COALITION FOR AMERICAN MANUFACTURING JOBS

America Can Revitalize Manufacturing Jobs

A Proposal to Rebuild and Strengthen American Manufacturing and Address the WTO Challenge to the FSC/ETI Tax Regime

- ✓ Repeal of the FSC/ETI Tax Regime – Congress, the Administration and the business community recognize that the FSC/ETI tax regime must be repealed. Several alternatives have been discussed. The proposal described herein is a replacement regime focused on revitalizing the American manufacturing sector in a manner that is WTO-legal.

- ✓ Permanent Benefit for Manufacturing and Processing Activities in the United States -- The proposal provides a permanent exclusion for active business income from domestic M&P. M&P is defined as the mechanical, physical, or chemical transformation of materials, substances, or components into new products. The assembling of component parts of manufactured products is considered manufacturing. M & P would include farming, fishing, logging, and mining. In addition, it includes the production of films, tapes, records, and computer software (including software produced by the taxpayer and integrated in products manufactured by the taxpayer). In the case of a taxpayer that manufactures a product and installs it for first use by a customer, the installing is considered part of manufacturing and the related costs are direct M&P costs.

  M&P does not include construction; providing electricity, water, and other utilities for sale; extracting oil or natural gas; operating an oil or gas well; and the leasing or licensing of any property not manufactured or processed by the taxpayer.

- ✓ Calculating the Benefit – A manufacturer would exclude about 15% of its M & P Income from gross income. M & P Income is defined as Active Business Income (ABI) multiplied by an M & P percentage.

  - Active Business Income (ABI) does not include passive or portfolio income, or any gain on the sale of assets. ABI does include leasing or licensing income from the company's products manufactured or processed in the US. M & P percentage is the percent of a taxpayer's active business income associated with M & P expressed as a fraction -- the sum of M & P domestic direct labor and capital cost over the sum of ALL domestic labor and capital cost.

  - Benefit is Available to Individuals and Pass-Through Businesses

  - Tax Rate Reduction – According to a technical analysis done by PricewaterhouseCoopers (see attached), the 15-percent exclusion is equivalent, for example, to a 5-percentaqe-point cut in the 35% corporate tax rate on M&P income. This analysis assumes the proposal is revenue neutral with the repeal of the FSC/ETI tax regime.

- ✓ WTO-Legal -- This proposal is not export-contingent and thus is WTO-compliant.

- ✓ Advantages of the Proposal
  - Proposal provides a strong incentive for companies to manufacture and keep jobs in the US—over the past two years the manufacturing sector has lost over 2 million jobs.
  - Treats all American manufacturers equally, notwithstanding location of headquarters. Thus, multinational companies would not receive a smaller rate reduction than wholly-domestic companies.
  - Proposal benefits small and mid-sized manufacturers. According to NAM data, more than 97% of the 1992-97 growth in the exporter population came from small and mid-sized manufacturers. These companies that are recent users of the FSC/ETI tax benefit have an enormous stake in the repeal of the benefit and the replacement.

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