UNITED STEELWORKERS
USW
UNITY AND STRENGTH FOR WORKERS

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VIA EMAIL: tax.reform@mail.house.gov

Congressman Jim Gerlach
Chair, Manufacturing Working Group
U.S. House Ways and Means Committee

Congresswoman Linda Sanchez
Vice Chair, Manufacturing Working Group
U.S. House Ways and Means Committee

Re: Comments: Manufacturing Tax Reform Working Group

Dear Manufacturing Tax Reform Working Group:

These comments are submitted on behalf of the 1.2 million active and retired members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (United Steelworkers). We appreciate the opportunity to submit our views on how to reform the federal income tax code in a way that creates the greatest growth in manufacturing and manufacturing jobs in the United States.

As a union, we care deeply about the future of the nation's manufacturing sector: the United Steelworkers has active members working in almost every area of manufacturing and mining throughout the United States. We produce goods such as steel and specialty steel, paper and wood products, cement, concrete, chemicals, pharmaceuticals, wind turbines, tires, glass, aluminum, silicon metal, titanium billets, rubber extrusions, electrical equipment and various parts used in a variety of finished goods like automobiles and appliances. Our members also work in various forging operations processing materials into finished components, such as taking titanium billets and forging them into finished aircraft turbine engine components. In mining, our members mine iron ore, copper, zinc and nickel, which get incorporated into intermediate and finished goods. In a nutshell, the United Steelworkers is at the heart and soul of manufacturing.

We view tax reform as a worthwhile goal as long as it meets our goal of achieving a robust and growing manufacturing sector by structuring the corporate tax code to strongly and consistently encourage domestic manufacturing jobs and production, while sufficiently discouraging the movement of jobs and production overseas. Over the last decade, U.S. manufacturing has suffered disproportionately when compared to other economic sectors, with over 5.5 million manufacturing jobs lost along with the loss of 55,000 manufacturing facilities. Meanwhile, a greater and greater amount of manufacturing jobs and production have been offshored. We have seen our large multinational companies during the last decade cut their workforces in the U.S. by a staggering 2.9 million, while simultaneously creating 2.4 million jobs overseas, according to data by the U.S. Department of Commerce. We believe that a great deal of offshoring of manufacturing jobs and production has been the direct result of inappropriate tax policies. Consequently, we are willing to look at any proposal that holistically promotes manufacturing jobs and production in the United States to reverse this deeply disturbing exodus.

The manufacturing sector has always punched well above its weight in the U.S. economy by supporting higher wage jobs with good benefits that provide a middle class standard of living. It is also a technology-intensive sector, for example, in the clean energy area. Manufacturing companies generally hold more patents than other sectors of the economy and engage in over two thirds of the R&D spent in the private sector in the U.S. and employ the majority of engineers and scientists in the private sector. “Spill-over” effects are well-known; investment in new production capacity and the proximity to the manufacturing process promote positive effects across firms and industries leading to new ideas, capabilities and technologies that all mesh to create innovation and economy-wide growth. Likewise, manufacturing creates a large multiplier effect, generating more indirect jobs than other sectors. Ensuring that the tax code encourages and accelerates domestic manufacturing, therefore, will boost the economy and help to provide a middle class standard of living for millions of Americans still without full-time work and millions of families still trying to make a living on relatively stagnant wages.

Critically, we would view success in corporate tax reform in an integrated manner, as any tax reform must be sure to encourage a climate for production and employment in the U.S. that leads to adequate demand in the U.S. economy for manufactured goods; this cannot simply be achieved with the aim of lowering rates or zeroing out certain deductions, but instead must be thoughtfully analyzed keeping in mind the interdependence between manufacturing and demand for goods in the economy. Indeed, simply broadening the base with a commensurate reduction in corporate tax rates would adversely impact the manufacturing sector while providing enormous tax cuts to non-productive sectors of our economy. That would be a recipe for disaster.

In the end, however, any approach to reforming the corporate tax code must be designed to promote innovation, production and job creation in the U.S. and should eliminate preferences that encourage these activities to be offshored. U.S. taxpayers want – and deserve – their hard-earned tax dollars to be used to support employment of fellow Americans here at home. To be clear, we want to stop tax avoidance schemes that lead to offshoring and outsourcing jobs, while lowering the tax burden on manufacturing and mining activities in the U.S.

