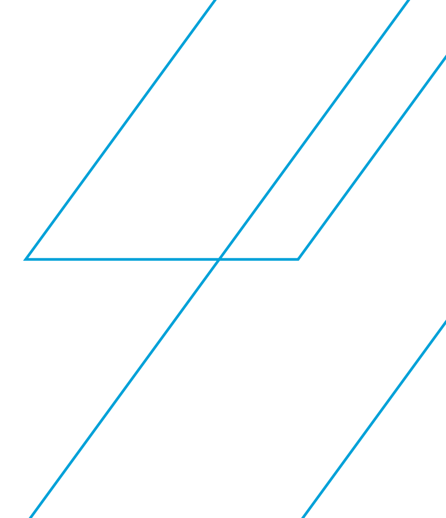

WHAT'S AT STAKE:

MANUFACTURERS FACE DEVASTATING TAX INCREASES IN 2025

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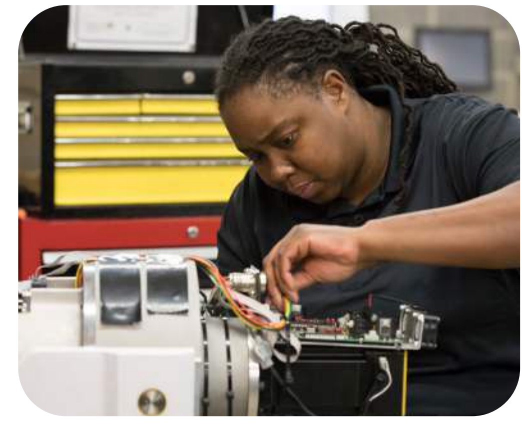
WHAT'S AT STAKE: MANUFACTURERS FACE DEVASTATING TAX INCREASES IN 2025



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, some policymakers have suggested raising the corporate rate as high as 28%—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.

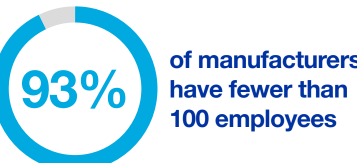
The estate tax exemption threshold is scheduled to be reduced by half at the end of 2025, subjecting more family business assets to taxation and threatening the viability of these businesses when the owner passes away. Congress should protect family-owned manufacturers by preserving the increased exemption threshold or by eliminating the estate tax altogether.

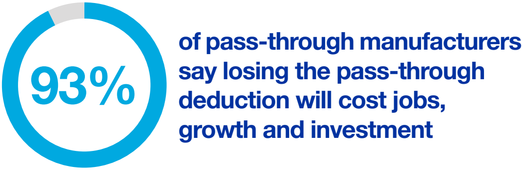
International Tax

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.

WHAT'S AT STAKE: PASS-THROUGH DEDUCTION AND INDIVIDUAL INCOME TAX RATES





› What is a pass-through?

The defining feature of a pass-through is that its business profits are "passed through" to the business owners, who pay income tax on those earnings on their personal returns. Pass-throughs can be structured as S-corporations, partnerships, limited liability companies or sole proprietorships.

More than 96% of businesses in America are organized as pass-throughs. In the manufacturing industry, 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.

› How are pass-through manufacturers taxed?

Because pass-throughs' earnings flow to the owners of the business, they pay tax at individual income tax rates based on their income each year. Most pass-through manufacturers pay tax at or near the top individual rate. They are not subject to corporate income taxation.

Critically, while a pass-through's owners are responsible for its tax obligations, the business's earnings do not go into the owners' pockets—but rather are reinvested in employees, equipment, machinery, facilities and more.

› How did tax reform impact pass-through manufacturers?

Tax reform instituted a new deduction to help pass-throughs invest in their businesses. The Section 199A pass-through deduction allows pass-through manufacturers to deduct up to 20% of their qualified business income, decreasing their effective tax rate.

Tax reform also lowered the top individual income tax rate from 39.6% to 37% while adjusting the top tax bracket, further reducing pass-throughs' tax obligations.

What did these changes mean for pass-through manufacturers?

In combination, the pass-through deduction and the lower individual rates freed up significant capital for pass-through manufacturers to invest in their businesses. Across the manufacturing industry, 2018 saw the best year for manufacturing job creation in 21 years and the best year for wage growth in 15 years.

This progress was driven by small manufacturers' ability to use more of their hard-earned income for capital equipment purchases, R&D and other job-creating investments. For example, thanks to the pass-through deduction and the individual rate reductions, a small pass-through manufacturer with $1 million in taxable income saw its tax obligations reduced by more than $100,000 from 2017 to 2018.

Tax Reform's Pass-Through Changes Free Up Capital for Job Creation and Growth

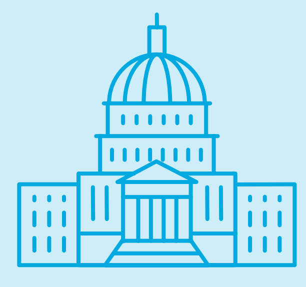
Chart illustrates federal tax owed before and after pass-through deduction and individual rate changes for pass-through manufacturer with $1 million taxable income

What's at stake for pass-through manufacturers in 2025?

The 20% pass-through deduction is set to expire at the end of 2025. Additionally, individual income tax rates and brackets are scheduled to revert to their pre-tax reform levels.

The combination of these changes will be a one-two punch for pass-throughs across the country. A recent NAM survey found that 93% of pass-through manufacturers said that the loss of the pass-through deduction will harm their ability to grow, create jobs and invest in their business.

If Congress allows the pass-through deduction to expire and individual income tax rates to rise, pass-throughs' effective tax rate will increase by at least 10 percentage points—a drastic tax hike for small businesses across the country.



