American Coatings ASSOCIATION℠

Policy Statement on Corporate Tax Reform

The American Coatings Association (ACA) represents the more than $20 billion dollar paint and coatings industry in the United States, operating in all 50 states, and employing over 250,000 people engaged in the manufacture, application, and distribution of its products. U.S. manufacturers face higher tax costs than almost all of our competitors in other countries. The corporate tax rate in America is generally considered to be the highest among developed nations. This puts the U.S. manufacturing industry at a significant competitive disadvantage in the global marketplace. The current tax system has also created an uncertain environment that consistently undermines our manufacturers' ability to compete and succeed in the global marketplace.

Tax extenders passed at the end of the 113th Congress provide provided a short-term fix of a number of important provisions affecting manufacturers, but these extenders are not a solution going forward, as they expired at the end of 2014. This exemplifies the problems inherent in addressing corporate taxation on an ad hoc basis. Policymakers must act to create a tax climate that encourages innovation and promotes investment, job creation and economic growth. Key ingredients for comprehensive tax reform include:

- A lower corporate tax rate;
- Equitable treatment of small businesses;
- Encouraging investment by making permanent a competitive R&D tax credit;
- A modern international tax system that does not contain disincentives to U.S. based manufacturing; and
- A robust capital cost-recovery system.

Additionally, manufacturers are concerned about the impact of historically-high levels of the current federal deficit and the debt on the overall U.S. economy but also want to avoid government shutdowns or default. The nation is once again poised to reach its borrowing limit in 2015 and the path towards raising the debt ceiling is unclear. ACA urges Congress to pass a balanced budget while continuing to meets its current obligations.

Corporate tax rate

The corporate income tax rate in the U.S. is considered by most observers to be the highest in the developed world. This high rate, along with the way in which the U.S. taxes corporate taxpayers on global income, makes the U.S. less competitive as a place to do business and invest. The U.S. rate of combined corporate taxation has been 39% for years; in contrast, the OECD average has gradually declined to approximately 24.1%, over 33% lower.[1] Our neighbor Canada, to name one example, taxes corporate income at a 26.5% rate. Although the effective tax rate is somewhat

[1] KPMG, Tax Rates Online, http://www.kpmg.com/Global/en/services/Tax/tax-tools-and-resources/Pages/tax-rates-online.aspx .

lower due to credits, deductions from taxable income, etc., the United States' effective corporate rate is 27.9 percent.[2] That's considerably higher than Canada's (6.6%), second-highest (behind New Zealand) among OECD countries and 15th-highest among 189 countries measured.[3] Manufacturers are even more disadvantaged. One study found that while the "current tax expense" for all U.S. corporations (both domestic and multinational) was 20%, while the equivalent rate for manufacturers was 26%.[4]

Equitable treatment of small businesses

Many small manufacturers are not taxed under the corporate taxation system, but are rather taxed under Subchapter S of Chapter 1 of the Internal Revenue Code.[5] ACA and other business organizations believe that the tax code should not disadvantage (or advantage) such corporations solely because of their choice of tax regime. One area in ACA believes that the Committee should consider modifying the taxation of such corporations is in the treatment of business investment. Currently, small and medium businesses can expense modest levels of investment under Section 179. This has varied over recent years and has created some level of uncertainty. For example, in 2013, such expensing was limited to $500,000, with a $2 million phase-out threshold. The level of qualified investment dropped to $25,000, although in 2014, the $500,000 limit was reinstated on a retroactive basis. Encouraging investment by a more generous level of expensing would be likely to increase investment and employment by small and medium-sized manufacturers. [6]

Encouraging investment by making permanent a competitive R&D tax credit

The R&D credit has not been made a permanent part of the tax code, although it has typically been extended by the Congress in various "extender" packages. It is highly inefficient to continue to deal with this issue on a late minute, ad hoc basis, particularly as the merits of this credit are well understood. One study found that that, "the credit and its enhancement is estimated to increase research-related employment by 140,000 in the short term and 300,000 in the long-term." We are also aware that there is significant global competition for these R&D jobs, and companies have a wide number of choices on where to place these positions and invest their research dollars. Particularly in light of the generally lower prevailing costs associating with employing research scientists in developing countries, it makes no sense to further handicap U.S. research efforts by

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[2] "Paying Taxes 2014: The global picture. A comparison of tax systems in 189 economies worldwide," PricewaterhouseCoopers International Ltd.

[3] *Id*.

[4] "Cross-Country Comparisons of Corporate Income Taxes," Markle and. Shackelford (2011).

[5] A "small business corporation" may elect under 26 U.S.C. 1362(a) to be taxed as an S corporation.

[6] A June 2014 study by Tax Foundation suggested that the expensing system would provide the strongest effects on economic growth of any proposal they evaluated, with significant long-term impacts on GDP, the capital stock, and employment ("Comparing the Growth and Revenue Effects of Four Proposed Depreciation Systems: Baucus, Camp, Wyden, and Full Expensing," Schulyer, June 2014).

periodically threatening this credit. We continue to urge that this be made a permanent part of the tax code.

A modern international tax system that does not contain disincentives to U.S. based manufacturing

ACA's view is that until Congress moves to a territorial tax system and lowers the rate so U.S.-based firms can compete, it will continue to be an impediment to creating jobs in the U.S.[7] The current system of worldwide taxation of income – a corporate taxation feature unique to the United States – provides strong incentives for U.S. based multinationals to defer repatriating overseas earnings to the U.S. and inserts many other distortions. For example, we have seen a number of examples of so-called corporate inversions, where previously U.S. based corporations acquire a foreign entity and subsequently move their headquarters overseas to avoid this feature of the U.S. tax code. Because a significant number of multinational corporations operate in our industry, the current system acts as an unnecessary drag on U.S. based multinational corporations. The positive impact on the U.S. economy of implementing a territorial system could be as high as $114 billion per year in increased repatriated earnings, which could generate significant amounts of increased investment and employment among affected firms, generating increases of about $22 billion in GDP, approximately $11 billion in new investment and increased employment of as much as 154,000.[8]

A robust capital cost-recovery system

Increased ability to expense or depreciate capital investments clearly provides an incentive for increased expenditures in this area, with clear and positive impacts on employment and productivity. This is a highly technical area of tax policy and a number of proposals have been advanced addressing how corporations may expense or depreciate capital expenditures. The National Association of Manufacturers has examined a number of such proposals closely, and a study it commissioned concluded that "full and permanent expensing would increase annual GDP by 0.35 percent, investment by 1.2 percent and employment by 0.05 percent (or approximately 74,000 to 79,000 jobs per year)."[9] The American Coatings Association agrees with this conclusion and encourages the Committee to consider enhancing the current incentives for investment by U.S. corporations.

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[7] This is currently exacerbated by the recent strength of the U.S. dollar, which shows no signs of reversing for the foreseeable future.

[8] "Implications of a Switch to a Territorial Tax System in the United States," Drabkin, Serwin, and Tyson (November 2013).

[9] "A Missed Opportunity: The Economic Cost of Delaying Pro-Growth Tax Reform," Bruce, Gurley-Calvez, and Murray (January 2015).