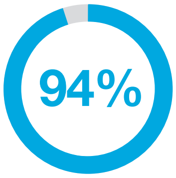
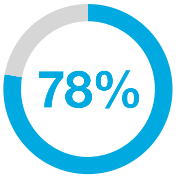
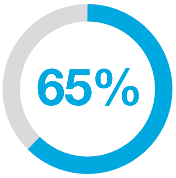
WHAT'S AT STAKE: INTEREST DEDUCTIBILITY



of manufacturers believe it is important that the tax code reduce the cost of accessing capital via business loans and other pro-growth activities



of manufacturers said that increasing the after-tax cost of taking out business loans decreases their funds available to grow U.S. manufacturing activity



of manufacturers reported that tax increases would result in decreased job creation

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› How does the tax code treat business loans?

Manufacturers can generally deduct the interest they pay on business loans, subject to a cap. Tax reform in 2017 set the interest deductibility cap at 30% of a company's earnings before interest, tax, depreciation and amortization—also known as a business's "EBITDA."

Any interest below the 30%-of-EBITDA limit can be taken as a deduction against the business's taxable income in the year the interest payments are made, while any interest over the cap can be carried forward to a future tax year.

› Why is interest deductibility important to manufacturers?

Companies in capital-intensive industries like manufacturing often rely on debt financing to access the funds they need to grow their business. Manufacturers borrow capital to finance long-term investments in equipment and facilities, which in turn create jobs and enable manufacturers to compete effectively in the global economy.

A pro-growth interest deductibility standard like tax reform's 30%-of-EBITDA limit reduces the cost of business loans and makes it easier and more cost-efficient for manufacturers to invest for the future.

› How has the tax code's treatment of business loans changed?

Tax reform's EBITDA-based interest deductibility standard expired in 2022. The cap is now set at 30% of a business's earnings before interest and tax—its "EBIT."

A company's EBIT is always lower than its EBITDA, so this change resulted in a lower, stricter cap, meaning that companies can now deduct less interest than before.

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The difference between a company's EBITDA and EBIT are its depreciation and amortization expenses. Manufacturers make significant long-term investments in depreciable assets (such as equipment and machinery) and intangible assets subject to amortization (such as intellectual property), so these businesses experience a substantial delta between their EBITDA and EBIT—and thus face a much stricter interest deductibility limit under an EBIT-based standard.

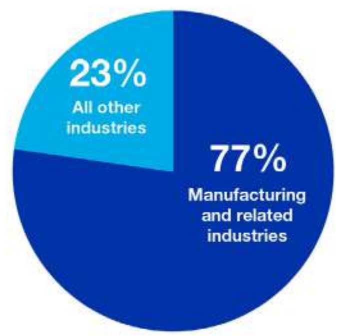
How has the stricter interest deductibility limitation harmed manufacturers?

By excluding depreciation and amortization expenses from the interest deductibility calculation, the EBIT standard makes debt financing more expensive—punishing manufacturers for making job-creating investments in capital equipment and intellectual property.

This reduces manufacturers' flexibility and liquidity when financing needed investments, ultimately making it more difficult for companies to raise capital, hire new workers and grow—especially at a time of elevated interest rates.

A recent study found that an overwhelming share of the impact of the stricter interest deductibility limitation falls on manufacturing and related industries.

Interest expense disallowed by an EBIT-based interest deductibility limitation



How has the stricter interest deductibility limitation impacted America's global competitiveness?

Among the 35 countries worldwide with an earnings-based interest limitation, the United States is the only one with an EBIT-based standard. America's interest deductibility limitation is an outlier on the world stage, making it more difficult for the U.S. to attract businesses in capital-intensive industries.

What's at stake for interest deductibility in 2025?

Congress has the opportunity to restore a pro-growth interest deductibility standard as policymakers work to preserve tax reform in 2025. If Congress does not act, manufacturers will continue to face increased costs when looking to debt finance projects here in the U.S.

What should Congress do to support financing for job-creating manufacturing investments?

Congress must act to reinstate an EBITDA-based standard for interest deductibility. Reversing the current EBIT-based limitation will ensure that manufacturers can avoid increased financing costs and reduced liquidity—enabling capital investments, growth and job creation throughout the industry.