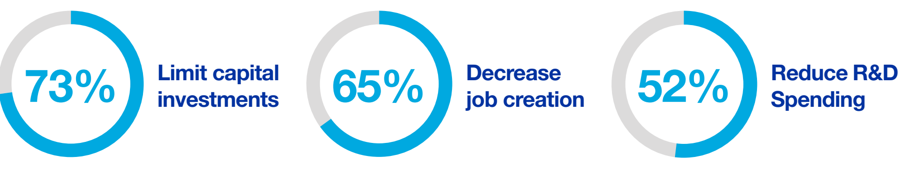
What should Congress do to protect pass-through manufacturers?

Congress must make the pass-through deduction permanent and keep the individual income rates as low as possible. The 96% of American businesses organized as pass-throughs are depending on Congress to protect them from devastating tax increases.

WHAT'S AT STAKE: CORPORATE TAX RATE

94% of manufacturers want Congress to prevent damaging tax increases

Tax increases would force manufacturers to:



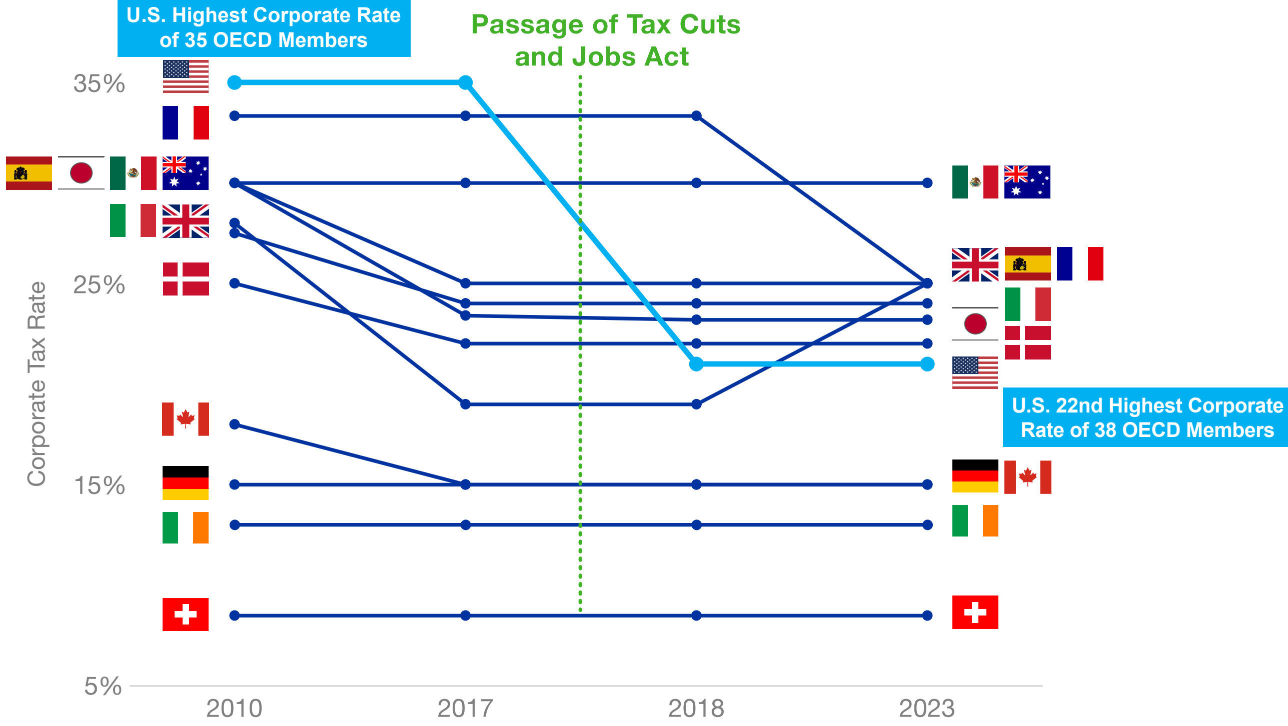
What is the corporate income tax?

A C-corporation is an entity in which the business and its owners are taxed separately.

C-corporation income is first taxed at the entity level (via the corporate income tax) and then again at the individual level when profits are distributed to shareholders (via capital gains taxation). A C-corporation's federal income tax obligations are dictated by the corporate income tax rate.

What was the corporate tax rate prior to tax reform?

Prior to 2017 tax reform, the United States' corporate tax rate was 35%. This was the highest corporate rate in the OECD and the third-highest rate in the entire world. The U.S. was an outlier among our global competitors, maintaining a corporate rate 15 points higher than the OECD average—and there was bipartisan consensus that the 35% rate was preventing manufacturers in America from competing on the world stage.

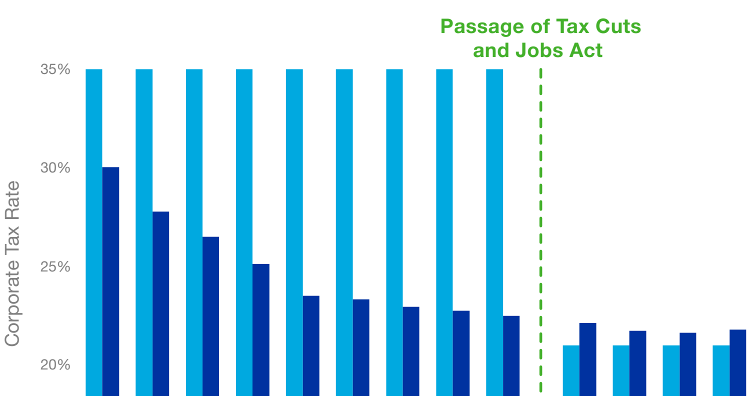


NATIONAL ASSOCIATION OF Manufacturers

How did tax reform make the corporate rate more competitive?

Tax reform lowered the corporate rate from 35% to 21%. Among the 38 countries in the OECD, the U.S. now has the 22nd highest corporate rate—instead of the highest, as was the case prior to tax reform.

