NATIONAL ASSOCIATION OF
Manufacturers

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Vice President,
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Rep. Kevin Hern
Chair, Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Rep. Blake Moore
Vice Chair, Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
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Rep. Mike Kelly
Global Competitiveness Tax Team
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Rep. Ron Estes
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Rep. Carol Miller
Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Rep. Randy Feenstra
Global Competitiveness Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chair Hern, Vice Chair Moore, Rep. Kelly, Rep. Estes, Rep. Miller and Rep. Feenstra:

On behalf of the National Association of Manufacturers and the 13 million people who make things in America, I write to you today as you begin your work to prevent the devastating tax increases that will take effect for manufacturers and manufacturing families at the end of next year. Manufacturing is the backbone of the American economy, and manufacturers look forward to working with the Ways and Means Global Competitiveness Tax Team to ensure our sector is able to compete on the global stage.

The 2017 Tax Cuts and Jobs Act was revolutionary for the manufacturing sector. Tax reform kickstarted years of economic growth throughout the industry, providing a new foundation for the manufacturing economy to thrive:

- In 2018, manufacturers added 263,000 new jobs, the best year for job creation in manufacturing in 21 years.[1]
- In 2018, manufacturing wages increased 3% and continued going up—by 2.8% in 2019 and by 3% in 2020. Those were the fastest rates of annual growth since 2003.[2]
- Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively.[3]

[1] Bureau of Labor Statistics, Current Employment Statistics, Manufacturing Employment, Seasonally Adjusted. *Available at* https://www.bls.gov/ces/data/.
[2] Bureau of Labor Statistics, Current Employment Statistics, Average Hourly Earnings for Production and Nonsupervisory Employees, Manufacturing, Seasonally Adjusted. *Available at* https://www.bls.gov/ces/data/.
[3] U.S. Census Bureau, Annual Survey of Capital Expenditures, Table 2A, Manufacturing. *Available at* https://www.census.gov/data/tables/2019/econ/aces/2019-aces-summary.html.

- Overall, manufacturing production grew 2.7% in 2018, with December 2018 being the best month for manufacturing output since May 2008.[4]

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 give back to their communities. However, critical tax reform provisions are set to expire at the end of 2025, resulting in significant tax increases for virtually all manufacturers. Congress and the president *must act* to prevent tax hikes from stunting manufacturing job creation, growth and innovation.

Preserving a pro-growth U.S. tax system is crucial for America's competitiveness on the world stage. TCJA's corporate tax rate reduction and international tax reforms work together to make the U.S. an attractive place for manufacturing investment. Congress should preserve TCJA's job-creating reforms and ensure that the U.S. tax code continues to support manufacturers' ability to invest for growth and to compete on the world stage.

Manufacturers Need a Competitive Corporate Tax Rate

The lowering of the United States' corporate tax rate from 35% to 21% was one of the most consequential aspects of the Tax Cuts and Jobs Act. Combined with a more competitive international tax system, the lower corporate tax rate stimulated economic activity here at home and bolstered America's competitiveness on the world stage.

In 2015, before the TCJA was signed into law, the United States not only had the highest corporate income tax rate among members of the OECD,[5] but also had the third highest rate among *all* countries globally. The 35% rate was established by the Revenue Reconciliation Act of 1993,[6] and in the nearly 25 years afterwards, countries around the world drastically lowered their corporate rates to out-compete the United States. The U.S. was an outlier among its peers, maintaining a rate that was 15 points higher than the OECD average in 2017.[7]

Prior to tax reform, there was broad consensus that the corporate rate needed to be lowered to restore America's global competitiveness. In the years leading up to TCJA, key members of the tax writing committees in both parties released proposals that included significantly lowering the corporate tax rate. For example, Ways and Means Chairman Dave Camp's draft tax reform legislation from 2014 had a corporate rate of 25%,[8] while Senate Finance Chairman Ron Wyden released a framework in 2011 with a 24% corporate rate.[9] President Obama proposed a 28% rate in 2012,[10] while President Trump, as a candidate in 2016, released a tax reform plan based on a 15% corporate rate.[11]

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[4] Federal Reserve Board of Governors, Industrial Production, Manufacturing, Seasonally Adjusted. *Available at:* https://www.federalreserve.gov/releases/g17/Current/default.html
[5] OECD Tax Database. *Available at*: https://www.oecd.org/tax/tax-policy/tax-database/
[6] Public Law 103-66
[7] OECD Tax Database. *Available at*: https://www.oecd.org/tax/tax-policy/tax-database/
[8] *See* Ways and Means Committee Chairman Dave Camp's "Tax Reform Act of 2014." *Available at* https://waysandmeans.house.gov/2014/02/26/camp-releases-tax-reform-plan-to-strengthen-the-economy-and-make-the-tax-code-simpler-fairer-and-flatter/
[9] *See* Senate Finance Committee Chairman Ron Wyden's "Bipartisan Tax Fairness and Simplification Act of 2011." *Available at* https://www.wyden.senate.gov/imo/media/doc/wyden-coats%20two%20pager.pdf
[10] Committee for a Responsible Federal Budget, "President Obama's Corporate Tax Reform Plan" (February 2012). *Available at* https://www.crfb.org/blogs/president-obamas-corporate-tax-reform-plan
[11] Tax Foundation, "Details and Analysis of Donald Trump's Tax Plan" (September 2016). *Available at* https://taxfoundation.org/research/all/federal/details-analysis-donald-trump-tax-plan-2016/

