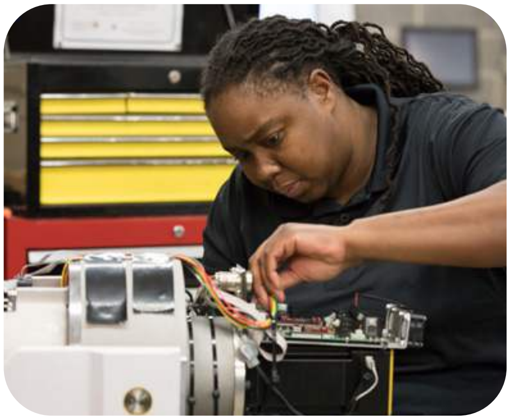
WHAT'S AT STAKE: MANUFACTURERS FACE DEVASTATING TAX INCREASES IN 2025



The 2017 Tax Cuts and Jobs Act was revolutionary for the manufacturing sector. Tax reform kick-started economic growth throughout the industry, providing a new foundation for the manufacturing economy to thrive. In 2018, manufacturing experienced the best year for job creation in 21 years and the best year for wage growth in 15 years; similarly, manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively. Manufacturers have used the savings from tax reform to grow their businesses, create jobs, raise wages, add new benefits for employees, fund research and development, purchase new equipment, expand their facilities and invest in their communities. When manufacturing grows, the economy grows.

Here's what's a risk: Critical tax reform provisions have already begun to sunset, and more are set to expire at the end of 2025—resulting in significant tax increases for virtually all manufacturers. Failing to preserve tax reform in its entirety will force manufacturers in America to reduce investments here at home and undermine the industry's economic competitiveness on the world stage. Congress and the president must act to prevent damaging tax increases from stunting manufacturing job creation, growth and innovation.

Pass-Through Deduction

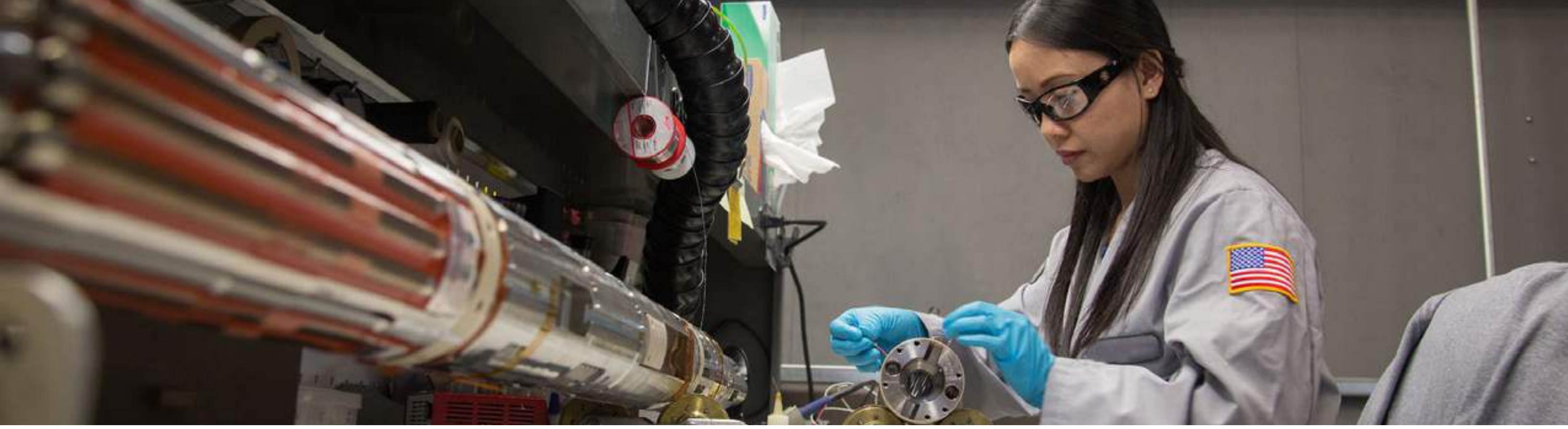
More than 96% of businesses in America are organized as pass-throughs, meaning that they pay tax at individual income tax rates. Tax reform created a 20% deduction to allow these small businesses to compete on a level playing field with their peers organized as corporations. This deduction allows pass-through manufacturers to deduct up to 20% of their business income on their personal returns, freeing up capital to reinvest in their employees and their growth.

