NATIONAL ASSOCIATION OF
Manufacturers

Testimony of

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Before the

U.S. House of Representatives
Committee on Ways and Means

Field Hearing on

"The One Big Beautiful Bill Delivering for the American Economy"

July 26, 2025

Chairman Smith, Ranking Member Neal, and members of the Committee on Ways and Means, thank you for inviting me to testify today on behalf of the 13 million people who make things in America. I serve as the President and CEO of the National Association of Manufacturers, representing manufacturers of all sizes, in every industrial sector, and in all 50 states. Today, I speak before this Committee on behalf of an energized and gratified industry—the manufacturing sector that powers America's prosperity—and an economic powerhouse that this Congress has made stronger for generations to come. The legislative achievement we are celebrating today is truly transformative for our industry. What you have achieved is nothing less than One Big Beautiful Manufacturing Law.

Six months ago, in the halls of the U.S. Capitol, Speaker Mike Johnson, Majority Leader Steve Scalise, Senate Finance Committee Chairman Mike Crapo, and Chairman Smith stood shoulder-to-shoulder with our team from the NAM. We stood together to sound an alarm: the Tax Cuts and Jobs Act, which had been rocket fuel for our industry, was at risk. The TCJA was a transformative investment that empowered the manufacturing sector at the heart of America to achieve the largest job growth in two decades, the largest wage growth in 15 years, and a spike in capital investments across our industry.

Yet the TCJA faced near-complete expiration at the end of the year.

We already knew that the TCJA's expiration would mean a body blow to the manufacturing industry. We knew it would inflict substantial and preventable harm to our workers and our families, to our national strength to innovate and lead on the world stage, to the communities that our industry makes whole, and to the society that our industry makes stronger. When we came together in January, the NAM was able to make crystal clear the glaring and specific stakes of inaction. According to our landmark study, released in partnership with EY, allowing the pro-manufacturing provisions of the TCJA to expire would devastate our economy. The toll would wipe out six million American jobs, more than half a trillion dollars in American wages, and more than a trillion dollars in U.S. GDP. That's because when manufacturing in America is diminished, the harm ripples out—hurting communities across the nation, even the communities far away from a factory floor.

Manufacturers and Congress lost no time, and we joined forces to turn those numbers into a rallying cry. And the January day when Congress and manufacturers stood together for the good of our industry foreshadowed everything that came after.

That's because the story of the One Big Beautiful Manufacturing Law is a story of serious, sincere partnership between our nation's leaders and our nation's leading industry—to protect and empower our ability to put more people to work, more innovation into the marketplace, and more investment into our communities. It's a story that brought Congress to the shop floors of manufacturers across the U.S. as much as it brought manufacturers to Congress. And thanks to Congress's vision and leadership—including and especially those of you serving on this Committee—the story of this monumental achievement reflects the voices, the views, and the hard-won experience of the full swath of the manufacturing sector, from the shop floors of small businesses to the headquarters of global companies.

In short, the One Big Beautiful Manufacturing Law reflects Congress's understanding of the fact—and your leadership to make certain—that when manufacturing wins, America wins. And three weeks ago, six months after we first gathered in January, manufacturing won.

When President Trump signed this bill into law, he made the investment of a generation in America's manufacturers. By building on the success of the TCJA, this Manufacturing Law gives manufacturers the certainty we need—and the tools to empower us—to invest, hire, and grow here in America.

Thanks to the leadership of this Committee, this Congress, this Administration, and this President, this law is a manufacturers' law, through and through.

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To fully appreciate the economic rocket fuel of the TCJA and the One Big Beautiful Manufacturing Law, it is important to view these laws in the context of history. Manufacturers have long supported pro-growth tax policy, dating back to at least President Reagan's Tax Reform Act of 1986. I grew up in a manufacturing family in southeastern Ohio, and came to D.C. to be a part of the Reagan Revolution—in part because I was inspired by the President's tax cuts for American families in 1981. I have seen firsthand how policy decisions made by leaders in Washington have strengthened the hand of our industry—through more factories that roar into life, more jobs that transform lives and livelihoods, and more communities emboldened by the dignity of work powering an America that leads. By the same token, I have seen and I have lived the consequences of policies that constrain manufacturing from investing, growing, hiring, building, competing, succeeding, and leading—where factories close, communities suffer, confidence falls, and the certainty that manufacturers need to build, plan, and hire falls by the wayside.

