Manufacturers Need Comprehensive Tax Reform

U.S. businesses, particularly small and medium sized, face significant tax burdens placing them at a global competitive disadvantage. The U.S. corporate tax rate is higher than any other developed nation (tax rate in China is 15% lower). Meanwhile, an Ernst and Young study shows 81% of all manufacturers are “pass-through” entities, paying taxes at the just increased individual rates.

In an April 2013 survey conducted by the North American Die Casting Association (NADCA), respondents said 58% are structured as C-Corporations with 40% being some form of pass-through such as an S-Corporation or partnership. A recent study by the Government Accountability Office (GAO) showed that two-thirds of corporate tax provisions also benefit individuals and pass-through businesses. This further demonstrates that all businesses are connected throughout the supply chain and Washington cannot move corporate-only tax reform.

NADCA members believe they should pay their “fair share” of taxes to maintain sensible government operations. However, governments at all levels must get their spending under control and not simply use tax reform as a means to pay for more programs. Comprehensive tax reform is an opportunity for Washington to pay its bills while simplifying the code. Most manufacturers lack the internal resources to keep up with constantly expiring provisions and increased rates and cannot plan for the future.

The current corporate tax code penalizes business owners through double taxation of earnings. The code also provides a disincentive for a family-owned business to pass the company down to the next generation of manufacturers. Taxation of dividends and penalties for keeping a business in the family simply means the owners taking more money out of the company, leaving fewer resources for employees and equipment.

Due to the outdated tax code, manufacturers, especially small and medium sized businesses, utilize tax credits and deductions to relieve their tax burden, lower their effective rates and improve global competitiveness. Capital equipment costs account for the largest incurred expense by NADCA members with a single piece of machinery easily running into the millions. In an April 2013 survey, responses showed 90% use Bonus “Accelerated” Depreciation and 68% use Section 179 Equipment Expensing to help purchase machines they need. These are critical tools to support manufacturing in America. In addition, 55% said they claim the Research & Development Tax Credit.

However, many of our members cannot maximize the benefit of these credits and deductions due to their temporary nature. Manufacturers must make business decisions well over a year in advance when budgeting for a machine costing into the millions. This instability means drastically reducing investment in equipment, for example, because of expiration of the Bonus Depreciation and Section 179. This means they are not purchasing the $1 million machine or hiring the four employees needed to run its operation.

Our tax code inhibits job creation and business growth while our foreign competitors have the support of their government’s tax policies – from lower corporate rates to a Value Added Tax (VAT) to stronger R&D incentives. Washington must use tax reform to improve the global competitiveness of businesses manufacturing in America.

NADCA believes Washington must:
- Pass comprehensive tax reform for both corporations and individuals;
- Eliminate double taxation of C-Corporations; establish competitive dividend/capital gains rates;
- Provide stability in the tax code and make permanent provisions which encourage investment in equipment such as Bonus “Accelerated” Depreciation and Section 179 Expensing;
- Fully repeal or maintain current Estate Tax law.