The pass-through deduction will expire completely at the end of 2025. **A recent NAM survey found that 93% of pass-through manufacturers reported that the loss of this deduction will harm their ability to grow, create jobs and invest in their business.** Congress should make the pass-through deduction permanent to prevent damaging tax increases on small businesses.

Corporate Tax Rate

Prior to tax reform, the U.S. had one of the highest corporate tax rates in the entire world—and the single highest rate among our peers in the OECD—making the U.S. an expensive and uncompetitive place to do business. Tax reform reduced the corporate rate from 35% to 21%, stimulating economic activity here at home and bolstering America's competitiveness on the world stage.

The 21% corporate rate is not scheduled to expire; however, President Biden's FY 2025 budget proposed a 28% corporate rate—which would once again subject manufacturers in the U.S. to one of the highest rates of tax in the developed world. The U.S. simply cannot afford to return to a corporate tax system that punishes manufacturers for investing and creating jobs here in America.



Individual Tax Rates

Tax reform reduced income taxes for every American making more than $10,000 per year. Cutting taxes for American families bolstered spending power and financial security for manufacturing workers across the country.

These reforms also eased the tax burden on pass-through manufacturers, who generally pay tax at the top individual tax rate. The combination of the reduction in the top rate and the 20% pass-through deduction resulted in significant tax savings for these small businesses—enabling them to invest in new equipment, machinery, facilities and job creation. More than 74% of manufacturers have fewer than 20 employees, so it is crucial to the sector that Congress preserve tax reform's competitive tax rates for small businesses.

Individual tax rates are scheduled to increase to pre-2017 levels at the end of 2025. Congress must prevent these damaging tax hikes on manufacturers and manufacturing families.

Research and Development

For nearly 70 years, manufacturers in the U.S. were able to fully deduct their R&D expenses in the year incurred. But first-year R&D expensing expired in 2022, and manufacturers are now required to spread their R&D deductions over several years—making R&D investments significantly more expensive, especially for small and medium manufacturers. This harmful change increases the cost of conducting R&D in the U.S. at a time when our global competitors are offering robust R&D incentives—like China's 200% super deduction.

Manufacturers perform more than half of all private-sector R&D in the United States. Across the industry, manufacturers spend more than $350 billion annually on groundbreaking research. Congress must act to restore immediate R&D expensing and preserve America's leadership in R&D and innovation—and the economic growth that comes with it.

Full Expensing

Tax reform allowed manufacturers to immediately expense 100% of the cost of capital equipment purchases. Full expensing enabled manufacturers, and particularly small manufacturers, to purchase new equipment and expand their shop floors, leading to increased productivity and job creation. But this accelerated depreciation schedule began phasing out in 2023 and will expire completely in 2027. Capital-intensive industries like manufacturing are the primary beneficiaries of full expensing, and its expiration puts the sector's ability to invest in job-creating and job-sustaining equipment and machinery at risk.

This expiration comes at a time when other countries are implementing permanent full expensing. If Congress does not act, accelerated depreciation will be entirely absent from the U.S. tax code for the first time in decades—limiting manufacturers' ability to invest in the equipment and machinery they need to drive economic growth and job creation and making it more costly for businesses to invest in the U.S.

Interest Deductibility

Tax reform allowed manufacturers to deduct interest on business loans, up to a cap: 30% of a business's earnings before interest, tax, depreciation and amortization (EBITDA). But this pro-growth EBITDA standard expired in 2022, and the cap is now 30% of a business's earnings before interest and tax (EBIT).

By excluding depreciation and amortization expenses from the calculation, the EBIT standard makes debt financing more expensive—punishing manufacturers for investing in depreciable equipment and making it more costly and difficult for them to invest in growth and expansion. If Congress fails to restore an EBITDA standard, manufacturers will face significant limits to utilizing the debt financing necessary to get job-creating projects off the ground.

Estate Tax

More than 90% of businesses in America are family-owned. In the manufacturing 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. Tax reform 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.

The estate tax exemption threshold is 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. Congress should protect family-owned manufacturers by preserving the increased exemption threshold or by eliminating the estate tax altogether.

International Tax

Tax reform 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. But tax increases on globally engaged manufacturers are scheduled to take effect at the end of 2025 that will make the U.S. a less competitive place to invest.

The scheduled international tax changes will undermine the U.S.'s leadership on the world stage and make America a less attractive, more expensive home for manufacturing investment. Congress must preserve an international system that bolsters, rather than undermines, America's global competitiveness.