A TAX CODE FOR MANUFACTURING IN AMERICA

H.R. 1 IS DRIVING MANUFACTURING GROWTH

NATIONAL ASSOCIATION OF Manufacturers

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H.R. 1 IS DRIVING MANUFACTURING GROWTH

President Trump signed H.R. 1 into law on July 4, 2025—America's 249th birthday. This Manufacturers' Tax Law ushered in a permanent, pro-growth tax code that supercharges the ability of manufacturers to invest and make things in America. The law provides long-term tax certainty, supporting the capital-intensive investments and life-changing innovation that drive manufacturing in America. It bolsters American competitiveness, strengthening our nation's hand on the world stage. It incentivizes and supports manufacturing growth and job creation. And it prevented across-the-board tax hikes that would have cost 6 million Americans their jobs.

H.R. 1 extends and improves upon the Tax Cuts and Jobs Act of 2017, which itself was rocket fuel for the manufacturing sector. 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 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—but critical pro-growth provisions expired in the years following the TCJA's enactment, and much of the rest of the law was scheduled to sunset at the end of 2025. Thanks to H.R. 1, manufacturers now have a permanent, pro-growth tax code that will enable even more jobs, higher wages and groundbreaking innovation for years to come.

Why H.R. 1 Matters for Manufacturers

Manufacturers Are:	H.R. 1
Capital-Intensive	Supports capital investment via immediate expensing for equipment and for manufacturing facilities, reducing the cost of these job-creating investments so manufacturers can do more, faster—driving business growth and economic expansion
Research-Intensive	Empowers research investment by restoring the immediate deductibility of research costs, reducing the cost of domestic R&D and accelerating manufacturing innovation
Diverse in Size	Reduces tax rates for manufacturers of all shapes and sizes, from small pass-through businesses to multinational corporations, enabling growth and investment across the economy
Competing Globally	Manufacturers operate around the world, often competing with foreign companies on their home turf. By providing a permanent, competitive international tax code and preserving the 21% corporate rate, H.R. 1 strengthens manufacturers' hand on the world stage and supports job creation here at home
Family-Owned	More than 90% of manufacturing businesses are family-owned enterprises, and H.R. 1 preserves the ability for family businesses to be passed on to the next generation by protecting them from the estate tax
Hardworking	Many manufacturing employees benefit from the additional pay that comes with working overtime hours. By preserving lower tax rates for these workers and creating a new deduction for overtime pay, H.R. 1 provides a direct tax cut to the people who make things in America

PRO-MANUFACTURING TAX POLICIES IN H.R. 1

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. H.R. 1 permanently extended the 20% pass-through deduction created in 2017. This allows pass-through manufacturers to deduct up to 20% of their business income, freeing up capital to reinvest in their employees and their growth.

The pass-through deduction was set to expire completely at the end of 2025, and 93% of pass-through manufacturers reported in an NAM survey that a reduced deduction would have harmed their ability to grow, create jobs and invest in their business. By making the pass-through deduction permanent, H.R. 1 prevented devastating tax hikes and provided the certainty manufacturers need to plan long term.

Corporate Tax Rate

H.R. 1 maintained the critical 21% corporate tax rate, keeping America competitive with the rest of the world. Prior to tax reform in 2017, the U.S. had one of the highest corporate tax rates in the world—and the single highest rate among our peers in the Organisation for Economic Co-operation and Development—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. H.R. 1 preserves the 21% rate, driving more jobs, higher wages, better benefits and more manufacturing in America.

Individual Tax Rates

The TCJA reduced income tax rates at all income levels, cutting taxes for pass-through businesses that pay tax at the individual rates. H.R. 1 made these reduced individual tax rates permanent, preventing tax hikes on small pass-through manufacturers and most Americans. Easing the tax burden on pass-through manufacturers results 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 and operate on thin margins, making the reduced tax rates vital to their growth. Additionally, preserving the reduced rates for American families bolstered spending power and financial security for manufacturing workers across the country.

Interest Deductibility

The TCJA 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 prior to H.R. 1's passage, the cap was a more-restrictive 30% of a business's earnings before interest and tax EBIT.

H.R. 1 restored and made permanent the EBITDA standard for interest deductibility. By reinstating depreciation and amortization expenses to the calculation, H.R. 1 makes debt financing more affordable—enabling manufacturers to acquire the funds they need to fuel investment and get job-creating projects off the ground.

Immediate Expensing

H.R. 1's immediate expensing provisions are crucial for manufacturing growth. By allowing manufacturers to immediately deduct the costs of job-creating investments, H.R. 1 empowers manufacturers to spend more on R&D, capital equipment purchases and new facilities or facility expansions. These investments have an outsized impact on the manufacturing economy given the pro-growth impact of investments in innovation, equipment and factories.

Research and Development

H.R. 1 permanently restored immediate R&D expensing, accelerating the research investment that enables manufacturers in the U.S. to continue to lead the world in innovation. 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 were temporarily required to spread their R&D deductions over several years—making R&D investments significantly more expensive, especially for small and medium-sized manufacturers. This harmful change increased the cost of conducting R&D in the U.S. at a time when our global competitors were 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 $400 billion annually on groundbreaking research. H.R. 1 reinstated immediate R&D expensing, giving the industry the certainty manufacturers need to invest in life-changing and lifesaving research.

Capital Equipment

The TCJA allowed manufacturers to immediately expense 100% of the cost of capital equipment purchases. Full expensing enabled manufacturers, 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 would have expired completely in 2027. Capital-intensive industries like manufacturing are the primary beneficiaries of full expensing, so manufacturers were the primary beneficiaries when H.R. 1 reinstated and made permanent full expensing for capital equipment purchases—supercharging investment and job creation in the sector.

Manufacturing Production Facilities

H.R. 1 created a new expensing incentive for manufacturing production facilities, allowing companies to immediately deduct the cost of new factories, expansions and improvements. Without this new expensing provision, facilities are generally subject to a 39-year amortization schedule—so an immediate deduction represents significant cost savings for manufacturers working to get shovels in the ground. As America works to onshore manufacturing supply chains, immediate expensing for manufacturing production facilities supports the investments needed to build manufacturing capacity in America.

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. The TCJA 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 was increased and made permanent by H.R. 1, providing relief and tax certainty to family-owned manufacturers and making it easier for the next generation to continue the legacy of their family's business.

International Tax

The TCJA 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.