CURRENT TAX INCENTIVES ENCOURAGING DOMESTIC MANUFACTURING AND JOBS

Last In First Out Accounting Method – LIFO should continue to be available for manufacturers of goods to encourage domestic manufacturing. Inputs and materials used in producing goods can often be highly volatile in price in any given time period and not all manufacturers can take advantage of "just in time" delivery, as their production processes are not capable of easy shutdowns and start-ups, thus inventory build ups are more the norm. The LIFO accounting method enables manufacturers to recognize current costs for their goods in inventory by using the most current snapshot of the cost of the good sold (first out) from inventory (last in). This is a better measurement of profit, rather than reaching back to rely on historical costs, which can be distortive of the value of the finished good, especially where significant inventories exist. Therefore, the LIFO accounting method helps those manufacturers who by the very nature of production processes typically retain significant inventories.

Accelerated Depreciation Expense – Allowing for the acceleration of depreciation also is important to capital intensive industries, as it helps them manage costs and creates more capacity for investment in plant and equipment which supports domestic manufacturing and productive activities and domestic employment.

Net Operating Loss Expense – Net operating losses are designed to ensure that companies are able to take losses relating to the large capital investments and expenditures they make and to utilize those losses to offset income in future years. Otherwise, the return on invested capital (RIOC) will be too low to warrant a company or its board to authorize, as RIOC is one of the two major metrics analyzed by companies in deciding if and where to invest. The NOL expense, therefore, should be maintained for domestic manufacturing and mining operations to promote investment in such operations and to create jobs in the U.S.

Depletion Expense – Accounting for depletion (by either the cost or percentage depletion methods) is vital to capital intensive industries operating in the U.S., which make up the vast majority of industries which employ our members. Allowing this expense encourages and enhances domestic investment and employment in mining, timber, integrated steel-making, chemical production and other capital intensive industries. Many of the goods produced are part of the domestic supply chain and become incorporated into downstream products, thus creating more jobs and production in the U.S.

Research & Experimentation Tax Credit – R&E tax credit is a key tax incentive encouraging domestic manufacturing, mining, job growth and global competitiveness. As manufacturing is a technology-intensive sector, it can drive innovation and ultimately grow jobs and production thus boosting the economy nation-wide. This tax credit should be made permanent where the research and experimentation is deployed in the U.S. market. This would be a cost-efficient policy to stimulate additional private sector investment in developing manufacturing and mining technologies for deployment in the U.S, particularly in the clean energy area. Studies show that returns to society are greater than the private returns earned by investors who fund R&D, which leads to underinvestment by the private sector in the absence of policies such as the R&E tax credit. Recent studies show that each dollar of foregone tax revenue through the R&E credit causes companies to invest at least a dollar in R&D. Allowing for the credit where the research is deployed in the U.S. would capture new technologies and create jobs here benefitting the overall economy.

Domestic Production Tax Deduction -- The domestic production tax deduction under Section 199 of the IRC provides a substantial incentive to produce goods in the U.S., thus it is very valuable in achieving the goal of maximizing domestic manufacturing, mining and employment here in America.

Advanced Energy Manufacturing Tax Credit – This tax credit encourages the retention and expansion of manufacturing jobs in the U.S. by encouraging domestic manufacturing of clean energy goods such as wind turbines and solar panels, as well as parts, components and equipment that can be incorporated into clean energy goods. This is an area of future growth which would benefit the overall economy if developed here with the potential to create millions of new good, green jobs.

Clean Energy Production Tax Credit -- This tax credit encourages and enhances domestic demand for clean energy alternatives in the U.S. Increasing demand leads to additional manufacturing and job creation in the U.S. through the production of goods incorporated into clean energy alternatives (e.g., production of wind towers for wind turbines) benefitting the overall economy.

Investment Tax Credit For Off-Shore Wind – This tax credit encourages investment in off-shore wind development. Again, encouraging demand in wind power to generate electricity will encourage demand in the U.S. to produce the parts, components and finished goods that capture wind off-shore.