Prior to tax reform, America's peers were steadily lowering their corporate rates to out-compete manufacturers in the U.S. The 21% rate realigned the U.S. corporate rate with the average corporate rate elsewhere in the OECD, making the United States a more attractive home for manufacturing investment, job creation and economic growth.



How did a lower corporate rate benefit manufacturers?

Reducing manufacturers' tax burden directly led to an increase in investments, job creation, wage growth and economic expansion. In 2018, the year the 21% corporate rate took effect, manufacturers created more than 260,000 jobs (the best year for job creation in 21 years) and increased wages by 3% (the best year for wage growth in 15 years).

This was because tax reform removed barriers to growth that had been holding manufacturers back: NAM surveys conducted prior to tax reform found that nearly 80% of manufacturers were struggling with unfavorable business conditions like high taxes—a figure that dropped to just 12% following the reduction in the corporate rate.

What's at stake for the corporate rate in 2025?

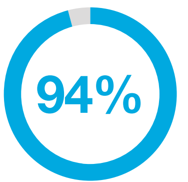
The 21% corporate rate is not scheduled to expire at the end of 2025, unlike many other tax reform provisions. However, some policymakers have suggested raising the corporate rate as high as 28%—which would once again subject manufacturers in the U.S. to one of the highest rates of tax in the developed world. Increasing the corporate tax rate would erase the economic gains manufacturers have made under tax reform, resulting in fewer jobs, lower wages, reduced community investment and less innovation.

What should Congress do to protect manufacturers taxed at the corporate rate?

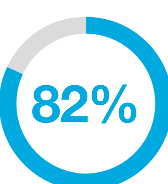
Manufacturers are calling on Congress to preserve tax reform in its entirety—including the 21% corporate tax rate.

The manufacturing industry simply cannot afford the economic damage associated with a devastating increase in the corporate rate. Instead, Congress should maintain a globally competitive corporate rate—enabling manufacturers to continue leading on the world stage while driving innovation and job creation here at home.

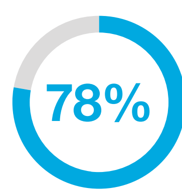
WHAT'S AT STAKE: RESEARCH AND DEVELOPMENT



of manufacturers believe it is important that the tax code reduce the cost of conducting R&D



of manufacturers said that immediate R&D expensing was important to the manufacturing sector



of manufacturers reported that tax changes increasing R&D costs would decrease the funds they have available to grow U.S. manufacturing activity

How does the tax code treat manufacturers' R&D expenses?

For more than 70 years, manufacturers in the U.S. could immediately expense their R&D spending, meaning that they could fully deduct their R&D expenses in the same year they were incurred. Congress enacted this policy to encourage manufacturers to develop new products, materials and processes that drive U.S. economic and scientific leadership.

Unfortunately, however, immediate R&D expensing expired in 2022—posing a real threat to manufacturing innovation in the U.S.

Why is immediate R&D expensing important to manufacturers?

American manufacturers drive more innovation than any other industry, with the manufacturing sector performing more than half of all private-sector R&D in the United States. In 2021, the last year immediate R&D expensing was in effect, manufacturers spent $340.5 billion on R&D.

Crucially, 75% of companies' R&D spending goes to workers' salaries—so sound R&D tax policy is first and foremost a jobs issue. For every $1 billion spent on R&D, 17,000 jobs are supported in the U.S.

Immediate R&D expensing reduces the cost of these vital R&D investments, making it easier and more efficient for manufacturers to conduct groundbreaking, job-creating research here in the United States.

How has the tax code's treatment of R&D changed?

Immediate R&D expensing expired in 2022. As a result, manufacturers can no longer immediately deduct their R&D spending, making research more costly to conduct. Instead, manufacturers now must claim fractions of the R&D tax deduction over multiple years, a concept known as amortization. R&D amortization delays the tax benefit associated with R&D, which reduces the incentive to undertake breakthrough research, increases costs and hampers innovation.

How has R&D amortization harmed manufacturers?

Requiring companies to amortize their R&D spending makes research more expensive—and it has resulted in significant cash flow impacts throughout the manufacturing industry, particularly for small businesses. Some companies have been forced to forego hiring, delay investments and take out loans to pay the higher tax bills. Ultimately, increasing the cost of R&D means reduced innovation and job creation here in the U.S.

How has R&D amortization impacted America's global competitiveness?

The U.S. is now one of only two developed countries requiring the amortization of R&D expenses. While America's tax code makes R&D more costly, China offers a 200% "super deduction" for R&D expenses.

	R&D Spending	Year One Tax Deduction	Corporate Rate	Year One Tax Savings
Immediate R&D Expensing (U.S., Pre-2022)	$1,000	$1,000	21%	**$210**
R&D Amortization (U.S., 2022 – Present)	$1,000	$100	21%	**$21**
200% Super Deduction (China)	$1,000	$2,000	25%	**$500**

In 2022, the first full year after immediate R&D expensing expired in the U.S., the European Union's R&D growth surpassed America's R&D growth for the first time in nearly a decade. Even more worrisome, China's R&D growth tripled that of the United States in 2022. The U.S. is falling behind our global competitors by making it more expensive for manufacturers to conduct R&D here in America.

What's at stake for R&D in 2025?

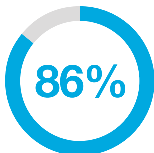
Congress has the opportunity to restore immediate R&D expensing as policymakers work to preserve other pro-growth tax provisions in 2025.

Congressional action is crucial, as manufacturers are already feeling the effects of R&D amortization. After growing at 6.6% per year on average over the five years before the amortization requirement took effect, R&D spending in the U.S. increased only 3.5% over the course of 2022 and decreased 0.1% in 2023—a concerning trend that could threaten America's leadership on the world stage.

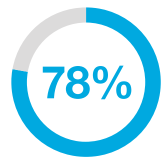
What should Congress do to support and encourage manufacturing R&D and innovation?