H.R. 1 built on the success of these international tax reforms, supporting manufacturers' ability to invest and locate their operations and assets in America, providing certainty with permanence and supporting the ability of manufacturers to export products and compete globally.

WHAT THESE PROVISIONS MEAN FOR MANUFACTURERS

H.R. 1 eliminated the uncertainty that had previously threatened nearly 6 million jobs, keeping manufacturing in America competitive for the long haul. Manufacturers can now plan, invest and grow with confidence, backed by a stable tax code that rewards U.S. production and fuels continued innovation and economic growth.

PASS-THROUGH DEDUCTION

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 H.R. 1 Impact Pass-Through Manufacturers?

H.R. 1 made permanent critical TCJA provisions for pass-through manufacturers that were set to expire at the end of 2025: the pass-through deduction and reduced individual tax rates.

The TCJA created 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. The TCJA 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. H.R. 1 preserved and makes permanent these critical provisions.

What Do 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. Without H.R. 1, their expiration would have been a one-two punch for pass-throughs across the country. An NAM survey found that 93% of pass-through manufacturers said that the loss of the pass-through deduction would harm their ability to grow, create jobs and invest in their business.

Preserving and making permanent the pass-through deductions and the TCJA individual rates empowers small manufacturers to use more of their hard-earned income for capital equipment purchases, R&D and other job-creating investments. Alternatively, had Congress failed to pass H.R. 1, pass-throughs' effective tax rate would have increased by at least 10 percentage points—a drastic tax hike for small businesses across the country.

Why Did Congress Act to Protect Pass-Throughs in H.R. 1?

Sen. Steve Daines (R-MT) was the lead Senate champion of creating the pass-through deduction in 2017 and permanently preserving it in 2025. His legislation, the Main Street Tax Certainty Act, was included in H.R. 1—permanently extending the 20% pass-through deduction.

> **“Pass-through businesses employ more than half of private-sector workers. More than 96% of businesses in our country are organized as pass-throughs. The deduction itself is directly responsible for 2.6 million jobs and $325 billion of the United States' GDP. Many of these businesses are manufacturers who are the backbone of our competitiveness. A successful manufacturing industry supports the American economy and helps protect us against foreign adversaries.**
>
> **“As important as it was to make sure this provision was included in 2017, it was imperative we avoided the steep tax increase small businesses and manufacturers faced if we let this expire. Since the day the Tax Cuts and Jobs Act was signed into law, we pushed to make this provision permanent. Businesses from every state came in and helped us tell the story of what this means for them.”**
>
> – Sen. Steve Daines (R-MT)

What Are Manufacturers Saying?

Husco is a family-owned business based in Waukesha, Wisconsin. Husco produces hydraulic and electromechanical components that are used in both passenger cars and off-highway vehicles. As a pass-through business, Husco benefits from the Section 199A pass-through deduction.

> **“Permanently extending the 199A deduction has been vital for our business, providing tax certainty while ensuring that small and medium pass-through manufacturers such as Husco can continue to invest in our growth, innovation, workers and the communities we operate in. With our facilities in Waukesha and Whitewater, Wisconsin, we are an economic driver for our local community and take our role as a pillar of our community seriously. Permanently extending the 199A deduction helps us continue to do that—enabling more hiring, more investment and supporting our philanthropic efforts in Wisconsin.”**
>
> – Austin Ramirez, President and CEO, Husco

CORPORATE TAX RATE

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.

How Did H.R. 1 Impact the Corporate Tax Rate?

Prior to the TCJA, 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. Since the U.S. was an outlier among our global competitors, maintaining a corporate rate 15 points higher than the OECD average, there was bipartisan consensus that the 35% rate was preventing manufacturers in America from competing on the world stage. The TCJA reduced the corporate rate from 35% to 21%, freeing up capital for manufacturers to increase investments in the U.S.

H.R. 1 maintained the corporate tax rate at 21%, keeping the U.S. rate competitive with the average corporate tax rate of 20.65% in Europe and 19.74% in Asia. With a competitive corporate rate, the U.S. maintains its standing as an attractive destination for job-creating investments in manufacturing.

How Does the 21% Corporate Tax Rate Make the United States More Competitive for Manufacturers?

Corporate tax rates are an important consideration for businesses deciding where to invest their next dollar, since the tax rate will impact their return on investment. Prior to the TCJA, 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 rates elsewhere in the world, making the United States a more attractive home for manufacturing investment, job creation and economic growth.

Country or Region	Corporate Tax Rate (Average)
U.S.	21%
Asia	19.74%
Europe	20.65%
World	23.58%
OECD	24.20%

How Does the 21% Corporate Tax Rate Support Economic Growth?

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.

Why Did Congress Preserve the 21% Corporate Tax Rate?

The House Ways and Means Committee Supply Chain Tax Team, which focused on corporate tax policy in preparation for H.R. 1, met with businesses around the country to identify policy solutions that support manufacturing in America. Rep. Carol Miller (R-WV), a champion for preserving the 21% corporate tax rate, was the chair of the Supply Chain Tax Team.

> **"The preservation of the 21% corporate rate is critical in promoting American manufacturing because companies can invest in expanding infrastructure, purchase new equipment and increase workforce without tax liability uncertainty. The Working Families Tax Cuts compounded with bonus depreciation and immediate research expensing have proved to be effective for the industry, and we will continue to advocate for pro-growth policy which leads to new markets and more opportunities.**
>
> **"The real-world impact of the Working Families Tax Cuts has been clear and meaningful, reinforcing the need for stable, pro-growth tax policy to help American manufacturers succeed. In my home district, we've seen these policies translate into new factories, new jobs and expanded opportunities. Companies like Conn-Weld Industries and Ferroglobe have used this tax relief to invest in their operations, grow their businesses and strengthen the local economy."**
>
> – Rep. Carol Miller (R-WV)

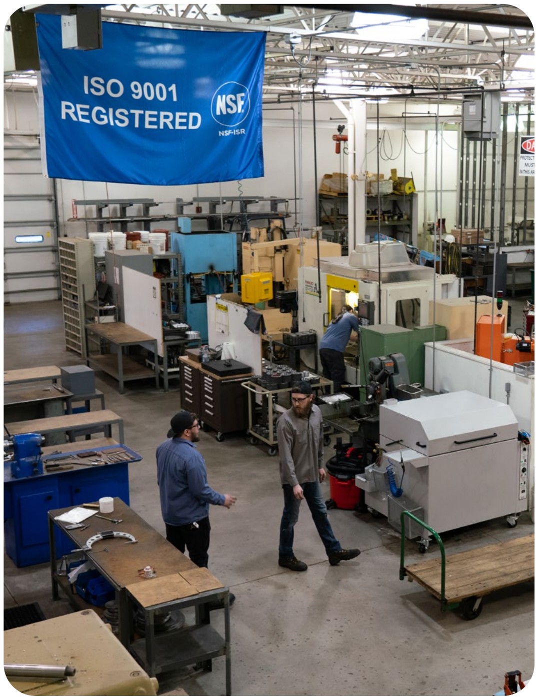
What Are Manufacturers Saying?