Guided by those hard-won lessons, I was drawn to President Reagan's vision for an economy driven by the private sector, supported by a competitive tax system, and serving as a bulwark of American leadership and power on the world stage. It is an honor to testify before you today here in his Presidential Library, and to be reminded that we can still live up to the values that the late President championed and that our manufacturing industry champions to this day: free enterprise, competitiveness, individual liberty, and equal opportunity.

As a junior Capitol Hill staffer, 1986 tax reform was my first real opportunity to put my ideals into action. I believed then, as I do now, that a strong domestic manufacturing base—incentivized to make things here at home by a pro-growth tax code—is foundational to America's economic success. And, beyond that, I knew that a robust manufacturing industry, supported by smart tax policy, truly enables the American dream—creating opportunities for families, generating tax revenue for communities to build roads, parks, and schools, driving prosperity at home, and strengthening our hand on the world stage. I certainly saw the power of a manufacturing career firsthand in my own family. When policymakers like yourselves prioritize manufacturing growth, what you're doing is empowering manufacturers to create well-paying jobs for millions of Americans and their families. That's precisely what President Reagan achieved in the 1986 tax reform, which reduced the U.S. corporate tax rate from 46% to 34% while also cutting taxes for American families.

Unfortunately, in the years that followed, the tax code was allowed to grow stagnant. America's competitors took steps to attract manufacturing investment to their shores, at our expense. Our corporate rate even increased by a point, to 35%, by President Clinton's budget bill in 1993. By the time President Trump was elected in 2016, the U.S. corporate tax rate was the highest in the OECD and the third highest in the entire world.

When I met with then-candidate Trump on the campaign trail in 2016, we discussed the vital importance of reducing the cost of doing business in the United States—particularly by reducing the tax burden on manufacturers in America. We even got into the specifics of what the corporate rate should be—agreeing that we should do all we could to push for an ambitious 15% rate. Once elected, President Trump announced his vision to make our nation more competitive via comprehensive tax reform at an NAM board meeting in 2017. As you all know, the TCJA got us closer to the 15% goal that he and I discussed, instituting a 21% corporate rate that brought the U.S. back in line with our peers in the OECD—while also enacting a suite of pro-growth tax policies beyond the corporate rate that were designed to spur domestic manufacturing investment.

But the work was not finished when the TCJA became law. Indeed, the road to the One Big Beautiful Manufacturing Law began on December 22, 2017—the date that President Trump signed the TCJA. Manufacturers were vocal proponents of 2017 tax reform because our industry was being held back by an outdated tax code that hadn't been substantially updated since President Reagan got it done in 1986. But we knew, even then, that passing the TCJA wasn't the end of the fight. Many of its pro-growth provisions were temporary, and their sunset was already on the horizon.

To preserve these policies, and to ensure Congress would one day make them permanent, manufacturers had to show that our industry could keep its promises: to use the tax savings from the TCJA to invest in America and in the American people.

From the moment the TCJA took effect, manufacturers in America rolled up their sleeves and did what we do best: we produced results. Job creation in our industry hit a 20-year high, and wages increased more than at any point in the preceding 15 years. Manufacturing capital spending grew 4.5% in 2018 and 5.7% in 2019. Our industry's value add to GDP rose by 7.6% from 2017 to 2019—*quadrupling* the increase in our contribution to GDP from 2015 to 2017. The TCJA was transformational to manufacturers' ability to build factories, innovate life-changing products, and expand the middle class here in the U.S.

But that progress was on the line coming into 2025. Pro-innovation, pro-investment incentives from the TCJA had already begun to sunset in 2022 and 2023. And most of the law's other policies were scheduled to expire at the end of this year. As I've said, the risk associated with these expirations was staggering—6 million American jobs, $540 billion in wages, and more than $1 trillion in GDP wiped out. Failure simply was not an option.

Thankfully, Congress rose to the challenge. Working with manufacturers to understand the stakes of these policies and to craft legislation to preserve them, you delivered a historic bill that, as I've said, is a manufacturers' law through and through.

