Chris Netram

Vice President
Tax and Domestic Economic Policy

October 27, 2021

The Honorable Richard Neal
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

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

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

Dear Chairman Neal, Chairman Wyden, Ranking Member Brady and Ranking Member Crapo:

On behalf of the National Association of Manufacturers, the largest manufacturing association in the United States, representing manufacturers of all sizes in every industrial sector and in all 50 states, I am writing to respectfully express our strong opposition to the inclusion of a tax on so-called "book income" in reconciliation legislation.

Operating as a new, mandatory parallel tax system to the current corporate tax system, a book tax would be determined based on financial statement income as opposed to taxable income. Congress has crafted the rules for determining taxable income over decades. By contrast, the rules for determining book income are created by the Financial Accounting Standards Board, a private sector entity over which lawmakers have no direct authority. Often, the legislative branch and FASB are motivated by different purposes. FASB's mission is to "establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports." In contrast, Congress often utilizes the tax code to incentivize activities that are important to the nation, such as creating affordable housing, supporting workforce training and hiring veterans.

These cross purposes have resulted in key book/tax differences. Manufacturers are particularly focused on the differing treatment of capital equipment purchases. Congress has utilized the tax code to encourage investment in the machinery and equipment that are critical to a strong manufacturing sector through the use of "bonus depreciation" and accelerated depreciation for small businesses. These policies reduce the after-tax cost of purchasing long-lived assets. By contrast, accounting rules are generally focused on ensuring that depreciation is matched to the useful life of an asset.

Currently, manufacturers can reduce the after-tax cost of the purchase of machinery and equipment by immediately deducting such investments in the year in which the expenses are incurred. We would note following tax reform's passage in 2017, which included 100% bonus depreciation, manufacturing capital spending grew by 4.5% and 5.7% in 2018 and 2019, respectively. Under a book tax, however, manufacturers' investments are generally calculated based on economic depreciation. In other words, these investments would be deducted over their useful lives, which would make them more costly to undertake.

Employing more than 12 million people who make things in America, paying employees nearly 24% more than the average for all businesses and having the largest economic impact of any major sector, the manufacturing industry has been helping to lead the economic recovery. However, imposing a book tax would not only undermine the recovery but also make it harder for the next manufacturing dollar to be spent in America, negatively impacting growth in family-supporting American manufacturing jobs. For these reasons, we respectfully urge you to oppose the inclusion of a book tax in the reconciliation legislation.

Sincerely,

Chris Netram
Vice President
Tax and Domestic Economic Policy
National Association of Manufacturers