Sukup Manufacturing Co. is a small, family-owned and -operated manufacturer of grain storage, drying and handling equipment based in Sheffield, Iowa. Sukup is organized as a C-corporation, and the 21% corporate tax rate empowered Sukup to invest in the company, hire more employees and expand employees' benefits.

> **"The 21% corporate tax rate relieved Sukup and manufacturers across the country from what was previously one of the highest tax rates in the world, making it harder for us to compete globally and grow at home. Following its reduction to 21%, Sukup hired roughly 200 additional employees, growing our workforce by a third and allowing us to make important investments in childcare and healthcare for our expanded workforce and their families. It was vital that the competitive corporate tax rate be retained in the Working Families Tax Cuts, and that's exactly what Congress did. Now the 21% corporate tax rate is permanent alongside vital investment incentives, providing certainty across the tax code for all of the key provisions that work together to promote manufacturing success here in America."**
>
> – Tom Mangan, President and CEO, Sukup Manufacturing Co.

IMMEDIATE R&D EXPENSING

What Is Immediate R&D Expensing?



For more than 70 years, manufacturers in the U.S. could expense their R&D spending immediately, meaning that they could deduct fully their research 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. By reducing the after-tax cost of research investment, immediate R&D expensing is a critical incentive for accelerating investment in innovation.

Why Is Immediate R&D Expensing Important to Manufacturers?

Manufacturers in America drive more innovation than any other industry, with the manufacturing sector performing more than half of all private-sector research in the United States. Manufacturers conduct research into both the products they are making and the processes used to make those products, requiring additional research investment to ensure both the products and process technologies are competitive.

Crucially, 75% of companies' research spending goes to workers' salaries—so sound research 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. When immediate R&D expensing expired, the decline in research investment was reflected in fewer jobs.

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

What Impact Did the Expiration of Immediate R&D Expensing Have on Manufacturers?

Immediate R&D expensing expired in 2022, requiring manufacturers to amortize research expenses over five years. This harmful change increased the cost of conducting R&D and harmed manufacturing innovation. After growing at 6.6% per year on average over the five years before the amortization requirement took effect, research spending in the U.S. increased only 3.5% over the course of 2022 and decreased 0.1% in 2023. If Congress had not restored immediate R&D expensing in 2025, these negative impacts on research investment would have continued, undermining U.S. innovation and competitiveness.

How Did H.R. 1 Impact Immediate R&D Expensing?

H.R. 1 restored and made permanent immediate R&D expensing, allowing manufacturers to deduct the full cost of their research expenses in the year that they occur. The law also created transition rules that allowed manufacturers to accelerate the research spending that was amortized in past years into tax years 2025 and 2026, supporting a significant increase in research investment.

	R&D Spending	Year One Tax Deduction	Corporate Rate	Year One Tax Savings
Immediate R&D Expensing (U.S., 2025 After Passage of H.R. 1)	$1,000	$1,000	21%	$210
R&D Amortization (U.S., 2022–2024)	$1,000	$100	21%	$21
200% Super Deduction (China)	$1,000	$2,000	25%	$500

How Will the Restoration of Immediate R&D Expensing Benefit Manufacturers?

Leading in innovation is vital to manufacturing's success at home. More research investment means more jobs, better quality and more affordable products, more economic growth and advances in lifesaving medicine, disaster response, national security and sustainability technologies.

The restoration of immediate R&D expensing meets the moment in tax policy. The global economy is increasingly competitive, with China rising to account for a third of global manufacturing. As the U.S.–China Economic and Security Review Commission recently highlighted, China's high concentration of manufacturing enables a significant amount of manufacturing process innovation. Manufacturers in the U.S. need to continue to lead in research as countries compete to win the race for innovation. This is particularly true in the age of artificial intelligence, where manufacturers are now researching how best to integrate the technology into their production processes. Immediate R&D expensing supports these goals by reducing the cost of conducting groundbreaking research—driving America's innovative edge on the world stage.

Why Did Congress Reinstate Immediate R&D Expensing?

Sen. Todd Young (R-IN) was the lead Senate champion of restoring immediate R&D expensing. His legislation, the American Innovation and Jobs Act, was included in H.R. 1—restoring immediate R&D expensing and making it permanent.

> **“During the three-year span when businesses had to amortize, I heard from countless Hoosier employers, including many in the manufacturing and life sciences industries, about how the R&D tax treatment was forcing incredibly difficult decisions. These included delaying R&D projects, scaling back hiring for key personnel like engineers and scientists and, in some cases, even considering shifting research activity overseas. That kind of uncertainty is especially challenging for industries that rely on long-term investment cycles.**
>
> **“Now that immediate expensing has been restored, and restored on a permanent basis, there is a renewed sense of confidence. Businesses back home have shared with me that they are moving forward with previously delayed investments, expanding their research operations and accelerating plans to grow their workforce. Those are the types of business decisions we should be encouraging in our tax code.”**
>
> – Sen. Todd Young (R-IN)

What Are Manufacturers Saying?

Founded by Frank Robinson in his home in 1973, Robinson Helicopter undertakes every aspect of helicopter production in the United States—from design to manufacturing, assembly, inspection and flight testing. The 1,300 employees at Robinson Helicopter make more commercial helicopters in a year than any other company in the world. H.R. 1—and in particular immediate R&D expensing—supported their efforts to continue conducting vital research and delivering innovative products.