- **Manufacturers asked Congress to prevent damaging increases to the corporate tax rate and to pass-throughs' tax rates.** This Manufacturing Law protects the 21% corporate rate and makes the TCJA's individual rates—at which pass-throughs pay tax—permanent.

- **Manufacturers asked Congress to preserve the pass-through deduction, which otherwise would have expired at the end of this year, and to prevent estate tax hikes on family-owned businesses.** This Manufacturing Law makes both the pass-through deduction and the estate tax exemption threshold permanent.

- **Manufacturers asked Congress to reinstate pro-investment, pro-innovation policies like immediate R&D expensing, full expensing for capital equipment purchases, and an EBITDA-based interest deductibility standard.** This Manufacturing Law revives each of these policies and makes them permanent.

- **Manufacturers asked Congress to preserve the TCJA's international tax system and bolster America's competitiveness.** This Manufacturing Law prevents the tax increases under FDII, GILTI, and BEAT scheduled for the end of 2025, and further improves these regimes for manufacturers with global operations.

Beyond these ten manufacturing priorities from the TCJA, Congress went even further to make this law a manufacturers' law: there's a new incentive for factory construction, an expansion of Section 179 capital equipment expensing, an increase in the advanced manufacturing investment credit, and improvements to the tax treatment of intangible drilling costs.

Thanks to the full suite of pro-growth tax policies included in the One Big Beautiful Manufacturing Law, every aspect of the manufacturing economy—from family-owned factories to multinational enterprises, across every sector and in every state—will be better equipped to compete and grow in the United States. In other words, you kept your promises to our industry. Just as manufacturers invested in America following the TCJA's passage in 2017, you invested in manufacturing with this historic legislation.

Today's hearing is a welcome opportunity to highlight that achievement. The One Big Beautiful Manufacturing Law shows that policymakers and manufacturers, working together, can ensure that the United States remains the best place in the world to make things.

Driving Investment and Innovation

Manufacturing is a capital-intensive industry. It can take years to plan, build, and operationalize a new factory, to get a new production line up and running, or to bring a new product to consumers. These complex, innovative processes require significant financial capital, as well as substantial investments in capital equipment—to say nothing of the human capital that powers our industry every day.

The tax code—and especially the TCJA—is designed to incentivize and support these types of job-creating investments.

- **Immediate R&D expensing** allows companies to deduct the entire cost of R&D investments in the year incurred. With manufacturers conducting 53% of all private-sector R&D in the U.S., policies that reduce the upfront costs of research—like immediate R&D expensing—are crucial to innovation across our industry and to our global competitiveness. Unfortunately, immediate R&D expensing expired in 2022. This damaging expiration meant that, prior to the new law, manufacturers were forced to amortize their domestic R&D expenses over five years, making it more expensive to get life-changing and life-saving research off the ground.

- **Full expensing for capital equipment** enables companies to write off investments in new equipment and machinery in the year of purchase. According to the nonpartisan Joint Committee on Taxation, manufacturers—and especially small manufacturers—have historically been the primary beneficiaries of accelerated depreciation incentives given the capital-intensive nature of our industry. The TCJA enacted 100% full expensing, leading to a boom in capital investments across manufacturing, but the policy began to phase down in 2023 and was scheduled to expire completely in 2027.

- **Interest deductibility** allows companies to deduct the interest payments they make on business loans, up to a limit. Job-creating projects, significant manufacturing investments, and efficiency-generating M&A activity often necessitate debt financing, and the ability to deduct interest payments on business loans reduces the cost of these pro-growth activities. The TCJA established an interest deductibility limitation of 30% of a business's EBITDA, meaning that any interest deductions in excess of that amount would need to be carried forward to a future tax year. In 2022, the limitation became stricter, shifting to 30% of a business's EBIT. This change made debt financing more expensive and limited manufacturing growth.

The One Big Beautiful Manufacturing Law reinstates each of these pro-growth, pro-manufacturing policies—and makes them permanent. Restoring the "tax trifecta" is the centerpiece of this bill for manufacturers, and the results should be immediate. No longer will job-creating manufacturing projects be held back and delayed as a result of tax uncertainty; instead, the tax code now supports and incentivizes these crucial investments—empowering manufacturers to invest for the future.