Congress must act to reinstate immediate R&D expensing. Ensuring the tax code supports R&D will bolster innovation throughout the manufacturing industry and lead to increased job creation, improved economic growth and enhanced U.S. competitiveness.

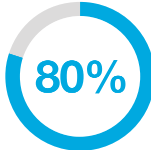
WHAT'S AT STAKE: FULL EXPENSING



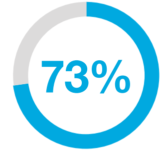
of manufacturers believe it is important that the tax code reduce the cost of capital equipment purchases and other investments



of manufacturers said that the expiration of full expensing and other pro-growth tax provisions has decreased their ability to grow U.S. manufacturing activity



of manufacturers reported that their ability to purchase capital equipment makes it easier to grow their workforce here in the U.S.



of manufacturers said that tax increases would limit their capital investment opportunities

What is full expensing?

Accelerated depreciation is the ability to recover the cost of acquiring an asset—such as equipment or machinery—over a short time span, rather than writing off the purchase price over the course of the asset's useful life.

Full expensing, also known as 100% accelerated depreciation, allows companies to recover the cost of these capital investments in full in the year of purchase.

Why is full expensing important to manufacturers?

Accelerated depreciation policies—and especially full expensing—make it more cost-effective for manufacturers to acquire expensive equipment and machinery. According to the nonpartisan Joint Committee on Taxation, capital-intensive industries like manufacturing are the primary beneficiaries of full expensing. Additionally, the JCT has reported that accelerated depreciation policies lead to stronger manufacturing investments, especially for small businesses.

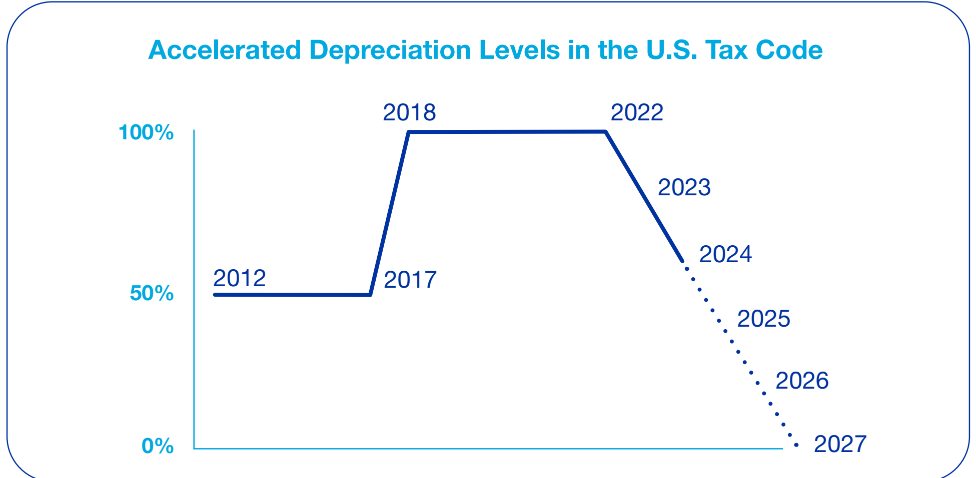
Congress has long recognized the economic benefits of first-year cost recovery: some level of accelerated depreciation has been included in the tax code for decades in order to support the manufacturing investments that drive economic activity and growth.

How did tax reform impact full expensing?

Tax reform implemented full expensing for capital investments. Since tax reform's enactment, the 100% level of accelerated depreciation has allowed manufacturers to purchase new equipment and expand their shop floors, leading to increased productivity and job creation.

How has full expensing changed since 2018?

Full expensing began phasing out in 2023. That year, it was reduced to 80% accelerated depreciation, with 20% reductions scheduled for each subsequent year. Without congressional action, it will expire completely in 2027.



How has the phasedown of full expensing impacted manufacturers?

The phasedown of full expensing has increased the cost of capital investments, undercutting America's manufacturing leadership and putting the sector's ability to invest in job-creating and job-sustaining equipment and machinery at risk.

	Capital Equipment Purchases	Year One Tax Deduction	Year One Tax Savings
Full Expensing (2018–2022)	$1,000	$1,000	**$210**
20% Accelerated Depreciation (2026)	$1,000	$200	**$42**

Making matters worse, the phasedown comes at a time when many of the United States' global competitors, including China, have instituted permanent full expensing policies to attract investment.

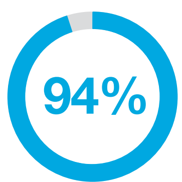
What's at stake for full expensing in 2025?

If Congress does not act, accelerated depreciation will be entirely absent from the U.S. tax code beginning in 2027—limiting manufacturers' ability to invest in the equipment and machinery they need to drive economic growth and job creation. This would be an unprecedented change and would have a disproportionate impact on manufacturers, and especially smaller manufacturers, that rely on capital investments to support their growth.

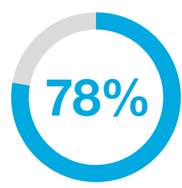
What should Congress do to encourage capital investments in the manufacturing industry?

Congress must act to make full expensing permanent. Restoring the 100% level of accelerated depreciation will reduce the cost of capital equipment purchases across the manufacturing sector, supporting growth and job creation at manufacturers of all sizes.

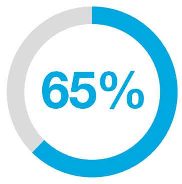
WHAT'S AT STAKE: INTEREST DEDUCTIBILITY



of manufacturers believe it is important that the tax code reduce the cost of accessing capital via business loans and other pro-growth activities



of manufacturers said that increasing the after-tax cost of taking out business loans decreases their funds available to grow U.S. manufacturing activity



of manufacturers reported that tax increases would result in decreased job creation

› How does the tax code treat business loans?

Manufacturers can generally deduct the interest they pay on business loans, subject to a cap. Tax reform in 2017 set the interest deductibility cap at 30% of a company's earnings before interest, tax, depreciation and amortization—also known as a business's "EBITDA."

