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ALLIANCE FOR american manufacturing

April 15, 2013

Honorable Max Baucus
Chairman, Committee on Finance
United States Senate
Washington, DC 20510

Honorable Orrin Hatch
Ranking Member, Committee on Finance
United States Senate
Washington, DC 20510

Honorable Dave Camp
Chairman, Committee on
Ways and Means
United States House of Representatives
Washington, DC 20515

Honorable Sandy Levin
Ranking Member, Committee on
Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Baucus, Chairman Camp, Ranking Member Hatch, and Ranking Member Levin:

I am writing on behalf of the Alliance for American Manufacturing (AAM) to offer our views on the issue of tax reform. AAM is a unique partnership between the United Steelworkers and a number of its key employers that was created to foster a public policy agenda designed to revitalize America's manufacturing sector. As a labor-management partnership, AAM weaves together the often disparate views of employees and employers into forward-looking public policy proposals designed to overcome the hurdles that, all-too-often, limit action in Washington.

The impact of taxes on domestic manufacturing in the United States cannot be overstated. Indeed, as you well know, combined with trade policies, tax policies are dominant factors in the siting and investment decisions by manufacturing companies – small, medium and large. Between March 1998 and January 2010, employment in our nation's manufacturing sector dropped by 6.1 million jobs. While over 500,000 jobs have been reclaimed since the depth of the Great Recession, there is still a deficit of more than 5.5 million jobs in the manufacturing sector. Many of these jobs have moved because of rash policy actions and an absence of a coordinated, national manufacturing strategy. Tax reform, done correctly, could help reclaim more of these jobs and provide a foundation upon which we can build a stronger manufacturing base for the future. Poorly crafted, tax reform could bring an end to the modest recovery in manufacturing and, in turn, further accelerate outsourcing and coincident job loss here at home.

As history shows us, and as the most recent economic collapse clearly magnifies, a healthy productive sector ensures that our economy can grow sustainably and that wealth will be equitably distributed. Manufacturing's multiplier effect – the number of dollars created by each dollar of activity in the sector – outpaces every other major sector of our economy. The average wages paid to manufacturing workers exceed those of other similarly-situated workers. The sector is an engine of innovation, resulting in more patents, R&D expenditures, and engineers and scientists employed than any other sector. It is the bedrock of communities all across the country that has provided family-supportive jobs, investment and opportunity.

Tax reform is a complex undertaking that has enormous repercussions on our economy. Indeed, as the last major tax reform effort undertaken in 1986 showed, there are countless intended and unintended consequences that must be carefully examined and debated. It is vital that Congress not rush to act, guided by ideological prescriptions. Rather, serious study and rigorous deliberation is needed.

That does not mean that Congress should not undertake the effort to engage in comprehensive tax reform. But, an effort that is guided by the simple prescription designed to lower tax rates and broaden the base could, in the end, decimate America's manufacturing sector. There are a number of specific provisions in the current tax code that bear special scrutiny in light of the benefits that they currently provide to manufacturers – the withdrawal of which could have profound negative effects on U.S. competitiveness. This list is, in no way, exhaustive as other individual provisions in the tax code provide benefits that promote the development of new technologies and products which are key to our nation's future growth. In no order of priority, those provisions include:

- Section 199 Domestic Production Deduction
- Accelerated Cost Recovery
- Depletion Allowances
- Net Operating Losses
- Last-In, First-Out Accounting
- Interest Cost Deductibility
- Research & Development Tax Credit
- Current Tax Treatment of Employee Health Care and Pension Contributions
- Credit for Prior Year Minimum Tax

The President's National Commission on Fiscal Responsibility and Reform recommended the elimination or reduction of tax expenditures in order to generate the revenue necessary to lower the corporate tax rate to 28 percent. Some of the tax provisions subject to elimination under the fiscal commission's recommendations include accelerated depreciation, section 179 expensing, the domestic production deduction, and other widely-used business deductions that spur investment and production in the United States.

As studies have shown, capital intensive industries and those that have invested vast sums in creating productive capacity and jobs here in the U.S. would find their actual tax payments substantially higher with this single-minded approach to eliminate tax expenditures in order to reduce the corporate tax rate. In a deficit-neutral approach, the result of this effort would increase the taxes paid by producers here in the U.S. while lowering the tax burden on many other entities which do not make the same kind of long-term comprehensive and costly investments in the U.S.

According to a 2011 Ernst & Young study, a revenue-neutral corporate tax rate reduction financed by eliminating business tax credits and deductions would mean that manufacturers end up paying more. According to the report, "Eliminating all business tax expenditures would disproportionately hit the manufacturing industry" and "the biggest winners from using repeal of business tax expenditures to lower business tax rates to approximately 28% would be the retail and wholesale trade, information, transportation, finance and insurance, and services industries."

Thus, it is vital that the Committees look not only at the overall design of the tax code, but the impact of any potential changes on individual sectors. Each provision of the tax code must be reviewed in terms of its ability to achieve its stated public purpose and how that purpose can best be achieved in the context of reform. Reform should only be pursued if it enhances production, job creation and economic growth here in the United States. We are heartened by the creation of a specific working group on manufacturing as part of the efforts in the House Ways and Means Committee.

Manufacturing entities, as a result of the high capital costs associated with their investments which are made to ensure long-term viability must have certainty to invest. It is critical that any effort to reform the tax code be viewed as a long-term effort and not designed for short-term political gain at the cost of long-term competitiveness and viability. In addition, manufacturing companies have relied on Congress' actions and the law in terms of their current economic profile. If Congress is to adopt major changes in the tax code, it must spend considerable time addressing the transition from current law to a new system with the goal of maximizing economic growth and opportunity. Companies that have relied on current law must not be penalized in the transition that will occur.

Finally, we anticipate that there will be a significant number of employment opportunities within manufacturing over the coming decade, driven by the demographics of the current manufacturing workforce and other long-term trends, such as the competitiveness of energy-intensive industries. A challenge for manufacturers is that the secondary and post-secondary systems have atrophied over the past fifteen years, during which new hires of manufacturing workers reached post-World War II record lows. Since a well-prepared workforce is critical to the success of our manufacturers and to our economy, we strongly believe that tax incentives should be maintained for and afforded to manufacturers who make significant investments in secondary, post-secondary, mid-career, and other forms of education and training for their employees.

We would, of course, welcome the opportunity to sit down with you, committee staff, staff of individual members, and the Joint Committee on Taxation staff to discuss these and other issues. The Alliance for American Manufacturing is engaged in an intensive internal examination of the opportunities and challenges posed by tax reform and we look forward to sharing the fruits of that process with you and other interested stakeholders.

Sincerely,

Scott N. Paul
President

Cc: Members, Senate Committee on Finance
Members, House Committee on Ways and Means