Beyond restoring these existing provisions, the One Big Beautiful Manufacturing Law also includes a new incentive for manufacturing growth: **immediate expensing for factory investments.** Prior to the new law, facilities were generally subject to a 39-year amortization period, essentially nullifying companies' ability to recover those costs. The factories deduction allows manufacturers to deduct the costs of new facilities, or improvements to existing facilities, in full in the year the costs are incurred. This is a dramatic, important policy change, and manufacturers appreciate members of this Committee being willing to go beyond existing incentives to find new and innovative ways to support manufacturing growth.

<u>Supporting Small and Pass-Through Manufacturers</u>

Manufacturing is an industry powered by small businesses—98% of manufacturing firms have fewer than 500 employees, and the lion's share of those employ fewer than 20 people. Additionally, more than 96% of manufacturers are pass-through businesses. These companies pay tax through their owners, meaning that the looming expiration of the pass-through deduction and the scheduled increase in the TCJA's individual tax rates had the potential to devastate large swaths of our industry. Additionally, many of these manufacturers are family-owned businesses, which would have been further harmed at the end of 2025 by the expiration of the TCJA's increased estate tax exemption threshold. Fortunately, Congress rose to the challenge in the One Big Beautiful Manufacturing Law and protected small and medium-sized manufacturers across the country from devastating tax increases.

- The TCJA created the **pass-through deduction** to reduce the effective tax rate for businesses organized as pass-throughs (S-corporations, partnerships, LLCs, and sole proprietorships). The deduction allows pass-throughs to deduct up to 20% of their qualified business income, freeing up capital for these businesses to reinvest in their employees and their growth. Without the new law, the pass-through deduction would have expired completely at the end of 2025—which, in an NAM survey, 93% of pass-through manufacturers reported would have harmed their ability to grow, create jobs, and invest in their business.

- The TCJA reduced **individual tax rates** across the board, benefitting American families as well as pass-through manufacturers—which generally pay tax at the top individual tax rate. The combination of the reduction in the top rate from 39.6% to 37% and the pass-through deduction resulted in significant tax savings for these small businesses—enabling them to invest in new equipment, machinery, facilities, and job creation. For example, a small business with $1 million in taxable income experienced tax savings in excess of $100,000 beginning in 2018 thanks to just these two changes. If not for the new law, individual rates would have reverted to pre-TCJA levels at the end of 2025.

- The TCJA significantly expanded protections from the **estate tax** for family-owned manufacturers. In our industry, family-owned businesses are a critical part of the manufacturing supply chain and pillars of their local communities. The estate tax harms family-owned manufacturers by forcing the next generation to pay tax on a business and its assets when a loved one passes away. The TCJA increased the value of assets that can be passed on without incurring the estate tax. This increase in the estate tax exemption threshold made a crucial difference for family-owned manufacturers, given that manufacturing businesses consist largely of assets like equipment and machinery that would have to be sold to pay the tax. Prior to the new law's enactment, the estate tax exemption threshold was scheduled to be reduced by half at the end of 2025, subjecting more family business assets to taxation and threatening the viability of these businesses when the owner passes away.

The One Big Beautiful Manufacturing Law makes permanent the pass-through deduction, the TCJA's individual rate cuts, and the increased estate tax exemption. Taken together, preserving these vital policies represents a dramatic increase in capital availability and a substantial decrease in tax uncertainty for small and medium-sized manufacturers in communities across the country. Without the looming threat of across-the-board tax increases, these businesses will be empowered to do what they do best: invest, build, grow, create jobs, and power local communities.

Bolstering American Competitiveness

Prior to the TCJA, the United States had a worldwide tax system, meaning that businesses' profits earned abroad were subject to the U.S. corporate income tax when repatriated to the United States. Companies faced a 35% U.S. corporate tax rate here at home—the highest in the OECD and the third highest in the entire world—incentivizing them to avoid repatriating earnings.

