Chris Netram

Vice President,
Tax and Domestic Economic Policy

September 27, 2021

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

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

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

On behalf of the National Association of Manufacturers and the millions of women and men who make things in America, I write to encourage Congress to ensure that the tax code enables manufacturers to efficiently finance job-creating investments.

Debt financing plays an important role in supporting manufacturing growth. Many manufacturers borrow funds in order to finance investments in equipment and facilities, which in turn help create jobs and enable manufacturers to effectively compete in today's global economy. Income tax deductions for interest on business loans enable manufacturers to efficiently raise these critical funds. Limiting the deductibility of interest expense, on the other hand, increases the after-tax cost of capital, undermining manufacturers' ability to support America's recovery from the COVID-19 pandemic and invest in future growth.

Starting in 2022, a scheduled change to the treatment of interest deductibility will significantly reduce the amount of interest a business can deduct. The maximum interest deduction will be limited to 30% of earnings before interest and tax (EBIT)—a substantial change from the current section 163(j) standard, which is based on earnings before interest, tax, depreciation, and amortization (EBITDA). By excluding depreciation and amortization, the stricter EBIT standard will make it more expensive for capital-intensive companies to finance critical purchases, grow their businesses, and hire new workers. Moreover, of the more than 30 OECD countries with an earnings-based interest limitation, the U.S. will be the only one with an EBIT-style standard. For these reasons, the NAM strongly supports the Permanently Preserving America's Investment in Manufacturing Act, sponsored by Sen. Roy Blunt (R-MO) and Reps. Joseph Morelle (D-NY) and Adrian Smith (R-NE), which would permanently preserve the EBITDA standard. The NAM respectfully encourages Congress to support investment and job growth by taking action by year's end to prevent the harmful EBIT change from taking effect.

We also encourage Congress to reconsider the proposed changes to interest deductibility included in the House version of the Build Back Better Act. The NAM opposes the new worldwide interest limitation under section 163(n), which would be applied in addition to the existing 163(j) limitation. The proposed section 163(n) worldwide leverage test would disallow interest deductions above and beyond the scheduled change to an EBIT standard. This additional limitation would further increase the after-tax cost of capital for investments in the United States. It would also push the U.S. well outside of global tax norms for interest deductibility, making the U.S. an outlier and significantly harming America's competitiveness on the global stage.

Finally, we are concerned that the Build Back Better Act would limit the ability of manufacturers to carry forward interest deductions. The NAM opposes the provision in the House bill that would create a new carryforward restriction under section 163(o) for interest deductions otherwise limited by sections 163(j) and 163(n). Currently, interest deductions that are limited in a given year can be carried forward indefinitely. The proposed section 163(o), however, would limit the carryforward to five years—which would result in deductions expiring without ever being used, ultimately increasing the tax burden on capital-intensive businesses.

These scheduled and proposed changes to interest deductibility would disproportionately impact companies in the manufacturing sector. The industry employs more than 12 million people, contributes more than $2.44 trillion to the U.S. economy annually, pays workers nearly 24% more than the average for all businesses, and has the largest economic impact of any major sector. Following tax reform's passage in 2017, manufacturing capital spending grew by 4.5% and 5.7% in 2018 and 2019—but limiting the deductibility of interest would threaten the sector's progress and harm manufacturers' ability to invest for the future.

The NAM opposes any efforts to impose new limitations on the deductibility of interest. We respectfully encourage Congress not to enact the proposed carryforward restriction or worldwide leverage test, and we look forward to working with you to prevent the upcoming EBIT limitation from going into effect.

Sincerely,

Chris Netram
Vice President, Tax and Domestic Economic Policy

cc: The Honorable Charles Schumer
The Honorable Mitch McConnell
The Honorable Nancy Pelosi
The Honorable Kevin McCarthy