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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:

Tax policy plays a critical role in manufacturers' ability to thrive in the United States and effectively compete in a global economy. On behalf of the National Association of Manufacturers ("NAM"), I write to urge you to act on several key tax policies by the end of the year in order to help ensure the United States is the best country in the world in which to manufacture.

The NAM is the largest manufacturing association in the United States, representing manufacturers of all sizes in every industrial sector and in all 50 states. Manufacturing employs 12.85 million people who make things in America, contributes $2.77 trillion to the U.S. economy annually, pays workers more than 20% more than the average for all businesses and has one of the largest sectoral multipliers in the economy. Taken alone, manufacturing in the United States would be the eighth-largest economy in the world.

Thanks to reforms included in the Tax Cuts and Jobs Act ("TCJA"), the manufacturing sector experienced the best rate of job creation in more than two decades, the fastest rate of wage increases in more than 10 years and historic levels of manufacturing output—clearly demonstrating that a more competitive tax code benefits manufacturing workers and their families. The NAM respectfully encourages you to build on this progress and provide tax certainty by year's end on three key policies necessary to bolster a strong and competitive manufacturing economy here in the U.S.

1. **Ensure the tax code continues to support innovation.** Manufacturers in the United States drive more innovation than any other sector, with manufacturers performing nearly 60% of private-sector research and development in the U.S. In 2020 alone, manufacturers spent $295.7 billion on R&D. Research is the lifeblood of manufacturing; new products, new materials and new processes help drive manufacturing in America forward. But unless Congress acts, manufacturers' ability to innovate and create new products, technologies and life-saving medicines will be harmed.

   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 January 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.

Coming at a time of increasingly fierce global competition for research dollars, this policy—if not reversed—will hurt jobs, innovation and competitiveness. According to an economic analysis by Ernst & Young, the R&D amortization requirement will lead to a loss of more than 20,000 R&D jobs in America each year over the first five years, with job losses rising to nearly 60,000 each year over the following five years. Moreover, when accounting for the spillover effect from R&D spending, nearly three times as many jobs will be affected.[1] With this change now in effect, the U.S. is now just one of two developed countries with an amortization requirement (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 Congress to approve without delay bipartisan legislation in the Senate and House that would repeal the R&D amortization provision.[2] Doing so will allow manufacturers in the U.S. to continue leading the world in innovation, which in turn will help grow the economy and create 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 the interest payments on business loans went into effect, limiting the deductions available to manufacturers when 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 ("EBIT")—a substantial change from the standard in place prior to 2022, which was based on earnings before interest, tax, depreciation and amortization ("EBITDA"). 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 20 OECD countries with an earnings-based interest limitation, the U.S. is the only one that employs an EBIT standard.

   The NAM supports bipartisan, bicameral legislation to reverse this harmful change.[3] According to a recent study, failing to act could cost the U.S. economy 467,000 jobs and reduce U.S. GDP by $43.8 billion.[4] Congress should support job-creating manufacturing investments here in the U.S. by acting to protect interest deductibility before year's end.

3. **Make permanent a key incentive for capital equipment purchases.** For most of the last 21 years, the tax code has provided businesses with varying degrees of first-year expensing (i.e., bonus depreciation). 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

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[1] *Impact of the Amortization of Certain R&D Expenditures on R&D Spending in the U.S.* EY (October 2019). *Available at* https://investinamericasfuture.org/ey-impact-of-the-amortization-of-certain-rd-expenditures-on-rd-spending-in-the-united-states/.
[2] S. 749, the American Innovation and Jobs Act and H.R. 1304, the American Innovation and R&D Competitiveness Act.
[3] H.R. 5371 and S. 1077, the Permanently Preserving America's Investment in Manufacturing Act.
[4] *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.

industries like manufacturing reduces the after-tax cost of capital equipment purchases and increases the return on investments. These projects in turn support job creation and retention. According to a recent analysis by the non-partisan Joint Committee on Taxation, manufacturers led all sectors in the use of expensing by a wide margin.[5] Unfortunately, full expensing begins to phase out in 2023, and will be completely phased out 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. As such, the NAM encourages Congress to make full expensing permanent.[6]

Tax certainty is critical to supporting growth and long-term investment in U.S. manufacturing. Congress has the opportunity to provided much-needed certainty by the end of 2022 by reversing a harmful change to the tax treatment of R&D, returning to an EBITDA-based standard for interest deductibility and preventing the coming phase-down of full expensing. The NAM strongly encourages Congress to take these critical steps to bolster job creation in U.S. manufacturing and reinforce the industry's competitiveness on the world stage.

Sincerely,

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

cc: Members of the Senate Finance Committee
Members of the House Ways and Means Committee

[5] *Tax Incentives for Domestic Manufacturing*. Joint Committee on Taxation (March 12, 2021). *Available at* https://www.jct.gov/publications/2021/jcx-15-21/.
[6] S. 1166 and H.R. 2558, the Accelerate Long-term Investment Growth Now (ALIGN) Act.