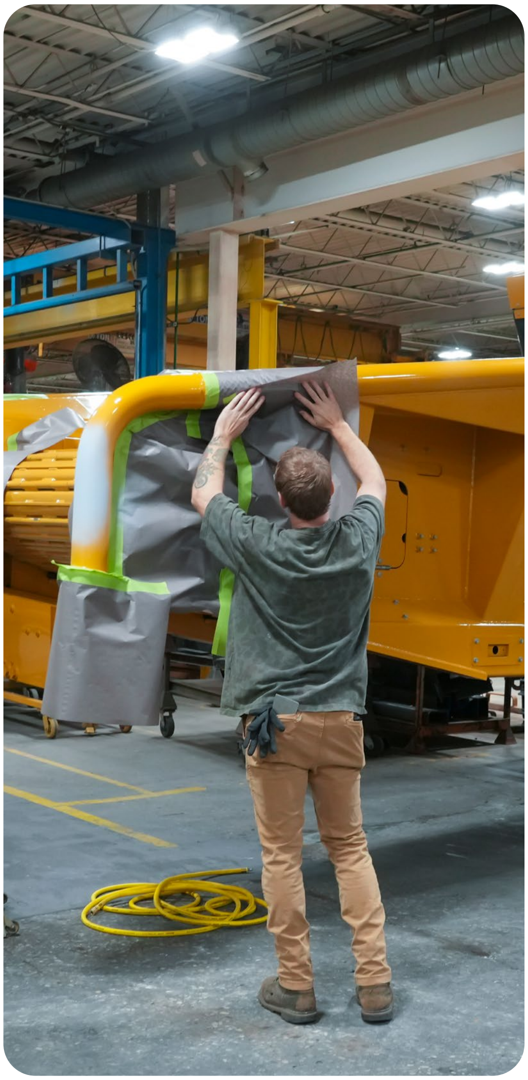
> **“Our research will help prevent and respond to the destructive wildfires that have been prevalent in California in recent years. One solution we are developing is to have our new R88 helicopters act as the operational control center to a fleet of fire surveillance drones, which will be able to more thoroughly scan forests for any signs of ignition so that fires can be identified and extinguished early. Once the forest surveillance drones have identified a fire, they'll be able to clear the airspace to make way for firefighting-equipped helicopters to come in and extinguish it.**
>
> **“These types of innovative solutions require a significant amount of research and development spend. By allowing R&D expenses to be deducted immediately instead of amortized over five years, the [One Big Beautiful Bill Act] accelerates our ability to innovate and increases the speed with which we can bring these property and lifesaving innovations to market.”**
>
> – Will Fulton, Vice President of Business Development, Robinson Helicopter

FULL EXPENSING FOR CAPITAL EQUIPMENT PURCHASES

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.

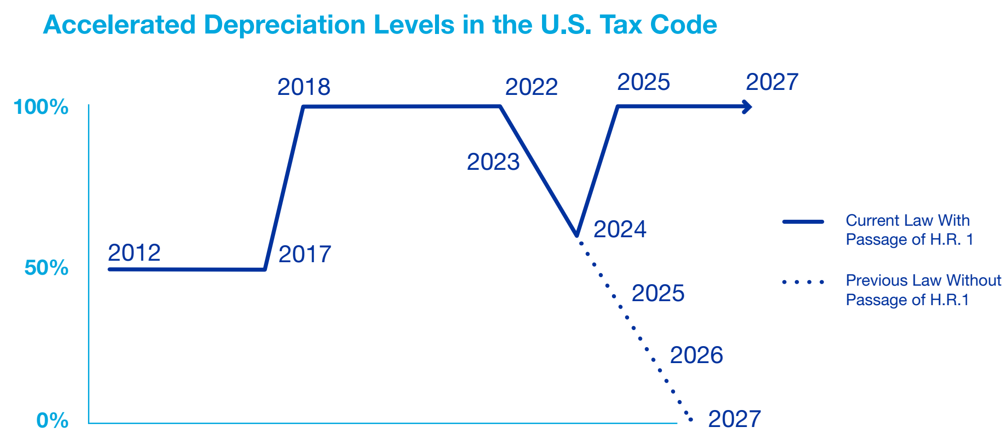
Congress has long recognized the economic benefits of first-year cost recovery: some level of accelerated depreciation has been included in the tax code for decades to support the manufacturing investments that drive economic activity and growth.

What Impact Did the Expiration of Full Expensing Have on Manufacturers?

Accelerated depreciation for capital equipment had decreased from 100% in 2022 to 40% in 2025, with further reductions scheduled, to 20% in 2026 and 0% in 2027. The loss of full expensing was devastating for manufacturing investment and jobs. Without H.R. 1, the complete expiration of accelerated depreciation for capital equipment purchases would have disincentivized and made more expensive these job-creating investments—which would have had a disproportionate impact on manufacturers, and especially smaller manufacturers, that rely on capital investments to support their growth.

How Did H.R. 1 Impact Full Expensing?

H.R. 1 restored full expensing for capital equipment investments, increasing the accelerated depreciation percentage to 100% and making it permanent. Allowing manufacturers to deduct the entire cost of new equipment enables them to make job-creating investments and expand their shop floors, leading to increased productivity and employment. Additionally, making full expensing permanent means that manufacturers can plan and invest for the future without wondering whether this pro-growth provision will expire.



Why Did Congress Restore Full Expensing for Capital Equipment Purchases?

Sen. James Lankford (R-OK) was the lead Senate champion of restoring full expensing. His legislation, the ALIGN Act, was included in H.R. 1—restoring and making permanent full expensing for manufacturers' capital equipment purchases.

> **"By making 100% expensing permanent, we are giving manufacturers confidence that the tax treatment will be consistent across the full lifecycle of an investment. That stability lowers the cost of capital, improves after-tax returns and allows companies to plan rationally instead of reacting to arbitrary deadlines.**
>
> **"Permanency is the difference between short-term tax relief and long-term economic certainty. Manufacturers are not making one-year decisions. They are making 10-, 20-, even 30-year capital allocation decisions on facilities, heavy equipment and production lines. When full expensing is temporary or phasing down, it distorts those decisions and often forces companies to either accelerate investments inefficiently or delay them altogether."**
>
> – Sen. James Lankford (R-OK)

What Are Manufacturers Saying?

Ketchie Inc., a precision machine company located in Concord, North Carolina, was holding back on capital equipment purchases prior to H.R. 1, as the level of accelerated depreciation in the tax code continued to decline—increasing uncertainty and making it too difficult to commit to a long-term, expensive investment. When H.R. 1 became law, Ketchie was able to purchase multiple pieces of equipment, including a dual 5-axis machining center, an EDM machine and a cylindrical grinder, that will allow Ketchie to compete in new industry markets. As a result of these equipment purchases, Ketchie was able to hire five additional employees.

