Manufacturing Needs Targeted Tax Cuts

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One hundred seventy-five companies in the *Standard and Poors 500 Stock Index* have a new model for making money. They don’t have to hire people or even invest in new equipment or facilities.

In 2010, the *New York Times* reported that revenue increased 7 percent, but profits soared by 42 percent (seven times faster than revenue). A Federal Reserve report in 2010 estimated that American corporations are sitting on a record $1.8 trillion in cash reserves, which is the highest level since 1964.

Across-the-board tax cuts, such as extending the Bush tax cuts, make no sense when businesses have these kinds of cash reserves. This begs the question of how we can improve the economy. More specifically, how can we grow American manufacturing, provide family-wage jobs, and help the small and midsize manufacturers that are suppliers to the large corporations?

What we need are targeted tax cuts and credits that encourage investment in the U.S. and create jobs.

In 2011, the hypocrisy on the debate between deficit and taxes reached 1984 “double think” proportions. I think the headline of the year was in the July 2010 publication, *Roll Call*, which read, “McConnell Blasts Deficit Spending, Urges Extension of Tax Cuts.”

One day, the evils of federal deficits absolutely demanded fiscal austerity and cuts in federal spending. But, the next day it was OK to make a bipartisan deal to extend the Bush tax cuts to the tune of about $800 billion. Ideological politicking has triumphed over reason again.

General tax cuts are not going to help American manufacturing. And what we don't need is to give tax breaks to those corporations that are investing overseas, and sending jobs and products lines to our foreign competitors. But, under the current tax code, corporations have an incentive to offshore jobs. It helps them pay the costs of closing their plants and offers them tax breaks if they move production to other countries.

There was a movement in the Senate to change this. Harry Reid, the Senate majority leader says, "We are going to take away the incentives corporations have to send our jobs overseas, and give them powerful new incentives to keep American jobs in America."

His bill would exempt companies from paying the 6.2 percent social security payroll tax for new U.S. employees who replace overseas workers. This tax cut would cost about $1 billion and would partially be offset by tax increases on companies that move jobs overseas. Although this bill failed in the Senate in 2010, other versions are on the table in 2011.

Although these macro solutions are a step in the right direction, manufacturing really needs micro solutions in the form of targeted tax cuts that create new jobs, inspire higher levels of research and development, and support investment in new plant and capital equipment.

Job Creation

Over the last 10 years, there have been many Congressional proposals for tax credits that would encourage exports and create jobs. But the World Trade Organization (WTO) has protested the use of tax credits in the U.S., "charging that these programs result in a permanent reduction in tax liability, and violate the trade agreements between the United States and WTO." As a result of the WTO's protests, three major tax incentives were eliminated — the Domestic International Sales Corporation (DISC), the Foreign Sales Corporation (FSC) and the Extraterritorial Income Exclusion.

This is the same WTO that has a rule allowing countries with trade deficits (like the U.S.) to apply import duties to balance trade. It would seem that the U.S. is in a strong negotiating position to force the WTO to either stop China's currency manipulation or allow our tax credits.

Research & Development

In December 2010, the government finally extended the Federal Research and Development (R&D) tax credit through December 31, 2011. The good news for small manufactures and job shops is that the definition of R&D is much broader than people realize. It includes developing or improving products or processes. This is a step in the right direction to help American manufacturing companies.

But remember, China wants our technology, R&D and patents, and they are willing to offer American companies cheap land leases and cash to get it. They are also willing to change their laws, copy or steal our technologies. China has demanded that American companies now manufacturing in China move their R&D centers and patents to China.

They also want American electronics firms to turn over the source codes to a Chinese government agency. If they can achieve these objectives, then tax incentives from the U.S. government may simply be a drop in the bucket.

What we really need is for Congress to step in and stop China from borrowing, forcing, stealing or extorting our technologies. In my opinion, any company that is giving the Chinese our technology should not get any tax incentives, and in fact, should be taxed or penalized.

Capital Equipment

The Tax Relief and Job Creation Act of 2010 (H.R. 4853) was signed into law December 17, 2010. It provides 100 percent bonus depreciation for investments in machinery placed in service through December 31, 2011. Another Federal Income Tax deduction (Section 179) also allows manufacturers to deduct the first $500,000 of equipment purchase in 2011 from their taxable income.

Advanced Skills Training

You still see articles all of the time about manufacturers not being able to find the skilled workers they need. And, as the *NY Times* said in 2010, corporations do not want the 2.5 million workers who were laid off, they want people with advanced skills who can do a number of different jobs. In addition, many small and large companies complain that if they invest in the training to give an employee advanced skills, they just look for a higher paying job.

The two biggest federal training programs are the High Growth Job Training Initiative and the Workforce Invest Act. But neither of these initiatives focuses very much on manufacturing, much less manufacturing with advanced skills. Manufacturers need a training program focused only on advanced skills for manufacturing. This is a great opportunity for a program that is genuinely needed, and should be funded by tax cuts and credits.

I see this as some kind of apprentice-type training that would take several years. The company and the government would sponsor a candidate for the program over a number of years. To qualify, the candidate would have to commit to a contract with the company for a number of years after graduation.

As the 2012 election gets closer and the debate heats up to further extend the Bush tax cuts, don’t be fooled by the job creation rhetoric. The current tax cuts have not been incentive enough the get the S&P 500 to create jobs in the U.S. Tax cuts are deficit spending, so if we are going to approve them, let’s get something for our taxpayer dollars. Let’s make them targeted tax cuts for U.S. manufacturers and not extend the Bush tax cuts past 2012.

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