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MEMA Statement to House-Senate Conferees On Tax Reform Legislation

Economic Impact of Motor Vehicle Suppliers

The Motor & Equipment Manufacturers Association (MEMA) represents motor vehicle suppliers that manufacture and remanufacture components, technologies, and systems for use in passenger cars and heavy trucks. Motor vehicle suppliers contribute more than 77% of the value in today's vehicles, and play a leading role in the development of advanced, transformative technologies that enable safer, smarter, and more efficient vehicles. For more information on how MEMA is leading a transformation in the mobility industry, visit www.mema.org.

Earlier this year MEMA released an economic impact study that defines the critical role motor vehicle parts suppliers play in the U.S. economy. Motor vehicle component manufacturers are the largest employer of manufacturing jobs in the U.S., contributing nearly 3 percent of the U.S. gross domestic product. Suppliers directly employ more than 871,000 Americans, up 19 percent since 2012, and generate a total direct and indirect employment impact of 4.26 million jobs, up nearly 18 percent since 2012.

Supporting the growth in U.S. motor vehicle supplier jobs, the industry relies on a complex and globally integrated supply chain, built over the last 25 years and highly dependent on free trade. In 2016, the U.S. motor vehicle industry exported $120 billion of components and vehicles, and imported $270 billion of components and vehicles.

The stability and highly-integrated North American supply chain have also been particularly beneficial to suppliers, contributing to growth in both jobs and investments in the United States. This supply chain and production integration are critical to U.S. competitiveness over other regions of the world, including the European Union, South America, and Asia.

Concerns and Recommendations for the Conferees

Legislation recently passed by the House and the Senate contain provisions which we believe will be harmful to motor vehicle suppliers who manufacture parts and provide jobs in the United States. We urge you to support changes to the following provisions in support of strengthening manufacturing and jobs in the U.S.:

- **Corporate Alternative Minimum Tax.** The Senate bill retained the corporate Alternative Minimum Tax (AMT), which we believe defeats the goals of lowering corporate rates and simplifying the tax code. In addition, we believe retention of the corporate AMT will effectively repeal the Research & Development (R&D) Tax credit, which Congress recently made permanent.

  In addition, retention of the AMT will prolong the current complexity of the tax code, in effect maintaining two tax systems applied to corporations. We share the goal of a tax code that is simpler and fairer with lower rates, and one that promotes growth so that companies in the U.S. can better compete with other countries. <u>Accordingly, we urge the conferees to substantially reduce or remove the corporate AMT from the conference report.</u>

- **Excise & Base Erosion Taxes.** The House and Senate bills both contain language imposing additional taxes on payments made by U.S. subsidiaries to foreign affiliates (less deemed expenses) that would have a negative impact on the domestic automotive manufacturing sector.

  <u>House</u>: Motor vehicle parts manufacturers rely on an expansive global supply chain to support domestic production. The proposed 20% excise tax would create a more complicated filing system in the tax code. In addition, a significant increase in compliance costs associated with meeting new international filing requirements would erode any benefit from a reduction in the corporate tax rate. Also, the excise tax would hurt U.S. innovation by: 1) impairing a supplier company's cash flow that would otherwise be available for U.S. capital investments and the research, development, and engineering of new products and Intellectual Property (IP) here in the U.S.; and 2) discouraging companies from bringing IP to the U.S. The Excise Tax may apply to a company's U.S. reimbursements to foreign affiliates for research and experimentation (R&E) costs for the U.S. to obtain ownership of any Intellectual Property (IP) developed by the foreign affiliates. (The payments are meant to retain IP in the U.S., but because they are payments from the U.S. to foreign affiliates, they may be subject to the Excise Tax.) <u>We urge the conferees to remove this provision from the conference report.</u>

  <u>Senate</u>: The Base Erosion Minimum Tax (BEMT) of 10% of deductible payments to multi-national businesses will have an adverse impact on U.S. based automotive manufacturing, an industry that relies heavily on the number of tangible goods manufactured and sold in the North American market to support American operations, without the use of corporate inversions. Under the BEMT, in 2026 suppliers would not be able to use the R&D credit as an offset, but they would be required to capitalize R&D activities. This is an impediment, rather than an incentive to continue R&D activities.

Our members have identified two specific concerns with the BEMT included in the Senate bill:

1) The BEMT provision (Senate JCT IV.B, IV.D) discourages U.S. innovation and conflicts with U.S. Intellectual Property (IP) ownership. As written, the provision in effect adds a tax to companies seeking to bring IP into the U.S. to obtain ownership of IP developed by a foreign affiliate. This includes IP investments in the United States where suppliers play a leading role in developing advanced vehicle safety and emissions technologies. We urge the conferees to correct this by excluding from the BEMT those reimbursements made to retain ownership of IP in the U.S.

2) Implementation of the BEMT commences in 2018, while the cut in corporate tax rates is to become effective in 2019. We urge the conferees to change the implementation on the BEMT until 2019 when the proposed new corporate tax rates would apply.

- **Amortization of Research & Experimentation Expenditures.** The House legislation would require research and experimental expenditures to be amortized beginning in 2023. This provision will significantly increase costs for large Tier 1 suppliers that invest heavily in R&D for new vehicle technologies. The inclusion of this provision runs counter the positive impact of maintaining the R&D tax credit, and we urge the conferees to remove this provision from the conference report.

- **Interest Deductibility.** We believe interest deductibility should be maintained as part of the U.S. tax code, as it provides certainty for businesses to borrow capital for plant expansions, new manufacturing technologies, and jobs. Eliminating this deduction would increase the cost of borrowing funds in support of U.S. production.

Conclusion

MEMA remains committed to working with Congress to implement tax reform in support of growing U.S. jobs and increasing competitiveness; we believe the changes we recommend to the current legislation will continue to strengthen the U.S. motor vehicle supplier industry.

We look forward to working with you; please contact Ann Wilson at awilson@mema.org if you have questions or need additional information. Thank you.