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Vice President,
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The Honorable Ron Wyden
Chairman
Committee on Finance
U.S. Senate
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
Committee on Finance
U.S. Senate
Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo:

On behalf of the National Association of Manufacturers and the 13 million people who make things in America, I write to you today about the impact that the tax code can have on manufacturers organized as pass-through entities, which are subject to taxation at individual income tax rates. Ensuring that the U.S. tax system supports growth and job creation for these firms – many of which are small businesses – should be paramount for the committee as you conduct today’s hearing.

Approximately 96% of businesses in the United States are organized as pass-throughs,¹ meaning that the profits of the business are “passed through” to the business owner or owners. These individuals pay income tax on those earnings on their personal returns, with their tax obligations determined by the individual income tax rates.

In the manufacturing sector, pass-throughs are typically small, family-owned businesses. Across the sector, 93% of manufacturers have fewer than 100 employees, while 75% have fewer than 20 employees. Pass-through owners pay tax on the business’s income—often at the highest individual tax rate—and then reinvest the profits back in the company to create innovative new products, provide competitive wages and benefits to their employees, purchase new equipment, upgrade their facilities and more. Having the business’s income on their personal returns may land these individuals in higher-income tax brackets, but that income is used for job creation, investment and manufacturing growth.

In November 2023, the last time this committee examined how the tax code impacts high-income earners, Chairman Wyden said that “Americans deserve a tax system that can be both fair and encourage success.”² Manufacturers agree. Indeed, small manufacturers experienced extraordinary growth as a result of the Tax Cuts and Jobs Act’s reforms that make the tax system more fair for pass-through businesses, by enacting a 20% pass-through deduction and reducing individual income tax rates. For a small manufacturer with \$1 million in taxable income, the combination of these provisions reduced their tax bill by more than \$100,000 as compared to pre-TCJA—a significant capital infusion that could be invested in business growth. Thanks to

¹ Congressional Research Service, “Section 199A Deduction for Pass-Through Business Income: An Overview” (March 2024). Available at: https://www.everycrsreport.com/files/2024-03-22_IF11122_827ba9d5373fd4f44d9054bfb20376459d05e20b.pdf

² Senate Finance Committee, “Wyden Statement at Finance Committee Hearing Examining Tax Dodging Schemes Used by Ultra-Wealthy Americans” (November 2023). Available at: https://www.finance.senate.gov/imo/media/doc/11092023_wyden_statement.pdf

these changes, 2018 was the best year for manufacturing job creation in 21 years³ and the best year for wage growth in 15 years.⁴ But this progress is at risk, as the TCJA's pass-through reforms are scheduled to expire at the end of 2025.

In a recent NAM survey, 93% of pass-through manufacturers said losing the pass-through deduction will cost jobs, growth and investment for their business.⁵ To protect pass-through manufacturers from devastating tax increases, Congress should make permanent the Section 199A deduction and prevent the individual income rates from increasing at the end of 2025. Together, these policies free up capital for pass-through owners to reinvest in their businesses, supporting millions of manufacturing workers. Similarly, Congress should protect family-owned pass-throughs from scheduled changes to the estate tax that could require liquidation of business-critical assets when a business owner dies.

As this committee knows, these are not the only tax expirations impacting manufacturers in America. Before Congress adjourns in 2024, manufacturers are calling on Congress to reinstate immediate R&D expensing, restore a pro-growth interest deductibility standard and return to 100% accelerated depreciation. The expiration of these pro-growth tax policies has undercut America's manufacturing leadership, and manufacturers respectfully encourage Congress to revive these provisions—both this year and again in 2025—so that manufacturers can get back to work at their full capacity.

The manufacturing sector 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. 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 this committee's focus on the work before Congress next year, as the manufacturing economy faces a range of devastating tax increases. Manufacturers are counting on members of this committee to ensure that the tax code supports manufacturing growth and investment at companies of all sizes—including small and family-owned pass-through businesses. Failing to protect these companies from tax increases will cost millions of jobs and put American manufacturing at a severe disadvantage. Manufacturers look forward to working with you on tax policies that support small businesses here at home and American competitiveness on the world stage.

Sincerely,



Charles Crain
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National Association of Manufacturers

³ Bureau of Labor Statistics, Current Employment Statistics, Manufacturing Employment, Seasonally Adjusted. Available at <https://www.bls.gov/ces/data/>.

⁴ 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/>.

⁵ NAM Manufacturers' Outlook Survey, Second Quarter 2024. Available at: <https://nam.org/2024-second-quarter-manufacturers-outlook-survey/>