

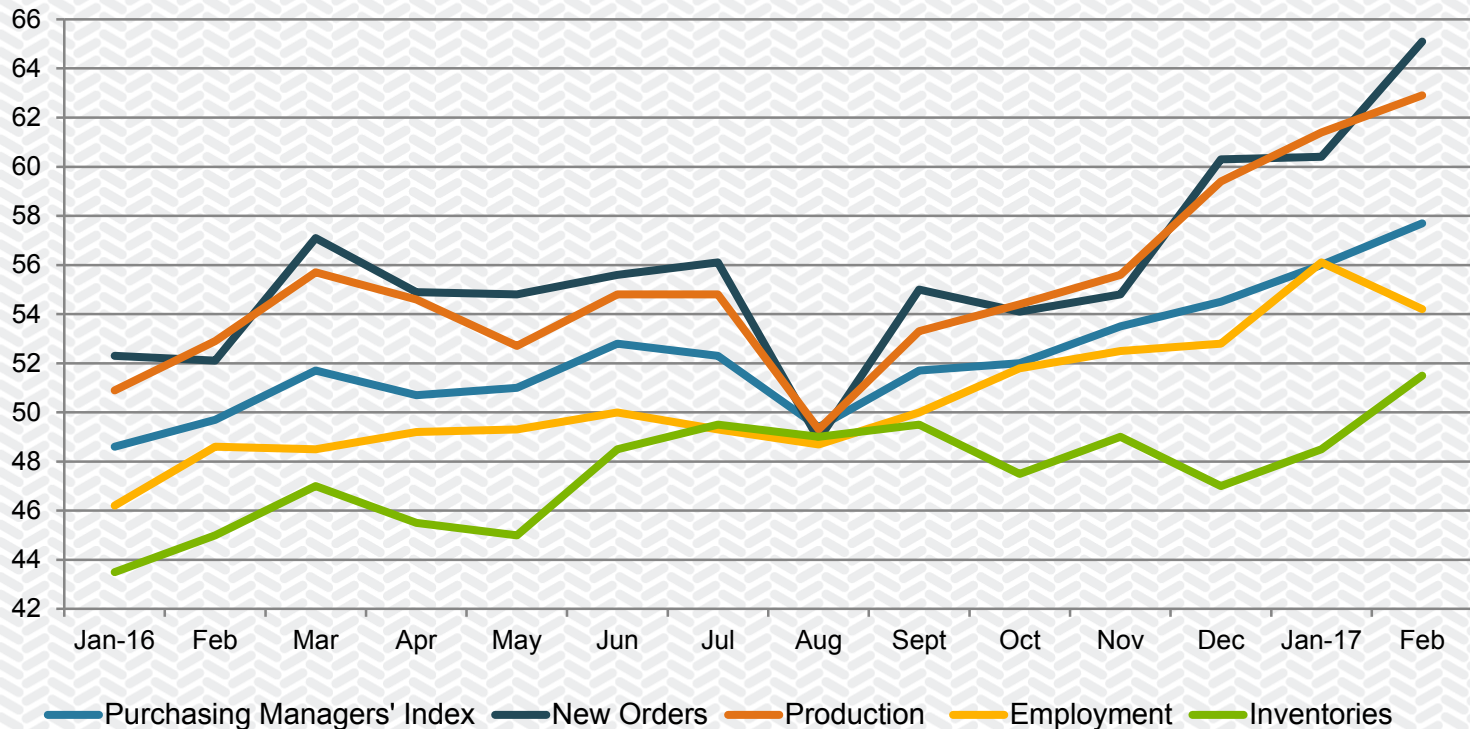
The Policy Outlook for Manufacturers in 2017

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ISM Manufacturing Purchasing Managers' Index

