

## TAX REFORM

As Congress gets work underway to enact significant tax reform through the budget reconciliation process in 2025, NCTO supports efforts to modernize the tax code and make U.S. businesses and exports more competitive internationally and to incentivize American manufacturing. NCTO joins with other domestic manufacturers in advocating for several key tax reform elements needed to boost domestic manufacturing.

### **Full Expensing**

From 2017 through 2022, companies were permitted to receive a 100% deduction for equipment and machinery in the tax year purchases were made. Congress enacted full expensing to spur investments and ensure that the U.S. is well-positioned to attract capital in a competitive global marketplace. However, full expensing began to phase out at the beginning of 2023 and will be eliminated completely by 2027. Given that full expensing reduces the after-tax cost of capital equipment purchases, this pro-growth incentive is a vital tool, especially for manufacturers, as it frees up much-needed capital for other important uses. Failing to restore this incentive will increase costs for businesses to invest in capital equipment and will ultimately serve to weaken supply chains and impact our competitiveness.

### **Research and Development Expensing**

For nearly 70 years, the tax code recognized the importance of R&D by allowing businesses to fully deduct their R&D expenses in the same year they were incurred. Since the start of 2022, companies have been required to spread out over five years deductions for investments in domestic R&D, making R&D more costly to conduct in the United States. The private sector accounts for more than 75% of total research and development spending, with small businesses alone accounting for approximately \$90 billion of all private-sector R&D investments. With wages and salaries comprising approximately 75% of R&D spending, the R&D amortization requirement is first and foremost a jobs issue, with R&D jobs paying an average wage of more than \$155,000. Moreover, R&D spending is a significant driver of employment.

### **EBITDA Standard for Interest Deductions**

Debt financing plays an important role in providing many manufacturers with funds to finance long-term investments in equipment and facilities, which in turn supports jobs and growth and helps manufacturers remain competitive. Prior to Jan. 1, 2022, businesses' interest expense deductions were limited to 30% of their earnings before interest, tax, depreciation and amortization. Interest deductions are now limited to 30% of earnings before interest and tax. By excluding depreciation and amortization, the stricter EBIT standard acts as a tax on investment, making it more expensive for capital-intensive companies throughout the supply chain to finance job-creating growth.

### **NCTO Position**

NCTO supports key policies to support American manufacturing, including efforts to reduce the corporate tax rate and permit the immediate deduction of capital investments. We look forward to fully engaging with Congress as the budget reconciliation process develops to further and promote pro-manufacturing policies to boost U.S. textile investment, production, and employment.