> **"When H.R. 1 passed last summer, we moved quickly to execute on our investment plans. We made commitments—and we kept them. It's incredibly rewarding to see those investments come to life and to celebrate what thoughtful, pro-growth tax policy can make possible for manufacturers."**
>
> – Courtney Silver, President and Owner, Ketchie Inc.

INTEREST DEDUCTIBILITY

How Does the Tax Code Treat Business Loans?

Manufacturers can generally deduct the interest they pay on business loans vital for financing manufacturing investment, subject to a cap. Prior to H.R. 1, the cap was 30% of a company's earnings before interest and tax, or its EBIT. H.R. 1 increased the cap to 30% of a company's earnings before interest, tax, depreciation and amortization—also known as a business's EBITDA—allowing manufacturers to deduct more interest and reducing the cost of job-creating debt-financed projects.

Any interest below the cap 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.

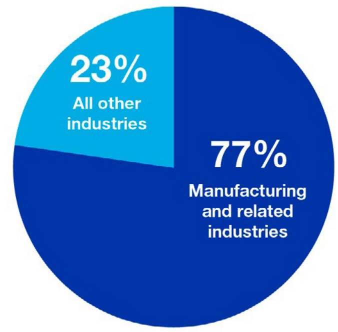
A pro-growth interest deductibility standard like the 30%-of-EBITDA limit reduces the cost of business loans and makes it easier and more cost efficient for manufacturers to invest for the future.

How Did H.R. 1 Impact the Tax Code's Treatment of Business Loans?

H.R. 1 restored a pro-growth EBITDA-based interest deductibility standard after it expired in 2022. From 2022 through 2025, interest deductibility was capped at 30% of EBIT—a reduction from the 30% of EBITDA standard that had been in law from 2018 through 2021. A company's EBIT is always lower than its EBITDA, so this change in 2022 resulted in a lower, stricter cap, meaning that companies could deduct less interest than before. H.R. 1 reinstated and made permanent the 30% of EBITDA standard, positioning manufacturers to invest and create jobs, particularly when those investments depend on debt to finance.

Why Was the Restoration of an EBITDA-Based Interest Deductibility Standard Important for Manufacturers?

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. The EBIT standard thus had a disproportionate impact on manufacturers—and H.R. 1's restoration of an EBITDA standard was a significant boost for the industry.



Why Did Congress Reinstate a Pro-Growth Interest Deductibility Standard?

Rep. Adrian Smith (R-NE) was the lead champion in the House of Representatives for restoring an EBITDA-based interest deductibility standard. His legislation, the AIM Act, was included in H.R. 1, permanently restoring the EBITDA standard.

> **"Coming off an already strong economy, the Working Families Tax Cuts as a whole made a clear difference in driving a booming economy in the 3rd District. And with EBITDA restored, Nebraska is fertile ground for major investment, such as new facilities. You can look at the renewable diesel in Hastings or the new $110 million biologics manufacturing facility in Columbus for proof of such. By making EBITDA permanent, Congress gave businesses the certainty they need to bring even more major investments to Nebraska. I look forward to it."**
>
> – Rep. Adrian Smith (R-NE)

What Are Manufacturers Saying?

Advanced Superabrasives, Inc., based in Mars Hill, North Carolina, produces high-tech grinding wheels, a critical tool that sharpens and refines other tools that manufacturers depend on. In the first two years after the TCJA became law, tax reform enabled the company to give raises, on average, three or four times a year—whereas before, raises would be provided only annually. That degree of investment helps the company compete for and retain manufacturing talent—while providing additional take-home pay for workers, which supports their financial security and stimulates local economies.

> **"Advanced Superabrasives was able to make significant investments in the years following the Tax Cuts and Jobs Act. Full expensing and interest deductibility made those investments far more cost effective, and with the Working Families Tax Cuts restoring interest deductibility and full expensing permanently, we expect to increase investment even further, expanding our workforce by 10% as a direct result of the funding we received. This capital spending keeps us competitive and enables us to create more jobs, so it's critical to be able to finance those investments and deduct the interest based on EBITDA. We're grateful that the Working Families Tax Cuts recognized the importance of manufacturing investment."**
>
> – Jonathan Szucs, President, Advanced Superabrasives, Inc.

ESTATE TAX

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 going forward and makes it more likely that the business would need to take on debt, limit operations, reduce employee head count or close entirely following the death of a loved one.

Regardless of how the estate tax 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 H.R. 1 Change the Estate Tax?

Some of a family-owned business's assets are exempt from the estate tax, up to a valuation threshold. H.R. 1 expanded and extended the exemption amount, which would have been cut in half at the end of 2025 if Congress had not acted. Critically, H.R. 1 extended the higher exemption amount on a permanent basis, giving family-owned businesses the certainty they need to plan.

What Did These Reforms Mean for Family-Owned Manufacturers?

The increased exemption threshold means fewer assets are subject to the tax, making 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.

Why Did Congress Act to Protect Family-Owned Businesses from the Estate Tax?

Rep. Randy Feenstra (R-IA) was the lead champion in the House of Representatives on the estate tax, leading the Death Tax Repeal Act and driving the effort in Congress to increase and extend the estate tax exemption established by the TCJA. H.R. 1 included both an increase in the exemption amount and a permanent extension of the increased exemption.

“If we did not act, the death tax would force family-owned farms, small businesses and manufacturers to break apart or sell off what they’ve spent generations building. As I traveled throughout Iowa’s 4th district, I heard directly from Iowa manufacturers and producers who were deeply concerned that if we did not provide relief on the exemption, their children would face an egregious tax at the worst possible moment. This tax burden compounds the burden of grief with the burden of financial insecurity and forces many to shut down or sell off their businesses just to pay that bill.

“These stories and concerns are what drove my work on the Death Tax Repeal Act and our focus on addressing the Death Tax through reconciliation. These problems don’t just affect Iowa manufacturers; they hit the main streets of every community in the country. This isn’t just about a tax policy debate; it’s about protecting multigenerational family operations and giving families and businesses breathing room during such a difficult time.”

