



**Forging Industry Association (FIA) Comments on Overhauling the Tax Code**  
**Senate Finance Committee Business Income Tax Working Group**  
**April 2015**

The Forging Industry Association (FIA) welcomes the opportunity to comment on reforming the broken tax code to make it simpler, fairer and more efficient. FIA is the primary trade association representing the bulk of forging capacity in North America. The North American forging industry is comprised of approximately 500 forging operations in 38 states, Canada and Mexico. Forging presence in the United States is primarily concentrated in Ohio, Pennsylvania, Illinois, Michigan, California, Texas, New York, Indiana, and Wisconsin. The modern forging process is capital intensive, and most forging companies are small businesses.

Forging is the oldest known metalworking process, where metal is heated and pounded or pressed under high pressure into a wide variety of high-strength parts used in anything that rolls, floats or flies. Virtually any metal can be forged, from aluminum to zirconium. The process is usually performed by preheating the metal to a desired temperature before it is worked. Forged parts are strong and reliable and therefore, vital in safety critical applications. Forgings are rarely seen or identified by consumers, because they are normally component parts inside assemblies. For example, forgings are necessary components in the following applications:

- **Automotive** – A single car or truck may contain 250 forgings, and 40% of all truck axle assemblies are comprised of forged components;
- **Aerospace** – structural, engine and landing gear parts of commercial and military aircraft are forged;
- **Defense** – a heavy tank contains over 550 separate forgings, the 120mm gun tube on the M1A2 battle tank is forged, the US Navy's Aegis Class guided missile destroyers are steered by 2 forged rudder stocks approximately 20 feet in length and weighing 35,000 pounds each, Cruise missile warheads and all penetrator bomb cases are forged, and a standard artillery shell usually contains at least 2 forged components;
- **Power Generation** – safe and reliable pressure vessels, generator rotors, pump shafts, valve manifolds, valve bodies, turbine blades and shafts, pipes, and fittings are forged for nuclear (commercial and naval), land, and marine power generation equipment;
- **Wind Energy** – about 20 metric tons of forgings are used in a typical large wind turbine;
- **Oil and Gas Exploration** – hundreds of forgings are used in both an oil rig tension leg platform and land-based drilling rigs;
- **Mining** – forgings up to 70,000 pounds are used in surface and underground mining equipment;
- **Rail** – The Association of American Railroads requires all axles to be forged for locomotives. The traction gears and the engine crankshaft and camshaft in locomotives are also all forged;
- **Medical** – Quality surgical tools and joint replacements require strong, lightweight forgings;
- **Tools** - Hammers and wrenches are forged; and
- **Sports** – Forged golf clubs allow more efficient transfer of energy from clubs to ball than traditional clubs – that equals more distance without swinging harder.

FIA strongly supports comprehensive tax reform that lowers the top rate for all taxpayers to 25 percent or lower, shifts from a current worldwide system of taxation to a modern and competitive international tax system for U.S. corporations with global operations, and encompasses a strong capital cost-recovery system. However, that support is based on the assumption that all manufacturers will be treated alike under the new system.

Modern forging is both capital-intensive and energy-intensive, yet many U.S. forging companies are small or medium-sized enterprises, often family-owned or closely held. As such, many forgers and other metalworking companies and their suppliers are organized as Subchapter S Corporations, Limited Liability Companies (LLCs), Partnerships or other pass-through entities, so taxes are paid by their owners at individual rates.

Today's U.S. tax code has grown incredibly complex, filled with innumerable tax incentives and tax credits, many of which benefit only one industry or one type of business enterprise, or which may be utilized by some companies but not others due to structure or simply a lack of sophistication in tax preparation. Regardless of their merit, selective application of these incentives and credits can lead to vastly different tax bills for companies of similar size, even within the same industry. In addition, U.S. taxes on business in general are higher than many of our global competitors, making the U.S. less attractive for investment.

According to a survey of FIA members:

- 56% are Pass-Through Entities (S-Corp, LLC, LLP)
- 44% are Corporations
- 50% use R&D credit
- 56% use Section 199 Domestic Production Activities Deduction
- 81% use Section 179 Expensing for Equipment
- 88% use Bonus (Accelerated) Depreciation

These statistics demonstrate the significance of equal treatment for all manufacturers under any tax reform proposal. For example, if tax reform were applied only to the "corporate" structure, more than half of FIA's members would receive no benefit from lower tax rates, and if those lower rates were "financed" by the elimination or reduction of current deductions and credits that they utilize heavily, they would likely see their total taxes rise substantially.

Therefore, FIA believes it is critically important that any comprehensive tax reform legislation be truly comprehensive in nature (i.e., corporate and individual) and crafted to ensure that all manufacturers are treated alike. FIA recognizes the challenges that must be overcome to accomplish this goal, and we look forward to working with lawmakers to help ensure that tax reform results in increased global competitiveness for all U.S. manufacturers.

### **Importance of Capital Cost Recovery to Tax Reform**

Capital investment is critical to economic growth, job creation and competitiveness. In manufacturing sectors such as forging where the cost of equipment is significant, robust capital equipment expensing systems are vital.

As noted above, a large majority of FIA members use Section 179. We support raising and making permanent an enhanced 179 credit as part of tax reform. FIA believes this change would allow many of its members to invest in new equipment sooner than would otherwise be the case.

### **Repeal of Last In-First Out (LIFO) Accounting Method**

For the past several years, the President has proposed retroactive repeal of LIFO as part of his budget. Congress must recognize that repeal of the LIFO accounting method is NOT part of tax reform. Many manufacturers, including approximately 38% of surveyed forgers, utilize this method, which has been part of the U.S. tax code since 1939, because it is the most accurate method of accounting for businesses that maintain large inventories of raw materials and work-in-progress. Repeal of LIFO and a requirement that LIFO reserves be repaid could bankrupt some small companies that have been using LIFO for years, and do nothing to reform the tax system. We urge Congress to reject this approach in considering comprehensive tax reform.

### **Conclusion**

Done correctly, comprehensive tax reform is key to the long term competitiveness of the forging industry, but it is imperative that any new tax system not increase the tax burden on manufacturers in general and the forging industry specifically. All manufacturers regardless of structure must be treated equally under a new system.

FIA sincerely appreciates the opportunity to provide input into this very important legislative process. We feel sure you will hear similar concerns from other organizations representing manufacturers, and specifically metalworking manufacturers, since metalworking manufacturers face similar challenges in the tax arena. We would be happy to provide additional information at any time. Please feel to contact Jennifer Baker Reid (202-393-8524, [jreid@thelaurinbakergroup.com](mailto:jreid@thelaurinbakergroup.com)) if we can be of any further assistance.



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