National Marine Manufacturers Association

April 14, 2015

The Honorable John Thune and The Honorable Ben Cardin
Co-Chairmen, Business Income Tax Working Group
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Re: Comments on Federal Tax Reform

Dear Senators Thune and Cardin:

The National Marine Manufacturers Association (NMMA) is pleased to present these comments on federal tax reform to the Senate Finance Committee as requested in the committee's press release of March 11, 2015.

NMMA is the leading recreational marine industry trade association in North America, representing 1,400 boat, engine, and accessory manufacturers. NMMA members collectively produce more than 80 percent of the recreational marine products sold in the United States. NMMA members are major corporations, driving economic development in communities across the country. In total the industry represents more than 650,000 direct and indirect jobs across 34,800 businesses contributing a total of $121 billion in economic value.

Recreational boating is vital to the economic and social well-being of the United States. The industry is proudly American—designed, manufactured, retailed and enjoyed by Americans across all 50 states and across all walks of life. The industry also understands its tax obligations; the importance of paying its fair share and contributing to the country's financial health.

That being said, the ability to compete in an increasingly globalized market, invest in new equipment and technologies, increase hiring, and remain financially solvent is threatened by the continued inefficiencies and discrepancies in the United States' tax policy. This is doubly true considering that 95 percent of NMMA members are defined as small businesses. It is costly for a small business to spend hundreds of thousands of dollars and waste countless manhours simply understanding and complying with the tax code each year—adding costs on top of their actual, substantial tax obligation.

As such, NMMA and its members are supportive of the Committee's interest in tax reform and are hopeful that improvements can be made to better all American businesses, families and individuals. NMMA understands that tax reform is not an easy task; the following comments are offered to reflect the industry's goals for what reform would look like in the 114th Congress.

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Lower the corporate rate

The 35 percent corporate tax rate is unreasonable for businesses of all shapes and sizes. NMMA's large manufacturers currently pay an exorbitant amount, preventing them from reinvesting earnings back into their company, their employees and their communities. While the smaller member companies struggle to balance remaining solvent with paying their obligation.

By capping the corporate tax rate at a maximum of 25 percent, companies will receive much needed relief, while sparking economic investment and maintaining sufficient tax revenues for the country's expenditures. A reduced rate to 25 percent will spur the capital and investment that is necessary for sustained economic growth.

According to a January 2015 study conducted by National Association of Manufacturers (NAM) along with the Universities of Tennessee and Kansas[i], a 10-percentage-point reduction, to 25 percent, in the maximum corporate income tax rate would increase annual GDP by 0.3 percent, investment by 0.15 percent and total employment by 150,000 jobs.

Additionally, a lowered corporate rate would allow companies to better compete in a globalized market. For NMMA members, export markets are a vibrant customer who seek the very best in product—American-made boats, engines and accessories. In 2013, the industry exported $2.13 billion, continuing a multiyear trade surplus trend. But increasingly these companies are facing stiff competition from foreign entities who are able to produce products without excessive tax burdens adding to the costs.

With a 35 percent rate, the United States lags behind other developed nations, hurting American companies. According to the Organization for Economic Cooperation and Development (OECD) America has the highest corporate income rate of all 34 member countries. The average rate for OECD members is 23 percent[ii]. It is vital to global competitiveness that a corporate rate is more aligned with OECD members.

A lowered corporate rate is vital to NMMA members' economic health and outlook. After suffering significantly during the Great Recession, a period that left many member companies out of business, the industry is finally rebounding. The prospect of continued growth remain high for one of America's premier manufacturing industries. It is imperative that any tax reform effort helps, not hinders, this rebound. A lowered rate is needed in order for the industry to experience significant increases in spending, hiring and production, while maintaining its competitive edge globally.

Preserve Programs that Encourage Investment

A reduction in the overall tax obligation taken in conjunction with the removal of several key tax policy methods that spur investment would be counterproductive. It is imperative that any needed revenues do not come from the removal of long-lasting policies such as Last-in, First-out (LIFO) accounting method and Accelerated Depreciation.

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NMMA is concerned that some tax reform proponents have advocated for the repeal of accelerated depreciation. For decades, accelerated depreciation has been a sound fiscal policy that has allowed for manufacturers to invest back in their companies and their communities—NMMA member companies routinely rely on accelerated depreciation to invest in new assets, technologies and equipment. Repeal of accelerated depreciation would significantly affect the financial prospects of the industry.

NMMA is a member of the CRANE coalition, and support their comments submitted to the Finance Committee. In particular, NMMA reiterates the notion that repeal of accelerated deprecation will increase the cost of capital for domestic investment in plant and equipment—critical to the growth of the industry. It is possible that with repeal manufacturers in the industry would need to reconsider the costs and benefits of domestic investment.

Additionally, the revenue gain from the repeal of accelerated depreciation will ultimately lead to increases in the federal budget deficit. According to the recent Quantria Strategies study, financing a permanent tax reform package from the elimination of accelerated depreciation would create long-term budget deficits outside of the 10-year budget window[iii]. This will lead to budget and other financial troubles down the road.

NMMA also encourages the Finance Committee to preserve the Last-in, First-out (LIFO) accounting method—this has been an accounting method used by many industry businesses for thirty years, giving them the choice to apply an accounting method that most accurately measures the income of a company.

NMMA is a member of the LIFO coalition and support their comments submitted to the Finance Committee. Retroactive or prospective repeal would act as a significant tax increase on many of America's businesses. It will take capital away from businesses that should be used to maintain or create jobs. And it would unfairly discriminate against companies that have chosen to use LIFO. NMMA urges the Finance Committee to oppose LIFO repeal, as a separate measure or as part of a comprehensive tax reform effort.

For the NMMA members which have most or all of their inventory on LIFO and which have significant LIFO reserves, the repeal of LIFO could force them out of business. Repeal would serve as a prohibitive retroactive tax increase on these members, while also forcing them to use an inventory accounting method that does not reflect their business operations or needs.

Reforming tax policy at the expense of repealing longstanding tax programs that galvanize the economy will ultimately do more harm than good. Thousands of companies, and millions of jobs depend on LIFO and accelerated depreciation. Elimination of these programs is nothing more than a significant tax increase that counters any savings that may come from this reform process.

Conclusion

NMMA is pleased to participate in the Senate Finance Committee's tax reform effort. For far too long, the country's broken, complex tax code has hindered economic development of the

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recreational marine industry. A simplified, clearer tax code will greatly enhance NMMA members' ability to manufacture new products, invest in new technologies, hire new employees, and compete in new markets.

NMMA believes tax reform is doable this Congress that will greatly benefit businesses, individuals and communities alike. It is not only possible, but necessary for Congress to implement a more fair and balanced tax system that better reflects the global economy—with rates in line with OECD member states—without jeopardizing longstanding, economic drivers like LIFO and accelerated depreciation.

NMMA and its members look forward to working with the committee to achieve this shared goal. If there are any additional opportunities for participation in this process, or if the committee has any questions regarding these comments or the recreational boating industry, please contact Michael Lewan at 202-737-9760 and/or mlewan@nmma.org.

Sincerely,



Michael Lewan
Government Relations Manager
National Marine Manufacturers Association

[i] http://www.nam.org/Data-and-Reports/Reports/A-Missed-Opportunity/A-Missed-Opportunity--The-Economic-Cost-of-Delaying-Pro-Growth-Tax-Reform-Full-Study.pdf
[ii] http://www.oecd.org/tax/tax-policy/tax-database.htm#C_CorporateCaptial
[iii] CRANEcoalition.org

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