The TCJA implemented a competitive, pro-growth hybrid territorial system, anchored by the newly lowered corporate income tax rate, to support manufacturers' efforts to invest and create jobs here at home. Tax reform's international provisions were designed to make it easier and more cost-effective for manufacturers to locate their headquarters, assets, and intellectual property here in the United States. The One Big Beautiful Manufacturing Law upgrades and makes this system permanent, reinforcing the incentive to build in America while still enabling U.S. companies to grow and compete in foreign markets.

- The TCJA's more competitive 21% **corporate tax rate** made the U.S. a more attractive home for manufacturing investment. The corporate rate was made permanent by the TCJA, providing much-needed certainty to manufacturers planning long-term investments. Despite pressure by some to increase the rate, Congress held firm in the new law and preserved the 21% rate—protecting American competitiveness in the process.

- The **FDII** deduction reduces taxes for companies with job-creating, export-producing intellectual property in the U.S. This creates an incentive for companies to locate IP in the United States and helps manufacturers invest in job-creating R&D and production here at home. Prior to the new law, the FDII deduction was scheduled to decrease dramatically at the end of 2025.

- The **GILTI** regime imposes a minimum level of U.S. tax on foreign income earned in low-tax jurisdictions. GILTI disincentivizes shifting profits and assets away from the U.S.; in fact, since the TCJA's enactment, there have been zero corporate inversions—thanks both to the GILTI regime and to the broader pro-growth, pro-U.S.-investment effects of the law. The GILTI regime would have become much more punitive for globally engaged manufacturers at the end of 2025 without the new law, upsetting the balance that has made the TCJA international tax system so successful.

- The **BEAT** imposes a surtax on certain "base erosion payments," including royalties, interest, rent, and services, made by a U.S. company to a related foreign corporation. While the BEAT was designed to target erosion of the U.S. tax base, many of these transactions are made in a company's ordinary course of business—not to avoid U.S. taxation. If the BEAT had been allowed to increase, as it was scheduled to do, it would have subjected more of these payments to additional taxation, increasing the cost of doing business for manufacturers operating around the world.

The One Big Beautiful Manufacturing Law makes the FDII, GILTI, and BEAT regimes permanent, forestalling the tax increases on globally engaged manufacturers that otherwise would have taken effect at the end of this year. The new law also makes a series of pro-manufacturing changes to these policies, further bolstering their pro-competitive effect. Overall, these international provisions will support manufacturing investment in the United States, while providing the certainty and predictability necessary to facilitate that investment.

Building on the Manufacturing Law's Success: Strong, Swift, and Effective Implementation

As we continue to celebrate the One Big Beautiful Manufacturing Law, it is critical that we do everything we can to ensure it is as effective as possible at stimulating manufacturing growth in the U.S.

First and foremost, that means that Treasury must implement the law quickly, effectively, and in line with congressional intent. Some of the new law's provisions are time-limited—including the new factories deduction—so it is vital that Treasury move expeditiously to grant manufacturers the clarity and certainty they need to be able to rely on these policies when making investment decisions.

Other provisions were heavily debated as the tax law moved through the legislative process, including its changes to the tax code's strategic energy and manufacturing incentives, and the legislative text represents a final compromise that enabled the law's passage—making it crucial that Treasury, when implementing these policies, adhere to congressional intent on the definition of when a project "begins construction" and other provisions to ensure timely reshoring of key technologies. In other areas, Congress left key decisions up to Treasury, and manufacturers look forward to working with the agency in the coming months to maximize the law's pro-growth potential.

Swift and effective implementation will ensure that the law can induce the economic effects it was designed to, as soon as possible.

Catapulting Manufacturing to New Heights: A Comprehensive Manufacturing Strategy

The foundation of manufacturers' success is a strong and strategically focused tax code—as enacted by the One Big Beautiful Manufacturing Law. Now, Congress has the opportunity to build on that success—including through steps that better position manufacturers to seize the advantages that the new law provides. Even the strongest tax code will not guarantee the dominance of manufacturers in America at this decisive moment in a complex and evolving marketplace.

