Chris Netram

Managing Vice President
Tax and Domestic Economic Policy

March 6, 2023

The Honorable Lily Batchelder
Assistant Secretary for Tax Policy
Department of the Treasury
1500 Pennsylvania Ave. NW
Washington, DC 20220

Dear Assistant Secretary Batchelder:

Manufacturers' ability to create jobs in the United States, invest in communities and effectively compete in the global economy is threatened by recent tax policy changes that make it more costly to perform research, buy machinery and finance capital investments. On behalf of the National Association of Manufacturers and the 13 million women and men who make things in America, I write to respectfully suggest that President Biden's fiscal year 2024 budget support the reversal of these damaging changes. Specifically, the NAM encourages the Administration to support efforts to repeal the R&D amortization provision, return to an EBITDA-based standard for interest deductibility and restore full expensing. Maintaining a competitive U.S. tax system that supports manufacturers' ability to invest for growth strengthens our country's supply chain, encourages domestic investment, supports small and medium manufacturers and will allow us to continue our post-pandemic economic recovery.

1. **Ensure the tax code continues to support job-creating innovation.**

Manufacturers in the United States drive more innovation than any other sector, performing 55% of private-sector research and development in the U.S. In 2021 alone, manufacturers spent nearly $350 billion on R&D. R&D is the lifeblood of manufacturing: new products, new materials and new processes help propel manufacturing in America forward. Manufacturers' ability to innovate and create new products, technologies and lifesaving medicines is currently being harmed by the damaging R&D amortization provision.

Since 1954, the tax code has recognized the important role of R&D in creating jobs and spurring innovation by providing a critical incentive for investments in R&D. Specifically, the tax code has allowed businesses to immediately deduct 100% of their R&D expenses in the same year in which they are incurred. However, as of Jan. 1, 2022, businesses have been required to amortize, or deduct over a period of years, these expenses, making R&D more costly to conduct in the U.S. In fact, the Congressional Budget Office has warned that this requirement will "reduce the incentive to invest in R&D."[1] In the first full year of the amortization requirement, private sector R&D investment fell during the third quarter according to the latest GDP report.

Coming at a time of increasingly fierce global competition for research dollars, this policy will hurt jobs, innovation and U.S. global competitiveness. According to a recent NAM economic analysis, the U.S. economy would lose 263,382 jobs and experience a GDP reduction of $82.39

[1] Congressional Budget Office, How Taxes Affect the Incentive to Invest in New Intangible Assets, Publication 54648 at 2 (Nov. 15, 2018).

billion in 2023, with the manufacturing industry projected to lose nearly 60,000 jobs, if the harmful R&D amortization policy is not reversed quickly.[2]

Unless this policy is reversed, the U.S. will continue to be just one of two developed countries with an amortization requirement for R&D expensing (the other being Belgium). Meanwhile, China, which has made no secret of its ambition to become the world leader in advanced manufacturing, currently provides a 200% deduction for R&D expenses for manufacturers.

For these reasons, the NAM strongly encourages the Administration to recognize, as it did in its FY 2023 budget, the importance of the immediate deductibility of R&D expenses by including the reversal of the R&D amortization provision in the President's FY 2024 budget. Doing so will allow manufacturers in the U.S. to continue leading in innovation, growing the economy and creating well-paying jobs.

2. **Enable manufacturers to continue to finance growth.**

Debt financing plays an important role in supporting manufacturing growth. Many manufacturers borrow funds to finance long-term investments in equipment and facilities, which in turn help create jobs and enable manufacturers to compete effectively in today's global economy. At the beginning of 2022, a stricter limitation on the deductibility of interest payments on business loans went into effect, increasing the cost of financing critical investments in machinery and equipment.

The maximum interest deduction under section 163(j) is now limited to 30% of a company's earnings before interest and tax. This is a substantial change from the standard in place prior to 2022, which was based on earnings before interest, tax, depreciation and amortization. By excluding depreciation and amortization, the EBIT-based limitation makes it more expensive for capital-intensive companies to finance critical purchases, grow their businesses and hire new workers. This stricter limitation effectively acts as a tax on investment, and it makes the U.S. a global outlier. Of the more than 30 OECD countries with an earnings-based interest limitation, the U.S. is the only one that employs an EBIT standard. It is significantly harder for the U.S. to compete when our manufacturers face such a competitive disadvantage.

According to a recent study, failing to reverse this harmful change could cost the U.S. economy 467,000 jobs and reduce U.S. GDP by $43.8 billion.[3] The NAM encourages the Administration to support job-creating manufacturing investments here in the U.S. by restoring the previous standard for interest deductibility in the President's FY 2024 budget.

3. **Make permanent a key incentive for capital equipment purchases.**

For the past several decades, the tax code has provided businesses with varying degrees of first-year expensing (i.e., bonus deprecation). A 100% deduction for the purchase of equipment and machinery in the tax year purchased has been in place since 2017. This critical incentive for capital-intensive industries like manufacturing reduces the after-tax cost of investments that support job creation and retention. According to recent analysis by the nonpartisan Joint

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[2] *New Data: Taxing R&D Will Cost U.S. More Than 260,000 Jobs Next Year If Congress Doesn't Act*. National Association of Manufacturers (Dec. 16, 2022). *Available at* https://www.nam.org/new-data-taxing-rd-will-cost-u-s-more-than-260000-jobs-next-year-if-congress-doesnt-act-19948/.

[3] *Economic Impact of Not Addressing the More Stringent 163(j) Interest Expense Limitation*. EY (September 2022). *Available at* https://documents.nam.org/tax/nam_interest_deductibility_study.pdf.

Committee on Taxation, manufacturers led all sectors in the use of expensing by a wide margin.[4] Unfortunately, the 100% level of full expensing began to phase out this year and will be eliminated completely by 2027. If this occurs, it will be much more expensive for manufacturers to undertake job-creating investments and effectively compete on a global scale. This, too, will make it more difficult to strengthen domestic supply chains and reduce our dependence on overseas expectations. As such, the NAM encourages the Administration to protect full expensing in the President's FY 2024 budget.

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Manufacturing employs 13 million Americans, contributes $2.81 trillion to the U.S. economy annually, pays workers 18% more than the average for all businesses and has one of the largest multipliers in the economy. Taken alone, manufacturing in the United States would be the eighth-largest economy in the world. But that economic leadership, and therefore the economic security of American families, is in jeopardy.

In addition to working to reverse harmful changes to the tax treatment of R&D, interest expense and accelerated depreciation, the NAM also urges the Administration prevent other scheduled tax increases from taking effect. At the end of 2025, the 20% deduction for pass-through businesses will expire, the estate tax exemption for family-owned businesses will be reduced by 50% and individual income tax rates will increase. Much like today's harmful tax changes, these coming tax increases will endanger long-term investment and job creation in manufacturing, so the NAM encourages the Administration to begin planning to protect businesses from these threats.

Competitive tax policies are critical to supporting America's manufacturing leadership. Growth and long-term investment in manufacturing in the U.S. create jobs, opportunity and family-supporting careers. They help communities grow and strengthen the supply chains that determine whether the products Americans need reach their stores and their homes.

By supporting pro-growth tax policies—and supporting the reversal of damaging tax policy changes—President Biden can ensure that manufacturers, especially small manufacturers, can continue to invest in their operations, their workers and America's future.

Sincerely,

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

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[4] *Tax Incentives for Domestic Manufacturing*. Joint Committee on Taxation (Mar. 12, 2021). *Available at* https://www.jct.gov/publications/2021/jcx-15-21/.