Motor & Equipment Manufacturers Association
1030 15th Street, NW Suite 500 East Washington, DC 20005
Tel 202.393.6362 Fax 202.737.3742 E-mail info@mema.org

www.mema.org

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MEMA Recommendations to Improve House and Senate 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.

Tax Reform Priorities

MEMA supports the goals of the Trump administration and Congress to create more American jobs and strengthen America's manufacturing competitiveness. To reach these goals, MEMA supports a simplified, more predictable tax code that would generate investment, economic growth, and job creation in the United States.
Tax reform is crucial for American competitiveness as many competing countries have an edge in the global marketplace due to their country's tax requirements. MEMA applauds both the House and Senate for addressing these key priorities in the tax reform legislation:

- **Lower corporate rates.** The current 35 percent corporate tax rate in the U.S. is one of the highest in the world; the average rate in other OECD countries is less than 25 percent. Reducing the rate in the U.S. will free up capital needed for growth and investments in new products and manufacturing facilities, stimulating job growth. We urge congress to ensure that corporate tax rate reductions take effect as the same time as other provisions in the final legislation and not delay it by a full year.
- **Business investments.** Motor vehicle suppliers must invest in new equipment, machinery, tooling, and technology needed for today's manufacturing of advanced vehicle parts, systems, and components. These investments are expensive and often take years to be amortized or depreciated. Tax credits for these and similar business investments will foster renewed development and deployment of vehicle technologies and products in the U.S.
- **Foreign earnings.** Motor vehicle suppliers operate in a global marketplace, and American-based companies have accumulated trillions of dollars in earnings held overseas due to high U.S. tax rates. By lowering the tax rate for accumulated foreign earnings, capital held offshore can be repatriated in support of growing U.S. businesses.

Concerns and Recommendations with Tax Legislation

Legislation recently passed by the House and the Senate Finance Committee 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 in the U.S.:

- **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.
    - House: 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.)

- Senate: The Base Erosion Minimum Tax (BEMT) proposal 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. The impact of the BEMT would limit the ability to make future domestic investments, contrary to the intention of the tax reform effort. This includes IP investments in the United States where suppliers play a leading role in developing advanced vehicle safety and emissions technologies. It discourages bringing IP into the U.S. to the extent it applies to a company's U.S. reimbursements to foreign affiliates for R&E costs for the U.S. company to obtain ownership of any IP developed by the foreign affiliates. Furthermore, the high probability of foreign countries imposing retaliatory taxes on domestic products would diminish benefits from a lowered corporate tax rate.

We also believe these taxes as proposed would increase the production costs of parts and vehicles, resulting in higher consumer costs followed by fewer purchases, reduced U.S. investment, and ultimately a decrease in production and jobs. We urge these provisions to be removed from the legislation, or in the alternative, exempt motor vehicle parts manufacturers (as defined in the North American Industrial Classification System (NAICS) 336 Transportation Equipment Manufacturing) from the provisions.

- **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.

- **Amortization of Research & Experimentation Expenditures.** The House legislation would require certain research and experimental expenditures to be amortized over a 5-year period, beginning in 2023. The 5-year time limit is unusually short and well within a single product cycle in the motor vehicle industry. This provision will significantly increase costs for large Tier 1 suppliers that invest heavily in new technologies. The inclusion of this provision seems to counter the positive impact of maintaining the R&D tax credit. We urge removing the provision from the legislation.

- **Purchase of Depreciable Property.** The Senate bill includes the phrase "Or amortization in lieu of depreciation." This addition to the provision concerning depreciable property could cause significant issues for motor vehicle suppliers. For example, suppliers often pay for development work that is done overseas to support the business in the U.S. Under the legislation in its current form, the cost would no longer be deductible, and the company would be required to pay an additional 10% tax. This provision may have the undesired outcome of making it more cost effective for companies to develop & retain Intellectual Property overseas rather than in the United States.

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.