AEROSPACE INDUSTRIES ASSOCIATION

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Before the

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U.S. House of Representatives

Hearing on
How Business Tax Reform Can Encourage Job Creation

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Remarks Prepared for Submission to the Record

Chairman Camp, Ranking Member Levin, and distinguished members of the Committee: it is a pleasure to submit the following testimony for the record on a very important topic – business tax reform. The Aerospace Industries Association is an organization of more than 300 member companies and an industry of 624,000 highly skilled employees who make the aircraft, avionics, and air navigation equipment that allow aircraft to fly safely in our airspace every day.

The U.S. aerospace industry accounts for at least three percent of the country's gross domestic product and every aerospace dollar yields an extra $1.50 to $3 in further economic activity.[1] The U.S. aerospace and defense manufacturing industry remains the single largest positive contributor to the nation's balance of trade. In 2010, the industry exported $80.5 billion and imported $27.2 billion, providing a net surplus of $53.3 billion, the largest of any manufacturing sector. As the U.S. economy moves through uncertain times, America's aerospace industry remains a powerful, reliable engine of employment, innovation and export income. Given the priority to create and sustain jobs, the contribution of our industry to the economy and maintaining our trade strength cannot be overestimated.

The workforce brings a diverse set of skills and capabilities to their jobs: scientists and engineers on the cutting edge of advanced materials, structures, and information technology; machinists fabricating complex shapes and structures; and technicians from almost every degree field testing, applying and integrating the latest technologies. Most of these positions are high-skill, quality jobs, paying above average wages. Production workers average $32.27 an hour; [2] entry-level engineers average more than $56,000 a year, and more senior engineers salaries run well into six figures.[3] And employment levels have remained fairly consistent for years.

In short, aerospace products and services are pillars of our national security and competitiveness. In this challenging economic environment, the aerospace industry is a solid and reliable contributor to the national economy and to the lives of millions of Americans. We strongly believe that keeping this economic engine on track is in America's best interest and that a simple, efficient tax code will enable the high-tech aerospace workforce to continue to drive this powerful engine of the U.S. economy.

Tax Policy and the Economy

The U.S. economy is globally competitive, which magnifies the importance of our tax policy. Higher tax rates and complex tax regulations in the United States have produced a competitive disadvantage for the United States and U.S.-based business activities. This disadvantage leads to fewer companies doing business in the United States, which results in a falloff in jobs and lower economic growth.

The United States, which once was home to one of the lowest corporate tax rates among major industrialized economies, is now home to one of the highest. [4,5,6] The

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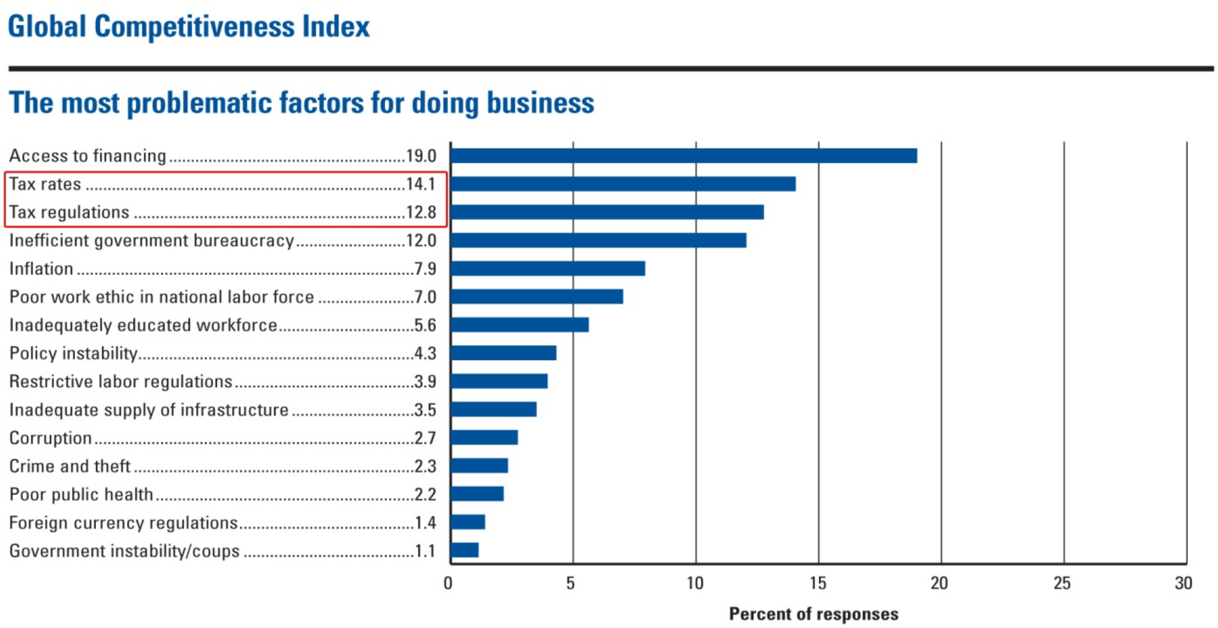
[1] AIA Estimate.
[2] Bureau of Labor Statistics, Current Employment Statistics sur vey. Dec. 2008.
[3] Aviation Week Workforce Study, 2008.
[4] Congressional Budget Office, Corporate Income Taxes: International Comparisons November 2005.