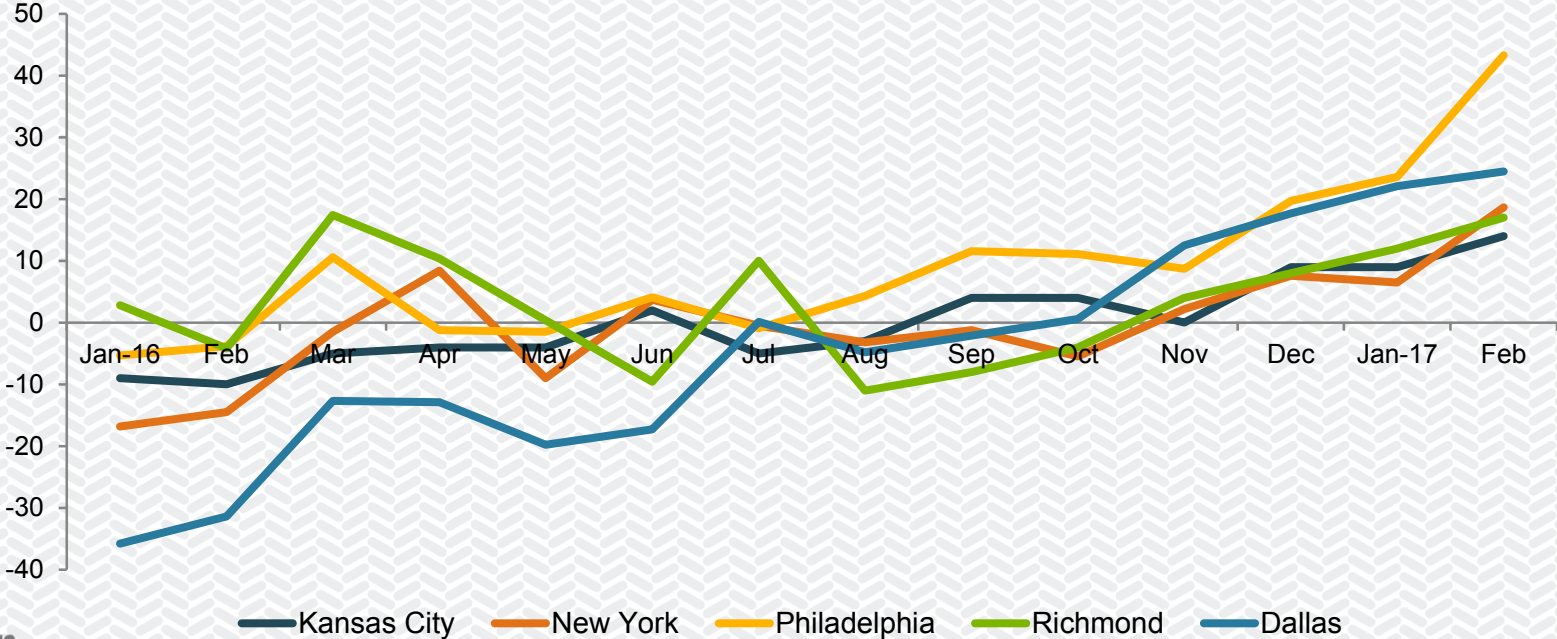
(January 2016 – February 2017)



Regional Federal Reserve Bank Manufacturing & Business Surveys

(January 2016 – February 2017)

Index
(Growth >0)



Source: Regional Federal Reserve Banks



The Key Driver: Optimism

➤ 2017 Priorities for Policymakers:

- Regulatory Reform
- Health Care Reform
- Tax Reform

And...

- Infrastructure Investment?

