy intensity and producing more energy-efficient consumer products to help decrease our national overall demand for energy, lower costs and reduce greenhouse gas emissions. Manufacturers have made significant improvements in the efficiency of their own operations by using cost-effective distributed generation, combined heat and power technologies, waste heat recovery systems, water reuse and recycling, intelligent energy systems and advanced manufacturing technology. Similarly, manufacturers embrace every energy resource at our disposal and support the development of renewable energy sources like wind, solar and hydropower.

NAM members believe that a positive climate for capital investment and energy services investment for new and existing plants and equipment will help increase industrial energy efficiency and the development of renewable and alternative energy sources in the long run. To that end, the NAM supports the use of favorable capital cost-recovery tax policies, including first-year expensing for capital investment.

Energy Tax Increases Will Cost Jobs

In contrast to a tax system that encourages investment in new energy sources and energy efficiency, imposing discriminatory taxes on the energy sector will result in higher costs for all energy consumers in the United States. The increased cost for manufacturers will make it more expensive to produce in this country and make them less competitive in foreign markets, putting millions of current manufacturing jobs at risk.

New energy taxes also will set back current efforts to achieve energy independence. As noted above, the United States has made great advances recently in developing new sources of domestic energy. Unfortunately, imposing targeted tax increases on energy companies will discourage oil and gas investments in the United States, working against the goal of enhancing America's energy security and boosting new, domestic investments in affordable energy sources.

The NAM remains adamantly opposed to targeted energy taxes, whether in the context of tax reform or as part of a separate effort. Manufacturers believe that tax and energy policy needs to focus on enhancing America's energy security by encouraging new investments in affordable sources of energy, not imposing new taxes on the energy industry.

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 will 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 Energy Tax Reform Working Group and the rest of the committee to achieve a pro-growth, pro-competitiveness and pro-manufacturing tax system.