



November 16, 2023

The Honorable Chuck Schumer
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Mike Johnson
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, DC 20510

The Honorable Hakeem Jeffries
Minority Leader
U.S. House of Representatives
Washington, DC 20515

Majority Leader Schumer, Leader McConnell, Speaker Johnson, and Leader Jeffries,

The American Forest & Paper Association (AF&PA) represents the U.S. forest products industry and we are writing to you today to urge swift action on critical expired and expiring tax provisions before the end of 2023 – specifically, the Section 174 research and expense deduction, the Section 163(j) interest deduction limitation and the Section 168(k) bonus depreciation provision. The forest products industry is one of the most highly capital-intensive manufacturing industries. We have made and continue to make significant investments in facility upgrades to support our 925,000 employees and we are among the top 10 manufacturing sectors in 43 states across the U.S. The industry invests roughly \$16 billion per year in plant and equipment items like recovery boilers, turbine generators, paper machines, and environmental controls that are critical to maintaining advanced manufacturing facilities that support U.S. jobs and rural communities throughout America. These vital tax extenders absolutely must be included in any year-end package, or these provisions could slip indefinitely, compounding the already-significant unintended consequences of stifling business and job growth.

The U.S. forest products industry – made up of both C-corporations and pass-through entities – is a significant contributor to the U.S. economy, employing nearly 925,000 men and women in above-average wage jobs, investing heavily in equipment and improvements, and exporting products throughout the world. Over 75 percent of our mills and facilities are located in counties that are over 80 percent rural – these mills and facilities support good, high-paying jobs and are often the backbone of these communities. We also support jobs in other sectors of the U.S. economy, specifically, each paper industry job supports 3.25 jobs in supplier industries and in local communities as the result of re-spending and tax receipts.

Our industry provides excellent employee payroll, retirement, and health benefits to its workers, exceeds employment levels in the automotive, chemicals, and plastics industries and meets a payroll of approximately \$55 billion annually. In addition, the industry has a generous compensation and benefits structure – earnings of pulp and paper mill workers exceed the average for all U.S. private sector workers by about 19 percent.

Our Tax Profile

During tax reform just 6 years ago, we supported many of the provisions in the Tax Cuts and Jobs Act (TCJA). The rationale for instituting those changes, and our support for them, has not changed. We urge

you not to roll back provisions that made our member companies more competitive and allowed us to continue to invest in the United States and grow jobs throughout the country.

While legislation to address these key items has been introduced in both the House and the Senate, Congress must move quickly to extend these provisions.

1. **Research Expense Deduction:** The Section 174 research expense policy from the Tax Cuts and Jobs Act expired in January 2022 and in order to prevent major disruptions to our companies and the jobs we support, this must be fixed retroactively to the beginning of 2022. In fact, it is estimated that this R&D problem amounts to roughly a 2 percent increase in the corporate tax rate over time. As the industry strives to become more sustainable and produce more recycled products for our customers, we need to experiment with varying methods and equipment on a regular basis, driving R&D costs up for the industry. When R&D costs continue to rise, companies have less to spend on the payroll and benefits our industry is so proud of.
2. **Interest Deduction Limitation:** The Section 163(j) interest deduction limitation became even more challenging at the beginning of this year. The limitation's measurement, based on earnings before income taxes, depreciation, and amortization (EBITDA) must remain intact and cannot lose the depreciation and amortization portion. Our member companies rely heavily on the ability to access debt markets to finance their substantial investments, and this should not be further constrained. The United States is the only nation in the world who uses the EBIT measurement, and it's causing unnecessary harm to essential manufacturers during a time of high inflation and cost of doing business throughout the U.S.
3. **Expensing and Bonus Depreciation:** The Section 168(k) bonus depreciation provisions are due to shrink by 20 percent each year for the next 4 years, expiring completely after 2026. Given the capital-intensive nature of our industry, full expensing must remain in place. For example, the average cost of a new paper machine is approximately \$800 million. In today's economy, a purchase like that is only feasible with immediate expensing.

Throughout the pandemic, our industry was deemed essential by the federal government and we continue to make products that Americans use every day but without action on these 3 provisions, key components of what makes our industry so unique are being jeopardized. We are strongly encouraging you to take swift action on these 3 key expiring tax provisions before the end of the year and ensure they are retroactively extended. If you have any questions, please reach out to David Ross at David_Ross@afandpa.org. We appreciate your consideration.

Sincerely,



Julie Landry
Vice President, Government Affairs
American Forest & Paper Association

CC:

The Honorable Ron Wyden
The Honorable Mike Crapo
The Honorable Jason Smith
The Honorable Richard Neal