Regulatory Agenda - 2017

NAM
Regulatory
Reform
Initiative



Presidential Initiatives on Regulation

- Presidential Memorandum on Regulatory Freeze Pending Review
- Presidential Memorandum on Streamlining Permitting & Reducing Regulatory Burden (Commerce proceeding)
- E.O.13771 on Reducing Regulation & Controlling Regulatory Costs (“One In Two Out” or “OITO”)
 - OIRA Interim Guidance Implementing OITO E.O.
- Presidential E.O. Enforcing the Regulatory Reform Agenda

“Regulatory Budgeting”

One In, One Out and Zero Cost Cap

- §1. For every new rule issued, agencies must identify at least two for elimination
- §2. For FY17: incremental regulatory costs must be limited to \$0
- §3. FY18 & beyond: regulatory budget for each agency to be set by OMB & each agency’s total incremental cost increase may not exceed its allowance, unless required by law or approved by OMB
- Department of Commerce has requested submission of individual regulations due March 31, 2017

Health Care – 2017 Policy Outlook

- Top issue for manufacturers – cost
- Rising health care premiums poll as a top business challenge facing manufacturers
- Republicans campaigned on the repeal of Obamacare, not on reducing the cost of health care
- Budget reconciliation effort to address Obamacare repeal and replace is playing out now but the end product is uncertain

NAM Health Care Priorities

- Repeal the ACA taxes
 - Cadillac, Med Device, HIT, Innovation, Investment Tax, etc.
- Reduce/eliminate compliance burdens
- Advance the potential of wellness programs
- Keep employer system whole for the 98% of NAM member companies who provide insurance to employees

Tax Reform – 2017 Key Drivers

- Complexity
- Outdated Code
- Highest Corporate Tax Rate
- Uncompetitive International Tax System
- Inversions
- Hindering Economic Growth
- Concern about debt/deficit

NAM Tax Reform Priorities

- Lower Corporate Rates to 15% or lower
- Lower Pass-through Rates
- Move to Modern, Competitive, International Tax System
- Robust Cost Recovery System
- Strong, Permanent Research and Development (R&D) Incentive

Tax Reform - 2017

- Increasing drumbeat in Washington
- Legislative gridlock prevented reform in recent years
- Election resulting in GOP Congress and Administration opens up new opportunity
- House, Senate and Administration have sketched out plans

House GOP Plan

- Resulting from Speaker Ryan's GOP Task Force on Tax Reform
- "A Better Way" Tax Reform Blueprint (aka "the Blueprint")
- Released in June 2016
- No Legislative Text or Details

House GOP Plan - *Individuals*

- Three tax brackets: 12%, 25%, 33%
- Capital gains, dividends taxed as ordinary income; 50% **deduction** for capital gains, dividends, and interest income
- Estate tax repealed
- Itemized deductions eliminated except mortgage interest, charitable deductions

House GOP Plan - *Business*

- Top *corporate* tax rate of 20%; AMT repealed
- Top *pass-through* rate of 25%
- Eliminates most business deductions, including interest deduction and credits except for R&D credit
- Full expensing of all capital assets
- Territorial tax system with 100% dividend exemption

House GOP Plan - *Business*

Business Provisions Continued:

- Mandatory repatriation of untaxed foreign earnings: 8.75% for cash/cash equivalents; 3.5% for fixed investments
- No deduction for interest expense on new loans
- Border Adjustable: “exempting exports and taxing imports” ...

House GOP Plan – *Business*

More on Border Adjustability (BAT):

- Income from export sales excluded; no deduction for imports
- Moving from income tax to a destination-based cash flow tax (a consumption tax)
- Unlike a VAT, wages are deductible under BAT

Proponents: “We will move operations back to U.S.”

Opponents: “Will result in higher prices”

Senate Plan?

Chairman Hatch has focused on “Corporate Integration”:

- A revenue-neutral plan to eliminate double tax on corporate income
 - Corporate deduction for dividends paid
 - Withholding tax on dividends received
 - Concerns have been raised by tax-exempt groups ranging from pension plans to charitable organizations

President Trump's Plan?

