



Jay Timmons
Executive Vice President

July 15, 2009

U.S. House of Representatives
Washington, DC 20515

Dear Representatives:

As our nation's economy struggles to stabilize, policymakers agree that economic recovery, growth and job creation demand our focus and attention. However, some legislative proposals not only threaten sustainable growth and job creation, but also our economy's ability to recover at all.

Specifically, the imposition of a **tax surcharge** as a "pay for" for health care reform legislation would threaten small business investment, growth, job retention and creation, employee benefits and funding for R&D. Nearly 70 percent of manufacturers pay taxes at the individual rate. Many of these businesses fall into the higher tax bracket, even though most of their taxed income – an average of \$570,000 for small and medium sized manufacturers – is being reinvested into the business. Adding a surtax onto individual rates that are already expected to rise will result in federal tax rates approaching nearly 50 percent for these businesses (with state taxes adding even more burden). These new taxes will have longstanding negative consequences to the U.S. economy and cost jobs.

Certainly, the National Association of Manufacturers (NAM), the nation's largest industrial trade association representing small and large manufacturers in every industrial sector, is committed to healthcare reform. Ninety seven percent (97%) of our members voluntarily offer health benefits not only to attract a skilled workforce, but because they believe it is the right thing to do for their employees. Therefore, the additional costs imposed by the tax surcharges envisioned in America's Affordable Health Choices Act (H.R. 3200) on America's manufacturers who already voluntarily provide health benefits causes us great concern.

In addition to the imposition of a tax surcharge, NAM members are significantly concerned about two other provisions:

- The NAM strongly opposes a provision that would codify the **economic substance doctrine** and impose new liability penalties on taxpayers. While the NAM supports efforts to limit the aggressive marketing of inappropriate tax products (so-called "tax shelters"), economic substance proposals do not represent a meaningful and balanced solution to the problem. The key to stopping these abuses is effective administration and enforcement of the tax code.

- The NAM strongly objects to a provision in H.R. 3020 that would impose **discriminatory taxes on foreign-owned companies with facilities that provide jobs in the United States**. This provision would violate many of the bilateral tax treaties currently in effect between the United States and foreign countries because it would require companies to pay higher than negotiated withholding tax rates on payments to their foreign affiliates. If enacted, the proposal could lead to retaliatory actions by other countries or withdrawal by our treaty partners from existing treaties, harming U.S.-based businesses and their employees. In addition to the impact on our tax treaty system, the proposal would impose a discriminatory tax hike on foreign investment in the United States.

Our members recognize the importance of health care reform to the U.S. economy and support efforts to pay for health reform through changes within the existing system. Manufacturers in the United States however, already face tax costs that are higher than their competitors in other countries. Business tax increases, like those outlined above, will make it more difficult for them to compete in the global marketplace and threaten U.S. jobs and economic growth. The NAM urges Members of the House to stop these ill-advised revenue raisers at every possible juncture in the legislative process. Thank you for your consideration.

With all best wishes, I remain,

Sincerely,

Jay Timmons