In 2015, the Senate Finance Committee's "Business Income Bipartisan Tax Working Group," chaired by Sens. Ben Cardin (D-MD) and John Thune (R-SD), submitted a report to the committee stating:

> "If there is one element of business tax reform that appears to have very broad support, it is the need for a substantially lower corporate tax rate. Despite the multitude of differences in previous tax reform proposals, they have all included a lower corporate tax rate. This is, no doubt, a reflection of the very high U.S. corporate tax rate relative to our major competitors and recognition of the downward trend of corporate tax rates in recent years." [12]

The arguments for a lower and more competitive corporate rate are simple: reducing job-creators' tax burden directly translates to an increase in investments, job creation, wage growth, economic expansion and a stronger supply chain. In short, a lower corporate rate makes the United States a more attractive home for manufacturing investment—and the associated job creation and economic growth.

The 21% corporate rate is not scheduled to expire at the end of 2025, unlike many other TCJA provisions. 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.[13]

Manufacturers throughout the supply chain are calling on Congress to preserve tax reform in its entirety—including the 21% corporate rate. The manufacturing industry simply cannot afford the economic damage associated with a devastating increase in the corporate rate. On the other hand, maintaining a competitive corporate rate will enable manufacturers to continue leading on the world stage while driving innovation and job creation here at home.

Manufacturers Rely on a Pro-Growth International Tax System

Tax reform implemented a competitive international tax system, anchored by the newly lowered corporate income tax rate, that supports manufacturers' efforts to invest and create jobs here at home. These reforms changed the way foreign-sourced income earned by U.S. companies and their foreign subsidiaries are taxed. The TCJA enacted a host of new tax policies in the international space, including the Global Intangible Low-Taxed Income (GILTI) regime, the Base Erosion Anti-Abuse Tax (BEAT) and the Foreign-Derived Intangible Income (FDII) deduction.

The GILTI regime functions as a global minimum tax, designed to ensure that a company's foreign earnings are subject to a minimum level of tax. It works together with the BEAT to broaden the U.S. tax base as an important counterpart to the lower corporate rate. FDII allows for a deduction on income derived from certain intangible and tangible products and services in foreign markets. These three provisions, along with the lower corporate rate and updated territorial tax system, work in concert to encourage companies to keep their operations here at home.

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[12] Senate Finance Committee, "The Business Income Bipartisan Tax Working Group Report." *Available at* https://www.finance.senate.gov/imo/media/doc/The%20Business%20Income%20Bipartisan%20Tax%20Working%20Group%20Report.pdf

[13] Tax Foundation, "Corporate Tax Rates Around The World, 2023" (December 2023). *Available at* https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2023/.

Like many aspects of the TCJA, there was broad bipartisan consensus that the tax code needed to be updated, especially when it came to our international tax system. The Senate Finance Committee Bipartisan International Tax Working Group stated in their report:

> "By standing still, the United States has fallen behind other countries that have adopted modern international tax rules to help their companies and workers compete in the global marketplace…The co-chairs agree that we must take legislative action soon to combat the efforts of other countries to attract highly mobile U.S. corporate income."[14]

Congress accomplished these goals by lowering the U.S.'s corporate tax rate and providing further incentives for manufacturing investment in the U.S.; policymakers should not allow our international tax system to fall back to an ineffective system that makes it more difficult for manufacturers to compete internationally.

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. In particular, the GILTI rate will increase from 10.5% to 13.125%, while the BEAT will increase from 10% to 12.5%, resulting in tax increases on globally engaged manufacturers. Additionally, the FDII deduction is scheduled to decrease from 37.5% to 21.875%, which means an increase in the effective tax rate from 13.125% to 16.406% for companies utilizing the deduction.

Beyond these scheduled expirations, President Biden's FY 2025 budget proposed several harmful changes to the international system, including raising the GILTI rate to 20% and repealing the FDII deduction completely.

Congress must not allow policies to take effect that would limit manufacturers' competitiveness on the world stage. At a time when other countries and foreign tax bodies are attempting to impose their own aggressive tax regimes that directly target manufacturers in America, Congress should work to preserve our current system and prevent any harmful changes increase taxes on globally engaged companies.

Manufacturers call on Congress to protect both the lower corporate rate and TCJA's international provisions—the combination of which has bolstered U.S. competitiveness and manufacturing growth.

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Manufacturing employs 13 million Americans, contributes $2.81 trillion to the U.S. economy annually and has one of the largest multiplier effects in the economy. Taken alone, manufacturing in the United States would be the seventh-largest economy in the world. But that economic leadership, and therefore the economic security of American families, is in jeopardy if Congress fails to preserve a competitive tax code.

Manufacturers appreciate the thoughtful consideration that the Global Competitiveness Tax Team is giving to how the tax code impacts our sector. Preventing damaging increases in the corporate rate and expirations of key international tax provisions will be a critical challenge in

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[14] Senate Finance Committee, "The International Tax Bipartisan Working Group Report". *Available At:* https://www.finance.senate.gov/imo/media/doc/The%20International%20Tax%20Bipartisan%20Tax%20Working%20Group%20Report.pdf

2025. If Congress fails to preserve tax reform in its entirety, it will cost millions of jobs and put the American manufacturing sector at a severe disadvantage globally. Congress should pursue tax policies that strengthen manufacturing in the U.S., ensuring that America remains a globally competitive home for manufacturing investment.

Sincerely,

Charles Crain
Vice President, Domestic Policy
National Association of Manufacturers