

Charles Crain

Vice President,  
Domestic Policy

June 27, 2024

Rep. Ron Estes  
Chair, U.S. Innovation Tax Team  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

Rep. Michelle Steel  
Vice Chair, U.S. Innovation Tax Team  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

Rep. David Schweikert  
U.S. Innovation Tax Team  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

Rep. Drew Ferguson  
U.S. Innovation Tax Team  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

Rep. Kevin Hern  
U.S. Innovation Tax Team  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

Rep. Greg Murphy  
U.S. Innovation Tax Team  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Chair Estes, Vice Chair Steel, Rep. Schweikert, Rep. Ferguson, Rep. Hern and Rep. Murphy:

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. Innovation is at the heart of manufacturing growth, and manufacturers look forward to working with the Ways and Means U.S. Innovation Tax Team to protect our sector's ability to conduct groundbreaking research and development here in the U.S.

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.<sup>1</sup>
- 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.<sup>2</sup>
- Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively.<sup>3</sup>

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<sup>1</sup> Bureau of Labor Statistics, Current Employment Statistics, Manufacturing Employment, Seasonally Adjusted. Available at <https://www.bls.gov/ces/data/>.

<sup>2</sup> 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/>.

<sup>3</sup> 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.<sup>4</sup>

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 have already begun to sunset, with more scheduled 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.

Manufacturers encourage Congress to support research and innovation throughout the manufacturing industry by allowing manufacturers to immediately expense their R&D costs in the year incurred. We also urge Congress to preserve tax reform's competitive international tax system, which encourages companies to invest in R&D here at home. Ensuring that the U.S. tax system supports manufacturers' ability to invest for growth will strengthen our country's supply chain, encourage domestic investment and enable manufacturers to compete on the world stage.

### **Manufacturers Need A Pro-Growth R&D System to Compete**

For nearly 70 years, the U.S. tax code recognized the vital importance of R&D for businesses trying to compete and innovate. Until recently, manufacturers in the U.S. were able to fully deduct their R&D expenses in the year incurred. However, immediate R&D expensing expired in 2022, and manufacturers are now required to amortize their R&D expenses over several years. 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. Now, the U.S. tax code puts manufacturers in America who invest in R&D at a severe disadvantage, drastically reducing the tax savings associated with R&D expensing and thus reducing the additional capital manufacturers have available to invest for the future.

The federal government has historically prioritized investments in R&D as a way to secure our country's place as a world leader in innovation. In 1960, the United States accounted for 69% of global R&D. However, from 1960 to 2019, the U.S. share of global R&D fell to 30%. Further, since 2002, countries such as China, the United Kingdom and Korea have outpaced the U.S. in growth in R&D expenditures, with these countries making R&D a national priority over the past two decades.<sup>5</sup>

A report from the European Union found that both the EU and China gained a significant advantage after the expiration of the TCJA R&D tax policies.<sup>6</sup> In 2022, the first full year after immediate expensing for R&D expired in the United States, EU R&D growth surpassed the U.S. for the first time in nearly a decade. Even more worrisome, China's R&D growth tripled that of the United States in 2022. Seventeen countries now provide a deduction that is more than

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<sup>4</sup> Federal Reserve Board of Governors, Industrial Production, Manufacturing, Seasonally Adjusted. Available at <https://www.federalreserve.gov/releases/g17/Current/default.html>

<sup>5</sup> American Association for the Advancement of Science "U.S. R&D and Innovation in a Global Context: The 2024 Data Update" (April 2024). Available at <https://www.aaas.org/sites/default/files/2024-04/AAAS%20Global%20RD%20Update%202024.pdf>

<sup>6</sup> "EU Industrial R&D Investment Scoreboard" (2023), Available at <https://op.europa.eu/en/publication-detail/-/publication/1e5c204f-9da6-11ee-b164-01aa75ed71a1/language-en>.

100% of eligible R&D expenses, further making the United States a less attractive place to conduct R&D.

Manufacturers challenge themselves every day to provide our customers with a good reason to spend their dollars here. The private sector accounts for more than 75% of total R&D spending in the U.S.,<sup>7</sup> with small businesses spending more than \$90 billion on R&D each year.<sup>8</sup> Manufacturers perform more than half of all private-sector R&D—across the industry, manufacturers spend more than \$350 billion annually on groundbreaking research. Meanwhile, countries around the world are implementing more favorable R&D policies than in the United States. Congress must act to restore immediate R&D expensing and preserve America's leadership in R&D and innovation.

### **Manufacturers Rely on a Competitive International Tax System**

Tax reform implemented a competitive, pro-growth territorial 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 income earned abroad is taxed, creating a far more competitive and desirable market in the U.S. The TCJA enacted a host of new policies in the international space, including the Foreign-Derived Intangible Income (FDII) regime.

The TCJA provides a deduction with respect to FDII, which Congress created to encourage multinational corporations to increase investments in the United States. To increase the U.S. tax system's competitiveness, FDII allows for a deduction on income derived from certain intangible and tangible products and services in foreign markets. Companies can currently deduct 37.5% of their FDII against their taxable income, bringing their effective rate on each dollar of FDII down to 13.125%.

Like many aspects of the TCJA, there was broad bipartisan consensus that our 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.”<sup>9</sup>

Congress accomplished these goals by lowering the U.S.'s corporate tax rate and providing further incentives for income associated with intellectual property; policymakers should not allow our international tax system to fall back to an ineffective system that discourages investment.

Tax increases on globally engaged manufacturers are scheduled to take effect at the end of 2025. Of specific relevance to the U.S. Innovation Tax Team, the FDII deduction will decrease from 37.5% to 21.875%, resulting in an effective tax rate increase from 13.125% to 16.406%.

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<sup>7</sup> National Center for Science and Engineering Statistics, National Science Foundation, National Patterns of R&D Resources: 2020-21 Data Update, NSF 23-321 (Jan. 4, 2023), *Available at* <https://nces.nsf.gov/pubs/nsf23321>.

<sup>8</sup> National Center for Science and Engineering Statistics, National Science Foundation, InfoBrief, NSF 22-343 (Oct. 4, 2022), *available at* <https://nces.nsf.gov/pubs/nsf22343> and InfoBrief, NSF 23-305 (Dec. 14, 2022), *available at* <https://nces.nsf.gov/pubs/nsf23305>.

<sup>9</sup> 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>

This change, among others scheduled for the end of next year, will make it more costly for manufacturers to compete globally. Manufacturers call on Congress to protect both the lower corporate rate and the new international provisions, which have bolstered U.S. competitiveness on the world stage.

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Manufacturing employs 13 million Americans, contributes \$2.81 trillion to the U.S. economy annually, pays workers 18% more than the average for all businesses and has one of the largest multipliers 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 tax reform in its entirety before the end of next year.

Manufacturers appreciate the thoughtful consideration that the U.S. Innovation Tax Team is giving to how the tax code impacts our sector. Protecting innovation and R&D throughout the manufacturing industry will be a critical challenge in 2025. Failing to act in 2025 will cost millions of jobs and put the American manufacturing sector at a severe disadvantage globally, building on the damage the sector has incurred since the expiration of immediate R&D expensing in 2022. Congress should pursue tax policies that strengthen manufacturing in the U.S., ensuring that America remains a globally competitive home for manufacturing investment.

Sincerely,

A handwritten signature in black ink that reads "Charles F. Crain". The signature is written in a cursive, slightly slanted style.

Charles Crain  
Vice President, Domestic Policy  
National Association of Manufacturers