Investment Tax Credit for Combined Heat and Power -- This tax credit should be maintained but modified by extending it to include "waste heat recovery" (WHR). Doing so would expand the universe of those eligible for industrial efficiency projects by allowing larger "combined heat and power" systems to qualify for the credit and create more jobs in the U.S. to produce goods used in industrial efficiency projects.

Employer Deduction for Health and Pension Benefits – The employer deductions allowed for providing healthcare insurance and pension benefits for workers are critical to all working families and to the overall well-being and health of the economy. Both deductions should be maintained. Employer-sponsored healthcare is the essential lynch pin in the entire healthcare system, as it provides health care for working adults and their families before becoming eligible for Medicare. Indeed, the Affordable Care Act, while providing health care for uninsured Americans beginning in 2014, was deliberately built around existing employer-sponsored health care benefits and meant to retain that system. Without health care benefits, it would be difficult for employers to find qualified and dedicated employees willing to give their all to their jobs in the knowledge that health insurance is there for them and their families when needed. This is certainly the case in physically demanding jobs, like mining iron ore, or working in a chemical factory or steel mill.

Likewise, employer sponsored pension benefits provide workers with security in retirement after years dedicated to working, often in physically demanding jobs where workers' bodies can give out well before the normal age of retirement eligibility. Importantly, allowing for these two deductions promotes a productive workforce and a decent standard of living for working Americans by contributing to much-deserved security for them and their families. This contributes to the overall economy, as workers and their families can stay healthier and work more productively enabling them to contribute to their communities and the nation.

Provide For Transition Relief – With any major corporate tax overhaul there will be costs and benefits to individual companies or sectors of the economy. Transition relief, in our view, may be warranted in some instances but should only be adopted in a manner that maximizes manufacturing, mining and employment in the U.S.

Corporate Forms – Careful evaluation should be made regarding various corporate forms (e.g., S corporations) that can be utilized to potentially avoid the payment of taxes without enhancing job creation in the U.S. The goal of corporate tax reform should be to minimize the need to engage in accounting acrobatics to achieve a tax objective rather than using those energies and resources to maximize economic activity that will create growth and jobs in the U.S.

CONCLUSION:

Efforts to reform the corporate tax code should not occur in a vacuum and without regard to the punishing decline experienced in manufacturing and the coinciding dramatic rise in the offshoring of jobs and production. The cost to the economy has been severe; millions of workers have lost manufacturing jobs, creating hardship, declining living standards and the wiping out of whole communities across the nation. That, in turn, has led to severely diminished tax revenues, eroding our standard of living and leading to worse outcomes for ordinary people in important areas like education, safety and retirement security.

Manufacturing is recognized as the most important engine of future economic growth and job creation; new technologies and advanced manufacturing in clean energy and natural gas, for example, are strong drivers of future growth, but the corporate tax code needs to provide commensurately strong incentives to encourage that growth, innovation and wealth creation in the U.S. and discourage it from moving overseas.

Other developed countries keenly understand the importance of manufacturing to economic growth and good jobs that sustain a decent standard of living and structure their tax codes accordingly, incentivizing their domestic manufacturing. In an ever globalizing world, we too must structure our tax code to encourage investment in manufacturing and advanced manufacturing in the U.S., so we also can compete successfully on a global scale and provide our own citizens with a decent standard of living and a safe and secure retirement.

Importantly, Americans want a return to Main Street values and sustainable economic growth (not magical financial bubbles that blow up and destroy wealth and jobs), where we produce real goods and sell them here and around the world. They do not want to continue with the large and growing trade deficits in goods and simply and blindly consume goods made overseas. They want American-made goods because ordinary people understand this is a tried and true way to sustain wealth and ensure shared prosperity where people can be employed earning decent wages.

We urge you in considering any reform of the corporate tax code to make it a top priority to provide incentives that encourage investment and innovation in manufacturing and advanced manufacturing and job creation in the U.S. This will put the nation on a sound economic footing from which we all can thrive and enjoy the fruits of our labor. We appreciate the complexity of the tax code and look forward to working with you to achieve these goals.

Sincerely,

Leo W. Gerard

Leo W. Gerard
International President

LWG/cdk