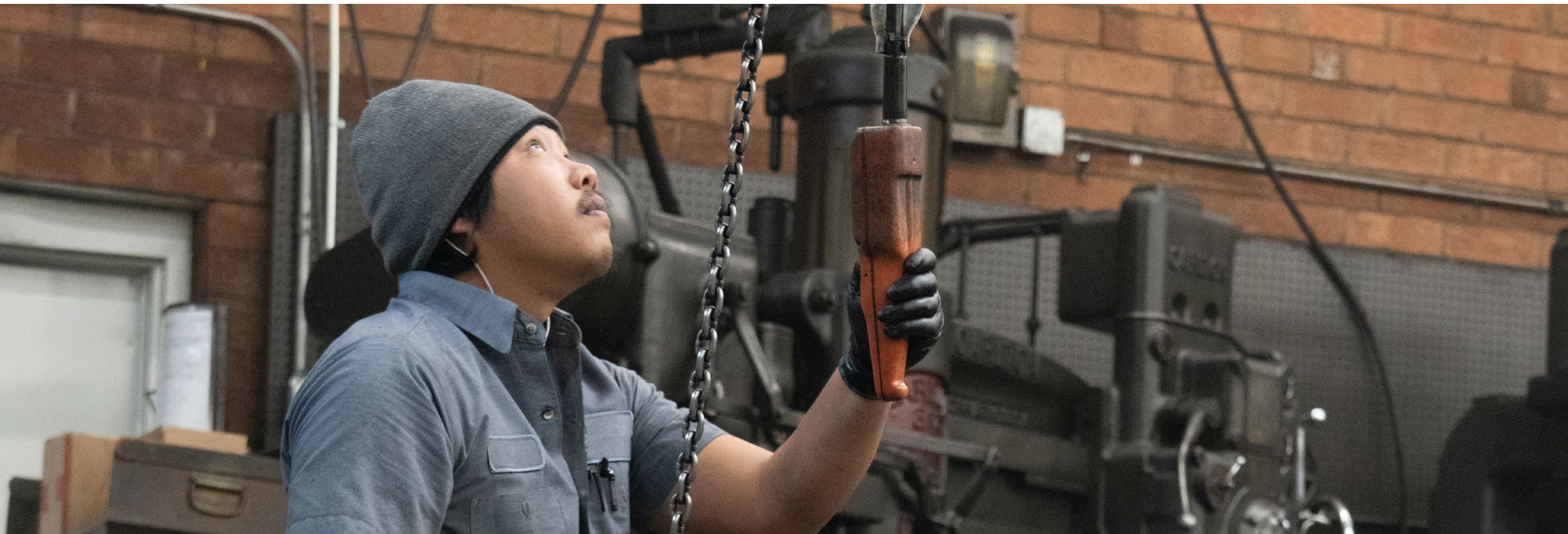
– Rep. Randy Feenstra (R-IA)

What Are Manufacturers Saying?

Founded in 1978, Agri-Industrial Plastics is a second-generation family business located in Fairfield, Iowa, and a leading industrial blow molder of large-scale industrial parts, including nonautomotive fuel tanks for the turf equipment, power sports, agricultural and marine industries. As a family business, they are concerned about the impacts of the estate tax.

“The certainty provided by making the estate tax exemption permanent in the Working Families Tax Cuts ensures family-owned businesses like Agri-Industrial Plastics can plan for the future with confidence—preserving capital to invest, grow and successfully transition the business to the next generation.”

– Lori Schaefer-Weaton, President, Agri-Industrial Plastics



INTERNATIONAL TAX

How Did the U.S. Tax Manufacturers’ Income Earned Abroad Prior to Tax Reform?

The U.S. international tax code has changed dramatically since 2017. Prior to the TCJA, 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 the TCJA Change the Tax Treatment of Income Earned Abroad?

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

Collectively, these provisions—two “carrots” (the 21% corporate rate and the foreign-derived intangible income deduction) and two “sticks” (the global intangible low-taxed income regime and the base erosion and anti-abuse tax)—sustain the TCJA’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, GILTI and BEAT were all scheduled to become less taxpayer-favorable at the end of 2025—resulting in tax increases on globally engaged manufacturers.

How Did H.R. 1 Improve the International Tax Code?

H.R. 1 improved and made permanent a more competitive tax code than what was scheduled to take effect after 2025—preventing tax hikes on manufacturers. FDII, GILTI and BEAT were renamed as they evolved from focusing on intangible assets to applying more broadly to all the income companies earn around the world. The international tax code still consists of the four key provisions created by the TCJA, but with key modifications that broaden their effectiveness.

- **Corporate rate:** H.R. 1 preserved the TCJA's 21% corporate tax rate, which makes the U.S. a more attractive home for manufacturing investment.
- **FDDEI:** H.R. 1 expanded the TCJA's FDII deduction, instituting a permanent foreign-derived deduction-eligible income deduction that reduces taxes for companies that export American products to foreign markets.
- **NCTI:** H.R. 1 modified the TCJA's GILTI regime, replacing it with a net CFC-tested income tax—a worldwide corporate minimum tax on the controlled foreign corporations of U.S. companies.
- **BEAT:** H.R. 1 prevented a significant increase to the TCJA's base erosion and anti-abuse tax, which applies to certain payments that shift profits abroad.

Notably, in the TCJA, these provisions were targeted primarily toward "intangible property," such as intellectual property. In H.R. 1, Congress recognized that the TCJA policies were effective for IP and other intangibles and expanded the tax code's incentives for domestic investment to include other types of assets and income that weren't included previously, such as facilities.

What Was at Stake if Congress Did Not Act to Protect Globally Engaged Manufacturers from Tax Increases?

The TCJA's international tax provisions were scheduled to change after 2025, with significant consequences for manufacturers. The FDII deduction was scheduled to shrink from 37.5% to 21.875%, the effective tax rate for GILTI would have increased from 10.5% to 13.125%, and the BEAT rate would have increased from 10% to 12.5%. The TCJA 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, as was scheduled to occur before H.R. 1's passage, would have upset this balance, making it more costly and difficult for companies to operate here in the U.S.

H.R. 1 upholds and improves the TCJA international tax system by making the FDII, GILTI and BEAT regimes permanent—now called FDDEI, NCTI and BEAT—and preserving the 21% corporate rate that anchors America's competitiveness on the world stage. The bill also includes pro-manufacturing changes to these policies, such as including manufacturing facilities in the FDDEI deduction. The international provisions will support investment in the United States, while providing the certainty and predictability necessary to facilitate that investment.