Any interest below the 30%-of-EBITDA limit can be taken as a deduction against the business's taxable income in the year the interest payments are made, while any interest over the cap can be carried forward to a future tax year.

› Why is interest deductibility important to manufacturers?

Companies in capital-intensive industries like manufacturing often rely on debt financing to access the funds they need to grow their business. Manufacturers borrow capital to finance long-term investments in equipment and facilities, which in turn create jobs and enable manufacturers to compete effectively in the global economy.

A pro-growth interest deductibility standard like tax reform's 30%-of-EBITDA limit reduces the cost of business loans and makes it easier and more cost-efficient for manufacturers to invest for the future.

› How has the tax code's treatment of business loans changed?

Tax reform's EBITDA-based interest deductibility standard expired in 2022. The cap is now set at 30% of a business's earnings before interest and tax—its "EBIT."

A company's EBIT is always lower than its EBITDA, so this change resulted in a lower, stricter cap, meaning that companies can now deduct less interest than before.

The difference between a company's EBITDA and EBIT are its depreciation and amortization expenses. Manufacturers make significant long-term investments in depreciable assets (such as equipment and machinery) and intangible assets subject to amortization (such as intellectual property), so these businesses experience a substantial delta between their EBITDA and EBIT—and thus face a much stricter interest deductibility limit under an EBIT-based standard.

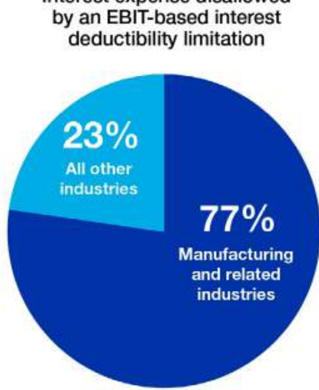
How has the stricter interest deductibility limitation harmed manufacturers?

By excluding depreciation and amortization expenses from the interest deductibility calculation, the EBIT standard makes debt financing more expensive—punishing manufacturers for making job-creating investments in capital equipment and intellectual property.

This reduces manufacturers' flexibility and liquidity when financing needed investments, ultimately making it more difficult for companies to raise capital, hire new workers and grow—especially at a time of elevated interest rates.

A recent study found that an overwhelming share of the impact of the stricter interest deductibility limitation falls on manufacturing and related industries.

Interest expense disallowed by an EBIT-based interest deductibility limitation



How has the stricter interest deductibility limitation impacted America's global competitiveness?

Among the 35 countries worldwide with an earnings-based interest limitation, the United States is the only one with an EBIT-based standard. America's interest deductibility limitation is an outlier on the world stage, making it more difficult for the U.S. to attract businesses in capital-intensive industries.

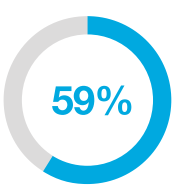
What's at stake for interest deductibility in 2025?

Congress has the opportunity to restore a pro-growth interest deductibility standard as policymakers work to preserve tax reform in 2025. If Congress does not act, manufacturers will continue to face increased costs when looking to debt finance projects here in the U.S.

What should Congress do to support financing for job-creating manufacturing investments?

Congress must act to reinstate an EBITDA-based standard for interest deductibility. Reversing the current EBIT-based limitation will ensure that manufacturers can avoid increased financing costs and reduced liquidity—enabling capital investments, growth and job creation throughout the industry.

WHAT'S AT STAKE: ESTATE TAX



59%

Family-owned businesses employ 59% of the private sector workforce

83.3 Million Jobs

95.6% of family-owned businesses have fewer than 50 employees

What is the estate tax?

The estate tax is imposed on family-owned businesses when ownership of the business passes to the next generation following the death of the business owner. Before the business and its assets can be distributed to the former owner's beneficiaries, they must be used to pay the estate tax. The top federal estate tax rate is 40%.

How does the estate tax impact family-owned manufacturers?

The value of a family-owned manufacturing business is often tied up in physical assets like facilities, equipment and machinery. Liquidating these assets to pay the estate tax harms the viability of the business on a going forward basis and makes it more likely that the business would need to take on debt, limit operations, reduce employee headcount or close entirely following the death of a loved one.

Regardless of how it is paid, imposing a substantial estate tax bill on a family-owned manufacturer adds significant burdens at a difficult time for the family and ultimately makes it harder to pass the business on to the next generation.

How did tax reform change the estate tax?

Some of a family-owned business's assets are exempt from the estate tax, up to a valuation threshold. Tax reform doubled this exemption threshold, excluding more assets from taxation and thus reducing the burden of the estate tax on family-owned manufacturers.

What did these reforms mean for family-owned manufacturers?

The increased exemption threshold makes it more likely that family-owned manufacturing businesses can remain in the family and continue investing in and creating jobs for local communities across the country.

What's at stake for family-owned manufacturers in 2025?

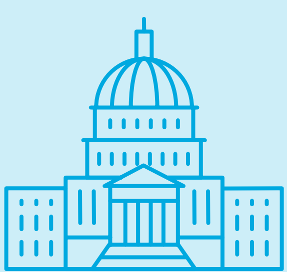
The estate tax exemption threshold is scheduled to be reduced by half at the end of 2025, subjecting more of family-owned manufacturers' assets to taxation and increasing their estate tax liability. This increased tax burden threatens the viability of these businesses when the owner passes away.

Family-owned manufacturers would be significantly harmed if tax reform's increased exemption threshold expires because they could be forced to sell or leverage business-critical assets to pay the estate tax.

What other tax changes could affect family-owned manufacturers?

Some policymakers have proposed repealing or limiting stepped-up basis, which prevents a business owner's heirs from being forced to pay capital gains tax on asset appreciation that occurred during the owner's lifetime. Stepped-up basis spares families a surprise tax bill and provides certainty to family business owners planning to pass their company on to the next generation.

