The Facilitating American-Built Semiconductors (FABS) Act

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Background

Semiconductors underpin most of the modern economy, and are a key component in everything from computers and cellphones to vehicles and critical defense technologies. However, the United States, which developed and pioneered this technology, increasingly finds itself reliant on foreign producers of semiconductors.

While U.S. companies still dominate the global semiconductor industry, accounting for nearly half of all revenues, the share of global production in the U.S. has dropped from 37 percent in 1990 to just 12 percent today.

Semiconductor production is increasingly concentrated overseas, with 75 percent of global production now occurring in East Asia. As much as 70 percent of the cost difference for producing semiconductors overseas is driven not by comparative advantages, but instead by foreign subsidies.

The need to strengthen and diversify the semiconductor supply chain has been made abundantly clear during the coronavirus pandemic, as disruptions in semiconductor production create shortages that have led to idling automotive plants.

These dynamics must change if the United States is to remain at the forefront of technological development in this vital industry and retain these high-skill, high-wage jobs. The FABS Act is a bipartisan proposal that would counteract these trends by providing reasonable, targeted incentives for domestic semiconductor manufacturing.

Summary of Proposal

The legislation proposes a 25 percent investment tax credit for investments in semiconductor manufacturing, both for manufacturing equipment as well as the construction of semiconductor manufacturing facilities.

The proposal includes incentives for the manufacturing of semiconductors, as well as for the manufacturing of the specialized tooling equipment required in the semiconductor manufacturing process.

Taxpayers can elect to receive the tax credit as a direct payment, and must make this election before their facility or equipment is placed in service.

To provide certainty and predictability for taxpayers, the credit would be permanent.