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What Do Manufacturers Want from Tax Reform? Here's What they Told Us

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At the moment, tax reform is very much a work in progress: What eventually passes Congress may end up being radically different than the version of the tax plan currently favored by Congress and the White House.

Since almost everyone involved in tax reform has stated that a major goal is to help U.S. companies--especially manufacturers--compete globally, we decided to ask some manufacturers to identify their top few priorities for tax reform.

We found that--first and foremost--manufacturers large and small want tax rates similar to what their global competitors pay, as well as a simpler tax code. Tax reform can definitely accomplish this--but not without jettisoning a few other priorities.

Over the summer Michelle Hanlon--an accounting professor at MIT--and I sent a survey to 200 companies in the equipment manufacturing industry that asked what they wanted from tax reform.

We did not have a pre-set agenda: The Association of Equipment Manufacturers, which helped us with the survey, was looking for a more detailed assessment of where their members stood on tax reform and asked us to help them find out.

Their membership is very diverse in size, ranging from a few multinational corporations to numerous smaller S corporations as well as partnerships and myriad family-owned corporations. About 60 companies answered our survey.

The main desire of both C corporations, pass-throughs and privately-held corporations alike was for lower tax rates, even though these businesses face different topline tax rates due to their structures.

The current corporate tax rate approaches 40 percent, if we include state and local taxes, and is amongst the highest in the world. The top tax rate on small business income exceeds forty percent as well; in many states it exceeds 50 percent.

Businesses governed by the individual tax code ranked complexity as the next biggest problem, which is perfectly understandable: studies have shown that compliance costs for small businesses can be extremely high, and it is not all that clear that the various credits, deductions, and exclusions--most of which were inserted to encourage (or deter) various activities--actually achieve their intended goals.

However, it surprised us that large corporations registered almost as much dissatisfaction with the tax code's complexity as well. The very nature of a complex multinational corporation precludes making any corporate tax code all that simple, but we believe the fact that the tax officers we surveyed put a high priority on this is telling.

We were also surprised that C corporations were not all that concerned about the other changes to the corporate tax code. For instance, few companies registered loud complaints about losing interest deductibility as long as it was accompanied by lower rates. The respondents also evinced little enthusiasm for moving to full expensing, a major--and costly--part of the House tax reform plan--especially if it were to come at the expense of lower rates.

The reality is that if we are to actually achieve a corporate income tax in the vicinity of 20 percent that is fully "paid for" via offsetting changes elsewhere, we need to get rid of nearly every single business tax break there is. Our survey respondents largely seemed to be okay with this tradeoff--although a CFO and a CEO who participated in the survey later told us they worried that giving up deductions for a lower rate today might be confounded by a future increase in tax rates--with no corresponding resumption of tax incentives--the next time there is a budget hole.

It is wrong to present any industry--especially one as diverse as the manufacturing industry--as speaking with a unified voice, but we found widespread enthusiasm among the manufacturers we surveyed for a sharply lower tax rate, regardless of what else changes in the tax code.

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