Repealing or limiting stepped-up basis would make death a taxable event for many family-owned manufacturers, costing the U.S. economy up to 100,000 jobs per year.



What should Congress do to protect family-owned manufacturers?

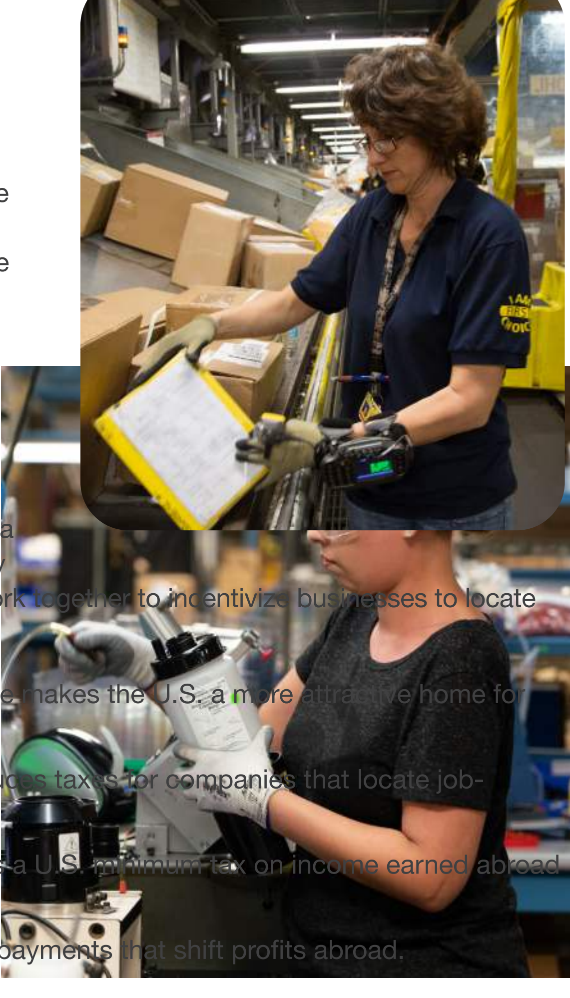
Congress should preserve tax reform's increased estate tax exemption threshold and maintain the tax code's treatment of stepped-up basis. The NAM also supports full repeal of the estate tax.

Protecting family-owned manufacturers from the estate tax—by preserving tax reform in its entirety, maintaining stepped-up basis or repealing the estate tax altogether—will prevent these small businesses from incurring costly and damaging tax bills that threaten their viability following the death of a loved one.

WHAT'S AT STAKE: INTERNATIONAL TAX

How did the U.S. tax manufacturers' income earned abroad prior to tax reform?

Prior to tax reform, 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.



How did tax reform change the tax treatment of income earned abroad?

Tax reform replaced the worldwide system with a modified form of a territorial tax system, which mostly excludes from U.S. taxation any income earned abroad. Tax reform's international tax provisions work together to incentivize businesses to locate their operations and produce goods in the U.S.

- **Corporate Rate:** The more competitive 21% corporate tax rate makes the U.S. a more attractive home for manufacturing investment.
- **FDII:** The deduction for foreign-derived Intangible income reduces taxes for companies that locate job-creating, export-producing intellectual property in the U.S.
- **GILTI:** The global intangible low-taxed income regime imposes a U.S. minimum tax on income earned abroad in low-tax jurisdictions.
- **BEAT:** The base erosion and anti-abuse tax applies to certain payments that shift profits abroad.

Collectively, these provisions—two "carrots" and two "sticks"—sustain tax reform's territorial tax system, which enhances America's competitiveness and supports manufacturers' efforts to create jobs and grow investment here in the United States.

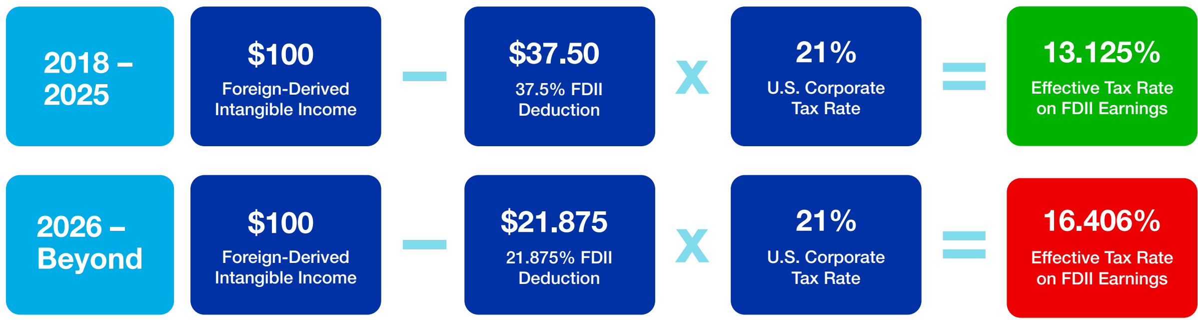
FDII

How does the FDII deduction work?

A company's foreign-derived intangible income—its FDII—is generated by exporting products that are based on U.S.-located IP. Businesses can deduct 37.5% of their FDII, resulting in an effective tax rate of 13.125% for those earnings. 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.

How will the FDII deduction change at the end of 2025?

The FDII deduction is scheduled to shrink to 21.875%, resulting in an effective tax rate of 16.406% on companies' earnings associated with U.S. IP. This tax increase will make it harder for manufacturers to expand sales into foreign markets and base their high-value operations like R&D and advanced manufacturing here in the U.S.



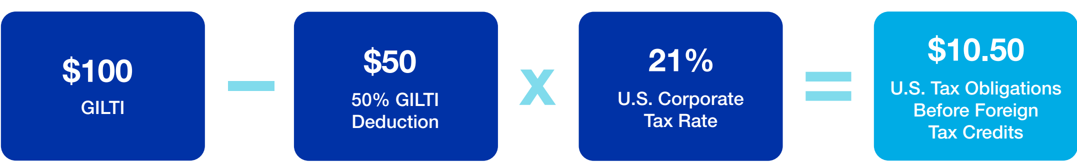
GILTI

How does the tax on GILTI work?