The NAM has long championed a comprehensive manufacturing strategy, with the specific goal of unlocking manufacturing growth and job creation. To build on the success of President Trump and this Congress in extending, expanding, and making permanent the President's 2017 tax reforms, this strategy also requires:

- **Permitting reform** that allows companies to get shovels in the ground quicker and more efficiently—maintaining public buy-in for projects while eliminating the threat of endless litigation that has too often stopped projects of all types in their tracks. In the race to lead in new industries and revitalize our infrastructure, it is unacceptable that the United States takes 80% longer than other major, developed nations to build things.

- **Infrastructure investments** that enable us to make and move products around the country and meet the needs of our modern, interconnected, digital economy.

- **American energy dominance,** powered by an all-of-the-above energy strategy, to power our industry—and a robust power grid that can handle the capacity we need, especially as manufacturers continue to incorporate AI into shop floor operations.

- **Commonsense trade policy** that ensures manufacturers have access both to imported inputs needed to make things in America and to export markets that enable us to sell around the world.

- **Workforce solutions,** like employer-driven skills training, apprenticeship-style programs, and a reformed immigration system that focuses on America's economic needs, to help manufacturers fill the 400,000 jobs currently open across the industry.

- **Modernized federal regulations** that will rebalance the $350 billion in annual regulatory costs weighing manufacturers down.

The effectiveness of these additional tactics would have been muted without the Manufacturing Law—but, with the bill now signed into law, Congress now has the opportunity to further bolster manufacturing in America. Manufacturers across our industry are committed to supporting policies that maximize the effectiveness of the One Big Beautiful Manufacturing Law and that empower our industry's efforts to drive our economy forward and improve the quality of life for all Americans.

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America was the pinnacle of global manufacturing during and after World War II. Our industry was crucial to America's role as the Arsenal of Democracy during the war, and that overwhelming industrial leadership laid the foundation both for victory overseas and the American century that followed. Under Presidents of both parties, with manufacturers at their sides, our nation rebuilt Europe, defeated the Soviet Union, and led the world into an unprecedented period of prosperity and growth.

Global competitors, though, rose to challenge our industrial supremacy. In the face of this new competition, manufacturing in the U.S. paid the price. America maintained its leadership in design and services—dominating the world of "bits" while surrendering to others, at least in part, the economic power that comes from making real things. Amid this change, we applied terms like the "Rust Belt" to describe entire regions of the country, referencing the rust accumulating on the shuttered factories that once were where countless Americans built up their lives and provided for their families. For a moment in time, America almost forgot who we were. We nearly lost our core identity as builders and makers, stretching from the founders, to the frontiersmen, to the industrial revolution, to the space race.

Our competitors were ready and willing to build their own manufacturing base at the expense of manufacturing in America. Today, China accounts for one-third of global manufacturing. They dominate key supply chains—at a time when the pandemic has shown us what vulnerable supply chains can mean for the U.S. economy.

As we awakened to these vulnerabilities and the strength of our new competitors, we had a choice: remain complacent and let China take the mantle of leadership for the 21st century, or do what Americans have always done—roll up our sleeves and get to work.

So we got to work. Manufacturers got to work. Congress got to work. The Forge of Freedom is blazing brightly once again. The Tax Cuts and Jobs Act and the One Big Beautiful Manufacturing Law will empower America to maintain global leadership in our new geopolitical and economic reality for generations to come.

The truth is that America can be both an advanced economy and a manufacturing superpower. Armed with the certainty we need, backed by the commonsense incentives and investments that make our industry strong, manufacturers will make that vision a reality. Congress, by passing this transformational law to lock in the pro-growth policies of the TCJA, has now done its part.

There's more to be done, of course—in addition to pro-growth tax policy, a comprehensive manufacturing strategy requires modernized regulations, energy dominance, workforce solutions, commonsense trade policy, and more. But tax policy is the foundation of manufacturers' ability to compete on the world stage and to give 13 million Americans and counting here at home the opportunity to create a better lives for themselves and their families. And a strong manufacturing economy is the foundation of economic growth and prosperity for a wide range of sectors and their workers—and for the American economy as a whole.

That's why manufacturers supported the One Big Beautiful Manufacturing Law, and why I want to extend manufacturers' sincere thanks to this Committee for your transformational leadership in making this law a reality. Because when manufacturing wins, America wins—and, through this tax law, manufacturers have won.