**Industrial Fasteners Institute (IFI) Comments**
**on Overhauling the Tax Code**
**Senate Finance Committee Individual Tax Income Tax Working Group**
**April 2015**

The Industrial Fasteners Institute (IFI) welcomes the opportunity to comment on making the tax code simpler, fairer and more efficient. IFI is the trade association that represents 85% of the North American production capacity for mechanical fasteners – the nuts, bolts, screws, and rivets that hold together everything from aircraft to wind turbines. IFI is divided into Divisions representing the markets served.

- **DIVISION I: INDUSTRIAL PRODUCTS:** Division I members focus on Original Equipment Manufacturer (OEM) markets other than automotive and aerospace, and on sales through fastener distribution channels. Primary markets include electrical/electronics, appliance, furniture/office equipment, heavy truck/bus, construction and agricultural equipment, energy, structural buildings, and transportation infrastructure (i.e., bridges).

- **DIVISION II: AEROSPACE PRODUCTS:** Division II manufacturers supply specialized products to the aerospace industry and the Department of Defense. Their products are frequently made from the more exotic materials and often have complex geometry in their design. Because they supply to the government, they must comply with complex defense procurement agency constraints and export controls where appropriate. This Division has an Affiliate Member category which consists of key distributors to the major aerospace airframe, engine and flight component OEMs.

- **DIVISION III: AUTOMOTIVE PRODUCTS:** Division III is made up of manufacturers supplying product to the automotive OEMs and the Tiers that supply them.

- **ASSOCIATE SUPPLIERS DIVISION:** The Associate Division members are the key suppliers of the raw material, machinery, equipment and services used in the production of fasteners/formed parts.

In 2014, North American production of fasteners was $15.5 billion. Of the $75 billion in fastener sales worldwide, $17 billion of them were produced domestically. The industry employs about 42,000 workers in about 850 fastener manufacturing entities, *the majority of which are small businesses.*

IFI 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 fastener manufacturing is capital-intensive, yet many U.S. fastener companies are small or medium sized enterprises, often family-owned or closely held. As such, many fastener manufacturers 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 IFI members:

- 50% are Pass-Through Entities (S-Corp, LLC, LLP)
- 50% are Corporations
- 67% use R&D credit
- 89% use Section 199 Domestic Production Activities Deduction
- 83% use Section 179 Expensing for Equipment
- 94% 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, half of IFI'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, IFI 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 <u>all manufacturers are treated alike, regardless of structure.</u> IFI recognizes the challenges that must be overcome to accomplish this goal, and we look forward to working with the Committee to help ensure that tax reform results in increased global competitiveness for all U.S. manufacturers.

## <u>Importance of Capitol Cost Recovery to Tax Reform</u>

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

As noted above, a large majority of IFI members use Section 179. We support raising and making permanent an enhanced 179 credit as part of tax reform. IFI 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 Is <u>Not</u> Part of Tax Reform

Finally, IFI believes that Congress must resist the temptation to include unrelated items in any comprehensive tax reform legislation, such as repeal of the Last In-First Out Accounting Method (LIFO).

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 39% of surveyed fastener manufacturers, 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 would do nothing to reform the tax system. We urge Congress to reject this approach in considering comprehensive tax reform.

Conclusion

IFI sincerely appreciates the opportunity to provide input into this very important legislative process. We know that our comments will be echoed by other metalworking associations as well as our members 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) if hou have any questions or we can be of any further assistance.

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