Why Did Congress Prevent Tax Increases on Globally Engaged Manufacturers?

Rep. Kevin Hern (R-OK) was the leader of the House Ways and Means Committee's Global Competitiveness Tax Team, which focused on international tax policy in preparation for H.R. 1.

> **"Before passage of the 2017 Tax Cuts and Jobs Act, there was a strong incentive for multinational businesses to keep their profits overseas rather than repatriate them for investment and job creation in the U.S. The TCJA eliminated this 'lockout effect,' encouraging companies to bring back intellectual property and profits to the United States. However, the 2017 law was not a permanent policy, creating uncertainty for multinational manufacturers who make long-term investment decisions. The ongoing uncertainty about potential increases in GILTI rates and the future of FDII created planning paralysis for U.S.-based multinationals. The permanent international tax code now provides the certainty manufacturers need to invest with confidence."**
>
> – Rep. Kevin Hern (R-OK)

What Are Manufacturers Saying?

Sylvamo is a U.S.-based global leader in uncoated freesheet paper headquartered in Memphis, Tennessee, that sells paper around the world.

> **"The TCJA implemented a competitive international tax system that supported manufacturers' efforts to invest and create jobs here at home—and the [One Big Beautiful Bill Act] then strengthened these provisions through both permanence and substantive improvements. These reforms changed the way foreign-sourced income earned by U.S. companies and their foreign subsidiaries is taxed, creating a far more competitive and desirable market in the U.S., making it easier and more cost effective for manufacturers like Sylvamo to locate their headquarters, assets and intellectual property here in the United States."**
>
> – Agnes Webb, Vice President of Tax, Sylvamo

FULL EXPENSING FOR MANUFACTURING PRODUCTION FACILITIES

What Is Full Expensing for Factories?

Full expensing allows companies to recover the cost of investments in full in the year of purchase. Historically, full expensing policies have focused on capital equipment purchases, like equipment and machinery. H.R. 1 expanded full expensing to include manufacturing production facilities—allowing companies to deduct the cost of constructing or expanding factories across America.

Why Is Full Expensing for Factories Important to Manufacturers?

Full expensing reduces the up-front cost of significant investments. This is true particularly with respect to facilities, as full expensing reduces a 39-year depreciation schedule to a single-year deduction. Allowing the full cost of construction to be deducted immediately makes these job-creating investments more cost effective, stimulating manufacturing expansion.

How Did H.R. 1 Impact Full Expensing for Factories?

H.R. 1 introduced full expensing for factories as an investment incentive in the tax code for the first time in American history. The provision was designed to drive manufacturing growth in the U.S., stimulating the job creation associated with opening or expanding the operations of a manufacturing facility. Building on the economic success of pro-growth policies like full expensing for equipment purchases and for R&D, H.R. 1 went even further to drive manufacturing investment. Thanks to H.R. 1, the full range of activities crucial to manufacturing in America—factory construction, equipment purchases and R&D—now benefit from full expensing.

How Does Full Expensing for Factories Help Support Manufacturing in the United States?

Immediate expensing for factories makes it a better business decision to place a company's newest facility, and the jobs that come with it, in the United States. It also helps companies expand their operations here, driving additional production capacity and job creation. For each project, companies compare the cost of their investment to the projected returns from that investment. By reducing the after-tax cost of that investment in the U.S., the new factory expensing provision makes it more attractive to place that new facility in the U.S.—bringing economic growth to America and the communities in which manufacturers invest.

Why Did Congress Create Full Expensing for Factories?

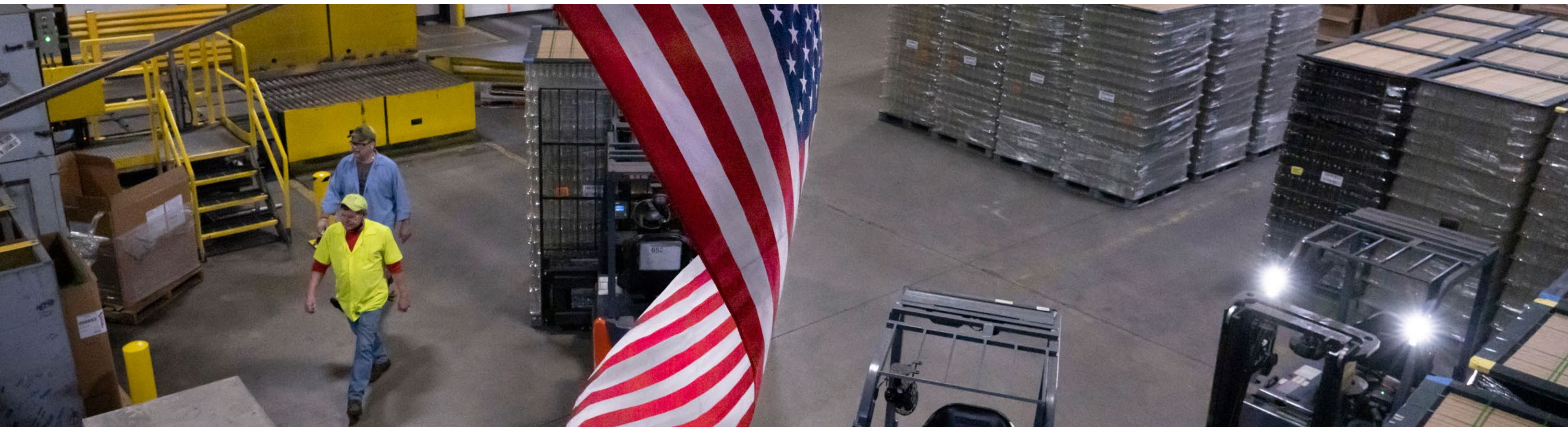
Rep. Kevin Hern (R-OK) was the leader of the House Ways and Means Committee Global Competitiveness Tax Team, which focused on bolstering America's hand on the world stage in preparation for H.R. 1.

