

**Statement  
of the National Association of Manufacturers**

**For the Hearing Record  
of the  
Committee on Ways and Means  
U.S. House of Representatives**

**Hearing on  
“Tax Reform and the U.S. Manufacturing Sector”**

**July 19, 2012**

The NAM is the largest industrial trade association in the United States, representing over 11,000 small, medium and large manufacturers in all 50 states. We are the leading voice in Washington, D.C., for the manufacturing economy, which provides millions of high wage jobs in the U.S. and generates more than \$1.6 trillion in GDP. In addition, two-thirds of our members are small businesses, which serve as the engine for job growth. NAM members commend Chairman Camp and the Committee for holding a hearing on tax reform and the U.S. manufacturing sector.

Manufacturers have long believed that our current tax system is fundamentally flawed and discourages economic growth and U.S. competitiveness. To reverse these effects, the NAM supports lower tax rates on business income (including dividends and capital gains), a robust capital cost recovery system and a permanent and strengthened R&D incentive. We further support the adoption of a territorial tax system since current U.S. tax laws make it difficult for U.S. companies with worldwide operations to thrive and compete in the global marketplace. If U.S. companies cannot compete abroad, where 95 percent of the world’s consumers are located, the U.S. economy suffers from the loss of both foreign markets and domestic jobs that support foreign operations.

The NAM supports current efforts to make the tax code more pro-growth, pro-competitive, fairer, simpler and predictable. Because of the critical importance of manufacturing to our nation’s economy, any effort to rewrite the tax laws should result in a fiscally responsible plan that allows manufacturers in the United States to prosper, grow and create jobs.

While the NAM is a strong advocate for comprehensive reform of our current tax code, we also believe that it is important to keep our current tax system in place until policymakers agree on a final reform plan. In particular, we urge Congress to renew the tax extenders, like the R&D credit, the look-through rules and deferral for active financing, which will provide a bridge of certainty and predictability for manufacturers. These provisions help manufacturers innovate and compete in a global marketplace.

In contrast, the expiration or pending expiration of these and other business “tax extenders” represents a tax increase for manufacturers and businesses of all sizes that use these incentives. Similarly, other piece-meal changes or repeal of long-standing rules will inject more uncertainty into business planning, making U.S companies even less competitive and threaten economic growth and U.S. jobs.

As we move toward tax reform, we strongly urge you to revive and extend these important incentives that are part of the current system and avoid other changes that will make an uncompetitive system even worse.

## Overview

In anticipation of the current tax reform effort, NAM members developed a set of principles for comprehensive tax reform that incorporate Manufacturers' tax reform goals and also serve as a framework for evaluating proposals and developments as the tax reform debate moves forward. The following principles, which were approved by NAM's Board of Directors in March 2012, touch on several areas including business tax rates, international competitiveness and research and technology investment. More generally, the principles focus on several issues that need to be addressed to ensure a simpler, fairer, more predictable and more balanced code.

## Encouraging Investment and Job Creation

NAM members believe that any tax reform plan should encourage capital investment and job creation. To this end, a comprehensive tax reform plan should include:

- **Lower Corporate Tax Rates:** Reducing the corporate tax rate to 25 percent or lower would make the United States' tax system more competitive with our major trading partners. Any accompanying base broadening should recognize the impact of those changes on economic growth. Some current tax provisions, including capital cost recovery rules, are key to a strong manufacturing sector and broader economic growth and the benefits of these provisions should be maintained in a new system.
- **Lower Taxes for Flow-Through Businesses:** Two-thirds of manufacturers are organized as "flow-through" entities and pay taxes at individual rates. For these entities, it is critical that the tax rates on individuals be as low as possible. A new system should not increase the tax burden on these businesses to pay for other tax reform measures.
- **Permanent R&D Incentive:** It is critical that any tax reform plan recognize the important role of research and technology investment in the growth of U.S. jobs and innovation. The goal is for the United States to retain and attract global R&D activities. The certainty provided by a strengthened, permanent R&D provision would enhance its incentive value.
- **Taxation of Investment:** Keeping the tax rate on dividends and capital gains as low as possible and applying the same rate to all investment income will help public companies attract investors and allow them to finance investment and create jobs. An effective way to spur business investment and make the tax system more competitive is through a robust capital cost recovery.

## Promoting International Competitiveness

Current U.S. tax laws make it difficult for U.S. companies with worldwide operations to thrive and compete in the global marketplace. If U.S. companies cannot compete abroad, where 95 percent of the world's consumers are located, the U.S. economy suffers from the loss of both foreign markets and domestic jobs that support foreign operations. In order to make U.S. multinationals more competitive, in addition to lower corporate tax rates and a permanent R&D

incentive, the NAM supports the adoption of a competitive territorial tax system that meetings the following criteria:

- **Elimination of the double tax burden:** A U.S. territorial system should be based on the principle that there should be no double tax burden imposed by the United States. At a minimum, a new system should exempt active foreign earnings from taxation and avoid the imposition of a stealth tax on foreign earnings through expense allocations.
- **Alignment with international norms:** A U.S. territorial system should be structured to enhance U.S. competitiveness, not raise revenue. Moving to a territorial system like those used by other industrialized countries will allow U.S.-based companies to be more competitive.
- **A smooth and effective transition:** A move to a territorial tax system should include fair transition rules that allow repatriation of foreign-earnings on a voluntary basis, minimize administrative and compliance costs on companies and allow existing foreign business entities to compete with foreign-headquartered companies.

### **Ensuring a Simpler, Fairer and Balanced System**

A new tax system should be simpler and more administrable and should treat all businesses fairly without regard to size, type of entity or sector. Specifically, a comprehensive tax reform plan should meet the following criteria:

- **No Net Increase in Manufacturers' Tax Burden:** Any alternative that shifts more of the current tax burden on to manufacturers will hamper economic growth and job creation.
- **Elimination of the Alternative Minimum Tax:** A new system should eliminate both the individual and corporate alternative minimum tax rules, which are inherently complex and unfair.
- **Administerability:** A new system should incorporate rules that make it easier for Treasury to administer the law and for taxpayers to comply with the law. Unnecessary complexity is not productive from an economic perspective and undermines taxpayers' confidence in the fairness of the law.
- **Predictability:** A tax code that is predictable and that provides certainty is essential for effective business and tax planning. A fair and stable tax code will make it easier for U.S. manufacturers to compete in the global marketplace.
- **Transition Rules:** A new system must include broad transition rules that provide fair and equitable treatment for taxpayers that have generated substantial attributes based on current law. For example, it is important for transition rules to allow future timely utilization of tax attributes, e.g., net operating losses, alternative minimum tax credits, foreign tax credits, depreciation etc., that have been generated but not yet utilized under the current system.

## **Conclusion**

As outlined in NAM's "A Manufacturing Renaissance: Four Goals for Economic Growth,"<sup>1</sup> a key objective for the Association is to create a national tax climate that enhances the global competitiveness of U.S. manufacturers. Manufacturers very much appreciate the efforts of Chairman Camp and the members of the House Ways and Means Committee for their diligent work to reform the U.S. tax system to put U.S. manufacturers on a level playing field with their competitors in other countries, as well as making the United States a more competitive environment in which to do business. We appreciate the opportunity to share our thoughts and concerns with you. Manufacturers look forward to further discussing these issues and working with the Committee to achieve a pro-growth, pro-competitiveness and pro-manufacturing tax system.

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<sup>1</sup> Available at <http://www.nam.org/>

Supplemental Sheet

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