current corporate tax rate leads to economic distortions and, in 2002, resulted in compliance costs of $22 billion. With a corporate and indirect tax rate of 40 percent, companies operating in the United States face a much larger tax burden than they would in other nations.[7]

From 1988 through 2009, nations around the world decreased their corporate tax rates, while the United States' remained largely unchanged. Adding to the problem, the U.S. tax code has become increasingly complex and unpredictable. To advance our nation's manufacturing base into the 21st century and increase the number of high-wage jobs in the United States, the government must develop and implement tax policies that will eliminate global disadvantages and allow the aerospace industry to grow.

Aerospace and Defense Industry Tax Principles
The U.S. Tax Code must foster competitiveness, rather than produce disincentives for U.S.-based investment and job creation. As shown below, the World Economic Forum lists tax rates and tax regulations as two of the top three problematic factors of doing business in the United States.[8]



Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country/economy and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

The U.S. Tax Code must foster innovation
While the Research and Development tax credit has been instrumental in fostering innovation in American industry, uncertainty over the passage of year-by-year

[5] Åsa Johansson, Christopher Heady, Jens Arnold, Ber t Brys and Laura Vartia Tax and Economic Growth: Economics Department Working Paper No. 620, Organization for Economic Co-operation and Development, 11-July-2008.
[6] Chart sourced from KPMG Corporate Indirect Tax Rate Survey2009, pp. 14-15. Available at http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/
[7] KPMG Corporate Indirect Tax Rate Survey2009, ibid
[8] World Economic Forum, The Global Competitiveness Report 2009-2010, p. 320. Available at http://www.weforum.org/ documents/GCR09/index.html. Access to financing was the third factor cited.

extensions of the credit hinders business investment. The credit should be made a permanent provision of the Tax Code, providing companies with the certainty and stability necessary for planning long term R&D investment. In addition, Congress and the administration should strengthen the alternative simplified credit rate from 14 to 20 percent to spur innovation and competition and act as an incentive to locate more R&D jobs in the United States.

The U.S. Tax Code must be efficient

Those provisions of the tax code that do not meet this requirement should be eliminated or modified. For example, the three percent withholding tax on all government payments is estimated to increase tax payments by $11 billion through 2019,[9] but the Defense Department has estimated that implementation of the tax would cost this agency alone $17 billion over just five years because of increased contract costs, technology upgrades and administrative overhead.[10]

The U.S. tax code must be simple

In general, simplicity within a tax system enhances the public's understanding of, respect for, and compliance with its provisions. We recognize, however, that at times protection of the tax base and simplicity are at odds. In such cases, we believe that a principle of proportionality should be applied: The benefits to the government of proposed complexity, reporting, and enforcement provisions should be weighed against the costs (to taxpayers and the economy in general) of complying with the proposal.

Conclusion

Adopting a tax code that adheres to the principles of efficiency, innovation, competitiveness, and simplicity will pay dividends across the board. U.S. companies will have more business, there will be more jobs for Americans, and the nation will experience more economic growth. Congressional action on repealing the three percent withholding tax, making the research and development tax credit permanent, and lowering corporate tax rates would be an excellent first step forward.

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[9] In January 2009, the Joint Committee on Taxation (JCX-14-09) estimated the "increased revenue" to the U.S. Treasury at $10.95 billion from 2009 to 2019; however, $6 billion was simply an acceleration of tax receipts during 2011, the original transition year, and not an actual revenue increase. The 3% withholding requirement was scored to only generate $575 million in 2012, increasing slightly in each of the next seven years. Thus the bulk of the $11 billion in increased revenue is merely due to the timing of revenue payable to the Government.

[10] Letter and report t sent by Deputy Secretary y of Defense James Finley to the Chairmen of the Senate and House Armed Services committees, April 14, 2009