> **"After the passage of TCJA, bonus depreciation allowed businesses to immediately deduct the full cost of equipment and machinery. A manufacturer could buy a $200,000 piece of machinery and expense it entirely in Year 1. However, the factory building itself that housed that machinery had to be depreciated over a much longer 39-year schedule. This created a major gap in U.S. tax policy: manufacturers could quickly recover the cost of the machines, but the cost recovery for enormous capital investment in the physical factory lagged far behind.**
>
> **"The [qualified production property] deduction closes that gap. It extends accelerated expensing treatment to the structures of new domestic production facilities, allowing manufacturers to recover the cost of the building much faster. By dramatically improving the after-tax economics of constructing new factories, QPP makes it significantly more attractive for companies to invest in expanding U.S. manufacturing capacity."**
>
> – Rep. Kevin Hern (R-OK)

What Are Manufacturers Saying?

Jergens Inc. was founded in 1942 and immediately began supporting other manufacturers during World War II with their manufacturing tools and equipment. Since its founding, Jergens has grown to focus on workholding solutions, lifting solutions and specialty fasteners used by other manufacturers and continues to expand its operations.

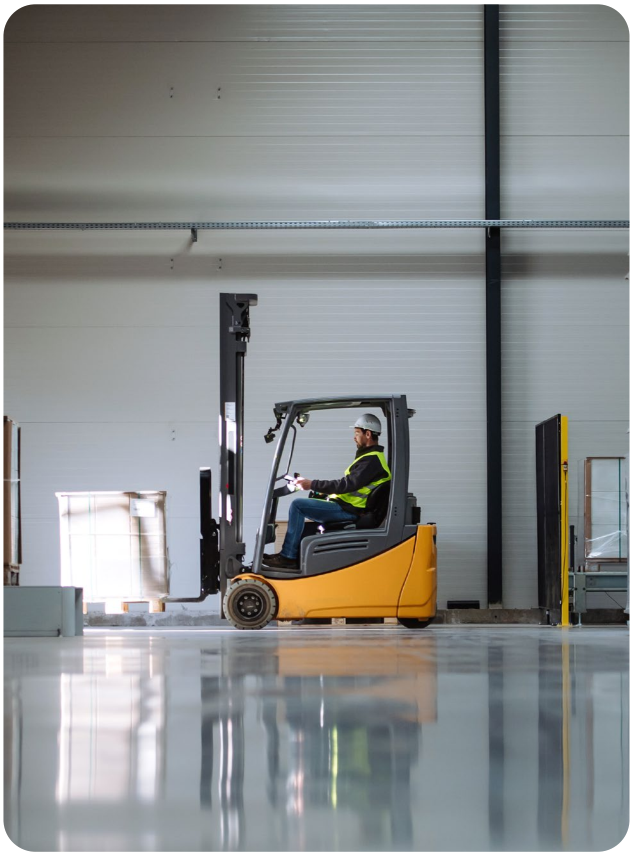
> **"Jergens Inc. just cut the ribbon on a new facility in Chicago, but because of our needs and Congress passing immediate expensing for factory facilities, we decided to add another expansion to that facility. As a result of the Working Families Tax Cuts, we'll be able to write that off immediately instead of over 39 years. It was a major reason we are doing the new expansion.**
>
> **"What does that mean? That means we invest back in our business using the tax savings from this bill. It means we can hire more people. It means our manufacturing facility is going to be larger and have more capacity than before. It means we will be better positioned to compete with our competition in Europe and China. Combined with the other provisions in this bill, we are much better positioned to grow and compete."**
>
> – Jack Schron, President, Jergens Inc.



NO TAX ON OVERTIME

What Is Overtime Pay?

The Federal Labor Standards Act defines the standard workweek as 40 hours—typically eight hours a day for five days a week. For hourly workers, time spent working that exceeds 40 hours in a week is considered overtime. Federal law requires that these overtime hours are paid at 1.5 times the standard wage, so workers make 50% more for these overtime hours.



Why Is Overtime Pay Important for Manufacturing?

Overtime is a structural feature of the manufacturing industry and its workforce, and manufacturing workers on average work about six more hours per week than the national average. Sudden spikes in demand can create an all-hands-on-deck situation where manufacturers work overtime to ensure they can deliver to their customers. Overtime work is often optional, with many workers choosing to work overtime hours to increase their take-home pay.

How Did H.R. 1 Impact Overtime Pay?

"H.R. 1 created a new deduction—No Tax on Overtime—that exempts from the federal income tax the first $12,500 in additional overtime pay for single filers and $25,000 for married filers. This applies to the additional pay workers receive from overtime—in other words, the ".5" in the 1.5 times wage multiplier for overtime. For example, if a worker making $20 per hour works overtime for $30 per hour, the worker would not owe taxes on the $10 in additional pay (until the worker hits the $12,500 (single) or $25,000 (married) thresholds).

How Does No Tax on Overtime Support the Manufacturing Industry?

Since manufacturing workers often have opportunities to work overtime for extra pay, this new deduction means that the overtime they work is even higher paying than before, as the after-tax take-home pay increases with the new deduction. This is an immediate pay raise for the millions of overtime workers across the manufacturing industry—bolstering the financial security of workers and their families and the economic might of the manufacturing industry.

Why Did Congress Create a New Deduction for Overtime Pay?

Rep. Nathaniel Moran (R-TX) spearheaded the No Tax on Overtime Act in the House of Representatives, delivering on President Trump's campaign promise for No Tax on Overtime with its inclusion in H.R. 1.

> **"Manufacturing workers are some of the hardest-working people in this country, and they've long understood that overtime isn't a bonus—it's how they keep the line running, meet a contract deadline or respond to a surge in demand. For too long, every extra hour they put in was taxed at the same rate as everything else. The Working Families Tax Cuts created a historic change in this policy."**
>
> – Rep. Nathaniel Moran (R-TX)

What Are Manufacturers Saying?

Click Bond is a family business located in Carson City, Nevada. Click Bond designs, manufactures and supports adhesive-bonded fasteners and related assembly technology. Their products are used around the world—and even in space—in aviation, aerospace, vehicle, marine, industrial and offshore energy settings.

> **"At Click Bond, all of our overtime is voluntary. Each week, we give our employees the opportunity to sign up for overtime. I expect that those hours will be in high demand with this new benefit, and that we may need to look at expanding our overtime opportunities.**
>
> **"I've been thrilled to be able to tell Click Bond's manufacturing workforce that they will now be able to receive a tax deduction for their overtime work, on top of the 150% of pay they receive for those hours. It's a welcome bonus for our hourly workers, allowing them to take home more of their hard-earned income and reach their financial goals faster."**
>
> – Austin Robinson, Director, Manufacturing, Click Bond, Inc.

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