The global intangible low-taxed income regime—also known as GILTI—imposes a minimum level of U.S. tax on foreign income earned in low tax jurisdictions.

The GILTI calculation begins with a 50% deduction. The remaining 50% of a company's GILTI is subject to the 21% U.S. corporate tax rate, except that companies can claim a foreign tax credit for 80% of any foreign taxes paid on that income. Applying the deduction and foreign tax credit in combination results in some degree of additional U.S. taxation for foreign income taxed at a rate below 13.125%—with a minimum level of tax (combining foreign taxes and the U.S. GILTI tax) of 10.5%.

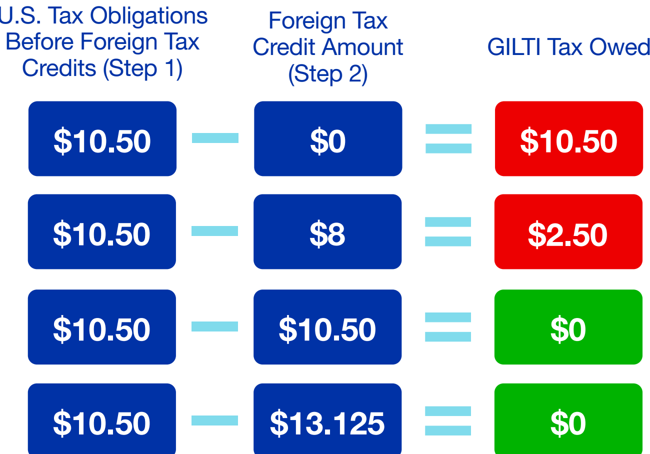
GILTI Calculation: Step 1



GILTI Calculation: Step 2

Foreign Tax Paid		Allowable Foreign Tax Credit %		Foreign Tax Credit Amount
$0	x	80%	=	$0
$10	x	80%	=	$8
$13.125	x	80%	=	$10.50
$16.406	x	80%	=	$13.125

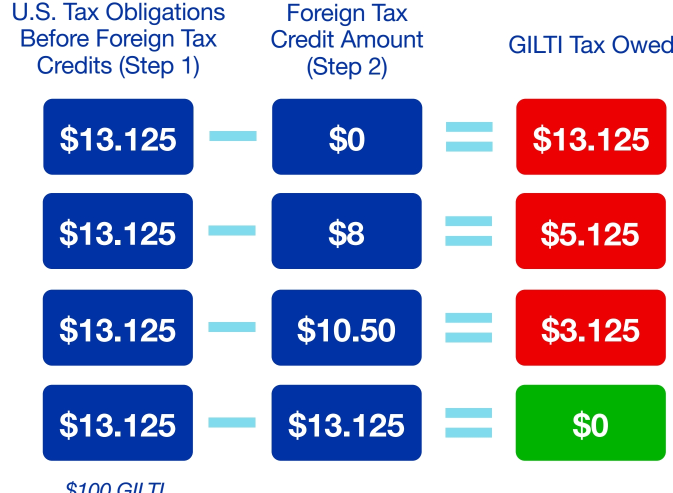
GILTI Calculation: Step 3



How will the tax on GILTI change at the end of 2025?

The deduction that begins the GILTI calculation will be reduced to 37.5%, increasing the amount of foreign income subject to U.S. taxation. This will result in a higher minimum GILTI rate of 13.125%, applicable to companies with a foreign effective tax rate below 16.406%.

Tax reform struck a balance with the reduced corporate rate and the FDII deduction on one side and the GILTI regime and BEAT tax on the other. Increasing companies' GILTI or BEAT obligations while reducing their FDII deductions will upset this balance, making it more costly and difficult for companies to operate here in the U.S.

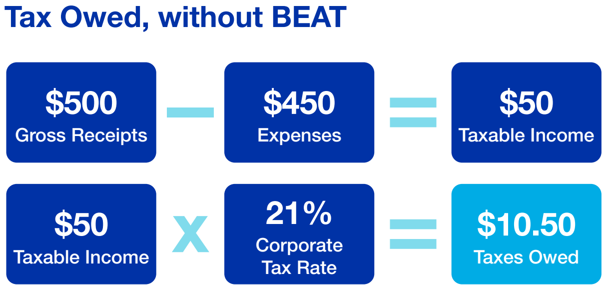


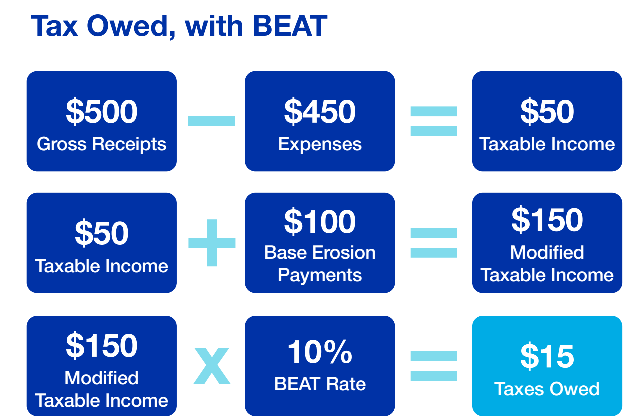
BEAT

How does the BEAT work?

The base erosion and anti-abuse tax—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.

