OIDA Optoelectronics Industry Development Association

Comments of the Optoelectronic Industry Development Association to the Request for Recommendations to Improving the US Tax Code for Manufacturers From the Ways and Means Manufacturing Working Group on Tax Reform

We thank Congressman Gerlach, Congresswoman Sanchez, and Congressman Peter Roskam for the opportunity to submit comments on behalf of our members on ways to improve the United States Tax Code for manufacturers.

The Optoelectronics Industry Development Association (OIDA) is a Washington DC-based, non-profit association that serves and represents the optoelectronics community. OIDA members include the leading providers of optoelectronic components and systems enabled by optoelectronics, as well as universities and research institutions.

Founded in 1991, OIDA provides a wide range of programs and services including: workshops, industry/roadmap reports, policy and funding advocacy, professional networking activities, a multi-media publication and presentation archive, and exclusive member services.

OIDA efforts focus on quantifying and analyzing the past, present and future of optoelectronic markets in an effort to advance the field from both technical and business perspectives. OIDA members are involved in the manufacturing of high-quality technical components in the United States. Ensuring that the tax code provides incentives to develop and manufacture technology domestically is critical to maintaining our nation's optoelectronics industry.

Worldwide the optoelectronics industry is at least a $750 billion industry, with optical components comprising about $200 billion annual revenues and optical based system/related products about $550 billion. The US optics industry is only 10% of the global market, with many foreign competitors dominating the marketplace. As the US industry tries to grow and reestablish its leadership in optoelectronics, it continually runs into challenges created by the competitive disparity between the US tax code and other countries.

We believe the current provisions dealing with technology development in the Code need to be broadened and simplified in order to keep our tax structure and industry competitive with the rest of the world. Although the Research and Development (R&D) credit exists to incentivize technology development, many of our members find it is still not competitive with the incentives offered by other countries.

As Susan Ford, a Vice President at Corning, an OIDA member company, stated in her testimony before the Ways and Means Committee last year,

> "It is hard to disagree with incentivizing the conduct of American research and development, but a comparison of the U.S. R&D credit to those that exist in some other countries shows that the U.S. incentive is complex and uncompetitive. As an example, consider Corning's recent experience with the U.S. R&D credit compared to the French R&D incentive. Ninety-five percent of Corning's R&D expenditures fund activities conducted in the United States. Much of the balance of our R&D occurs in France. Last year Corning's U.S. R&D credit as a percentage of its total U.S. R&D expenditure was approximately 1.2%. By contrast, in France it was approximately 30%. Further, calculation of the U.S. R&D credit is so complex that it often requires the hiring of a consulting firm with sophisticated software. If the R&D credit is to be effective, it must undergo significant reform."

Many of OIDA's members have had a similar experience to Corning's and to stay competitive in the global economy, the US cannot afford to have its tax code be so uncompetitive with other R&D credits offered around the globe by other developed nations. This disparity will increasingly result in high quality jobs moving overseas and America losing its competitive advantage. We urge a reform of the R&D credit so that it is simpler and more competitive to similar incentives offered by other nations.

Similarly, our members are interested in improving and modernizing the Domestic Manufacturing Deduction. While this deduction provides incentives for domestic manufacturing and can be used to reduce a company's overall tax rate, it is extremely complex and is not available to manufacturers that have suffered U.S. operating losses. This often harms smaller manufacturers who often stand to derive the greatest benefits from this deduction. Like the R&D credit, the Domestic Manufacturing Deduction could benefit from reform in order to become a more effective investment incentive.

OIDA looks forward to working with the Ways and Means Manufacturing Group on Tax Reform as it makes recommendations to the Ways and Means Committee on reforms and improvements to the tax code. We would look forward to any questions or the opportunity to provide additional information as requested by the Working Group.