- Trump Campaign Tax Reform plan:
 - Lower Business Rates to 15%
 - Allows choice on full expensing or interest deduction
 - Eliminated business provisions except for R&D
 - Deemed Repatriation on foreign earnings at 10% rate
- “Phenomenal” plan may be forthcoming, but maybe not

Tax Reform 2017 Outlook

- House Committee could move Blueprint legislation as soon as May, but many hurdles remain:
 - Obamacare repeal
 - Strong concerns from net importers, others
 - Process questions
- Senate likely to have own plan/amend the House plan which would lead to a conference
- Administration's position could change game

Tax Reform 2017 - Process

1. “Regular order”

- Requires 60 votes in the Senate
- Filibuster possible from deficit hawks, to liberal Democrats and anyone in between

2. Budget Reconciliation

- Requires 51 votes in the Senate
- Some provisions could sunset after 10 years
- Procedural rules limit the possible changes ie. simplification issues would be dropped

Tax Reform - 2017

- Impact of 2018 Elections
- 23 of 33 Senators up for Re-election are Democrats
 - 11 Senators from states won by Trump could feel pressure to support tax cuts
- Deficit / Debt Concerns
- Neither plan is revenue neutral
- Estimated Dynamic scores:
 - House GOP Plan: \$191 B to \$2.5 TR
 - Trump Plan: \$2.6 TR to \$6.0 TR

Infrastructure - 2017

- Signature issue for NAM – *“Building to Win”*
- May not be a first 100 Days or even a 2017 effort
- No shortage of interest, but the \$1 trillion+ question: how to pay for this investment?
- A blank slate
- President and White House intend to lead
 - Infrastructure Council (CEOs, developers, experts)
 - Drawing on Manufacturing and CEOs for input

NAM Infrastructure Priorities

- Address imminent challenges in transportation infrastructure: roads, bridges, transit, aviation, ports and waterways, passenger rail
- Long term funding plan required
- Apply new approaches and new governance measures – independent commission to review projects: *prioritize* & expedite environmental review

Energy & Environment – 2017

Energy Policy:

- Making good on promises. Progress on: Keystone, Dakota Access pipelines; promoting energy development on federal lands
- Looking to streamline permitting

Environmental Policy:

- Regulatory rollback underway: One in, two out
 - WOTUS, Clean Power Plan. Repeal and replace
- Challenges remain
 - Many regulations, only so much time
 - Smaller agency budgets and potentially uncooperative career agency staff will slow progress

Energy & Environment – 2017

Phase 1: Congressional Review Act (CRA)

- 60 legislative days to repeal regulations issued since May 2016. Already Repealed:
 - EPA Stream Protection Rule; and SEC Disclosure Rule for Energy Companies Operating in Foreign Countries

Phase 2: Lasting Reforms

- Regulatory reform bills passed House; need 60 votes in the Senate

Addressing issues under existing statutes (Clean Air Act, Clean Water Act, etc.)

Trade Agenda - 2017

President Trump's Priorities/Actions:

- **TPP:** formally withdrew in January
- **NAFTA:** renegotiate NAFTA
- **Enforcement, China & Beyond:** address unfair trade barriers & market distortions; methods unclear.
- **New Bilateral Trade Agreements:** e.g. U.K.
- **Ex-Im Bank:** awaiting board nominees, leaving the Bank handicapped.

NAFTA

- Scope is Unclear: Issues identified include rules of origin, trade deficits & overall fairness
- The NAM seeks outcomes to expand N. American economy, promote certainty and grow the economy
- Timing: possible launch of talks summer of 2017, and timeline depends on breadth



Trade Agenda – 2017

Trade Enforcement: China & Beyond Negotiations

- Expect a major focus on China, unfairly traded imports & market distorting practices overseas
- Administration considering unilateral tariffs and other options

Potential Bilateral Trade Negotiations

- US-UK FTA: discussed during Jan. 26 meeting
- Possible agreements with TPP or others (e.g. Japan)
- US-EU Transatlantic Trade and Investment Partnership on hold under after 2016 European elections

Final Thoughts

If you only remember two things from my presentation, they should be:

1. There is a significant to-do list, communicate your priorities to your elected officials
2. If you haven't analyzed the House Blueprint for tax reform ***now*** is the time to do so

Final Thought #2

When you get back to your office, the two things you should do are:

1. Identify your top priority in each area
2. Develop a message and engage your employees to deliver that message to the Hill

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