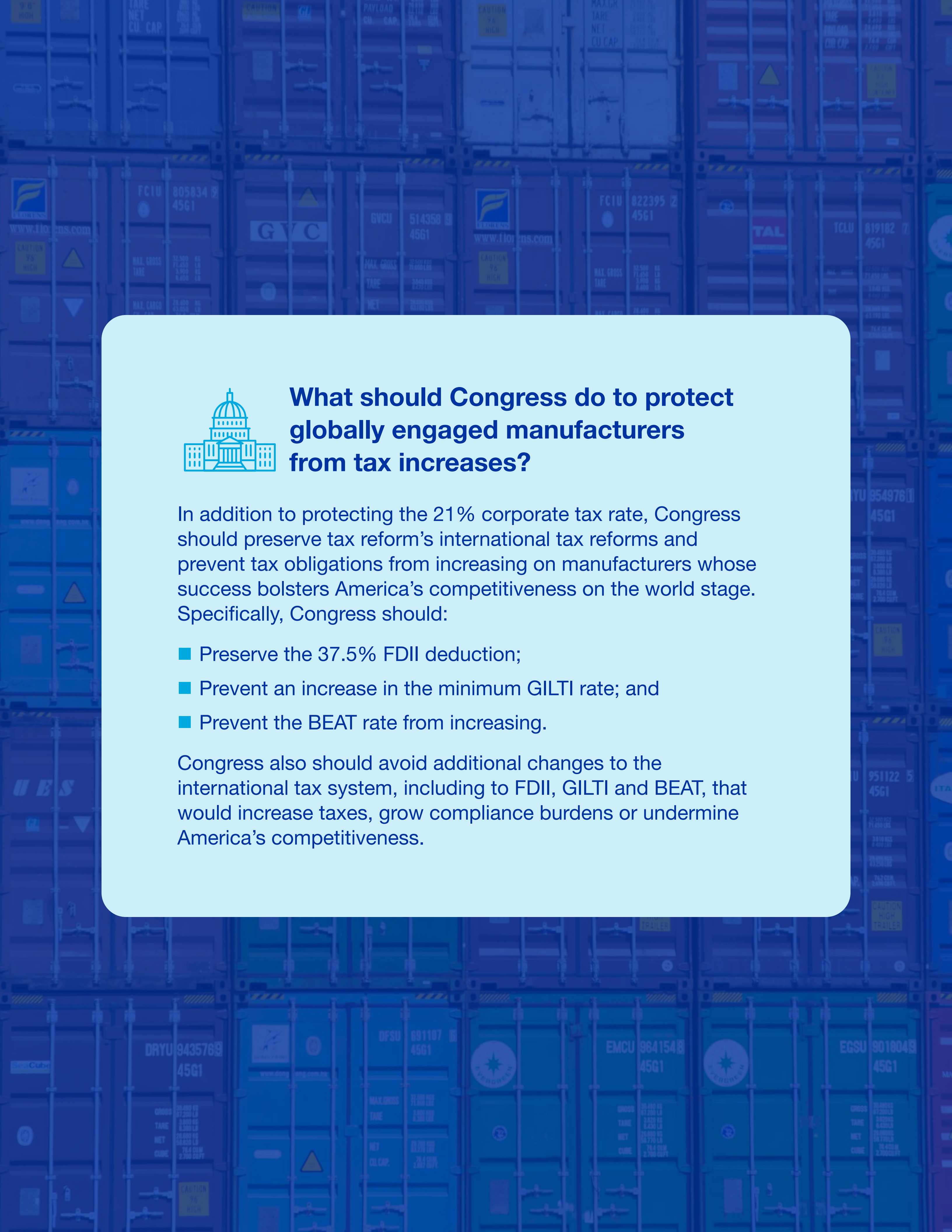
The BEAT applies a 10% tax to a company's "modified taxable income," which is calculated by adding back any base erosion payments (which otherwise would be deductible) to a company's taxable income.





How will the BEAT change at the end of 2025?

The BEAT rate will increase to 12.5%. While the BEAT is designed to target so-called "base erosion" payments, many such transactions are made in a company's ordinary course of business—not to avoid U.S. taxation. An increased BEAT rate would subject more of these payments to additional taxation, increasing the costs of doing business for manufacturers operating around the world.

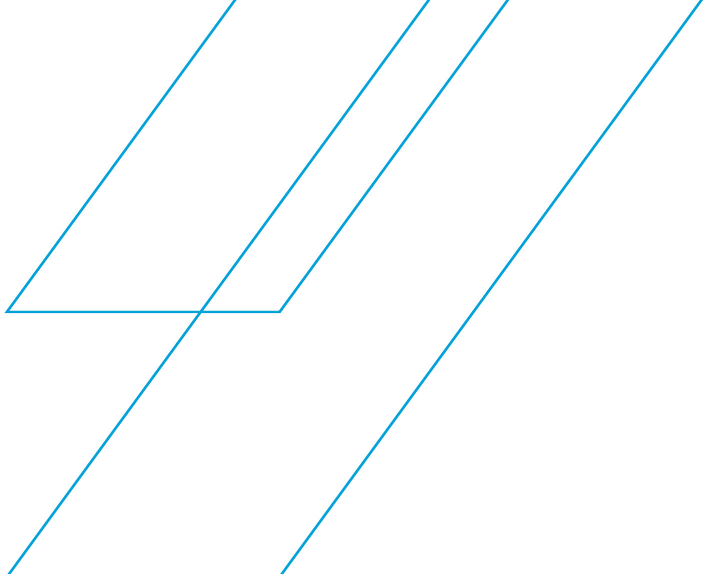


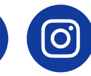
What should Congress do to protect globally engaged manufacturers from tax increases?

In addition to protecting the 21% corporate tax rate, Congress should preserve tax reform's international tax reforms and prevent tax obligations from increasing on manufacturers whose success bolsters America's competitiveness on the world stage. Specifically, Congress should:

- Preserve the 37.5% FDII deduction;
- Prevent an increase in the minimum GILTI rate; and
- Prevent the BEAT rate from increasing.

Congress also should avoid additional changes to the international tax system, including to FDII, GILTI and BEAT, that would increase taxes, grow compliance burdens or undermine America's competitiveness.





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