NATIONAL ASSOCIATION OF
Manufacturers

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January 19, 2024

Jason Smith	Richard Neal
Chairman	Ranking Member
Committee on Ways and Means	Committee on Ways and Means
U.S. House of Representatives	U.S. House of Representatives
Washington D.C. 20515	Washington D.C. 20515

Dear Chairman Smith and Ranking Member Neal:

On behalf of the National Association of Manufacturers and the 13 million people who make things in America, I write in strong support of H.R. 7024, the Tax Relief For American Families And Workers Act. Congress must act without delay to pass this critical legislation, which would reinstate immediate R&D expensing, restore a pro-growth interest deductibility standard and revive 100% accelerated depreciation.

Ensuring that the U.S. tax system supports manufacturers' ability to invest for growth strengthens our country's supply chain, encourages domestic investment, supports small and medium manufacturers and allows manufacturers to compete on a global scale.

1. **Ensure the tax code supports 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]

Coming at a time of increasingly fierce global competition for research dollars, this policy hurts jobs, innovation and U.S. global competitiveness. 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

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

ambition to become the world leader in advanced manufacturing, currently provides a 200% deduction for R&D expenses.

The Tax Relief For American Families And Workers Act recognizes the importance of the immediate deductibility of R&D expenses by reversing the harmful R&D amortization provision. Restoring immediate R&D expensing will allow manufacturers in the U.S. to continue leading in innovation, growing the economy and creating well-paying jobs.

2. <u>Enable manufacturers to finance growth.</u>

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.[2] The Tax Relief For American Families And Workers Act would restore the EBITDA standard for interest deductibility, supporting job-creating manufacturing investments here in the U.S.

3. <u>Reinstate a key incentive for capital equipment purchases.</u>

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 was in place from 2017 until 2023. This critical incentive for capital-intensive industries like manufacturing was critical to reducing the after-tax cost of investments that support job creation and retention.

According to analysis by the nonpartisan Joint Committee on Taxation, manufacturers led all sectors in the use of expensing by a wide margin.[3] Unfortunately, the 100% level of full expensing began to phase out in 2023—making it much more expensive for manufacturers to undertake job-creating investments and effectively compete on a global scale. The Tax Relief For American Families And Workers Act would restore full expensing at the 100% level,

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[2] *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.
[3] *Tax Incentives for Domestic Manufacturing*. Joint Committee on Taxation (Mar. 12, 2021). *Available at* https://www.jct.gov/publications/2021/jcx-15-21/.

strengthening our domestic supply chains and allowing manufacturers to invest in growth here in the U.S.

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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.

The expiration of these pro-growth tax policies has undercut America's manufacturing leadership. The NAM respectfully encourages the committee to approve the Tax Relief For American Families And Workers Act in order to support growth and long-term investment in manufacturing in the U.S.—enabling manufacturers to invest in their operations, their workers and America's future.

Sincerely,

Charles Crain
Vice President, Domestic Policy
National Association of Manufacturers