April 15, 2015

The Honorable Rob Portman
U.S. Senate
448 Russell SOB
Washington, DC 20510

The Honorable Charles Schumer
U.S. Senate
322 Hart SOB
Washington, DC 20510

Dear Senators Portman and Schumer:

SSAB is a global leader in value added, high strength steel. SSAB offers products developed in close cooperation with its customers to attain a stronger, lighter, more sustainable world. In the United States, SSAB manufacturers steel plate and steel coil from recycled steel in high-tech facilities.

Under the existing U.S. tax code, domestic manufacturers benefit from a number of provisions that lessen the impact of a high tax rate. As the American Iron and Steel Institute details in their submission to your Working Group (copy enclosed herewith), these provisions include research and development tax credits, accelerated depreciation, and the domestic production activity deduction (section 199). SSAB benefits from each of these provisions and endorses their continuation.

In addition, we would like to highlight the deduction for interest expense—a provision that supports high-paying jobs for SSAB and for manufacturing as a whole.

To remain competitive, businesses invest in new equipment, modernize or expand manufacturing facilities. Manufacturers often use debt-financed capital projects to expand operations, upgrade existing operations, or to comply with new regulations. The need to invest in large capital projects is particularly pronounced for heavy manufacturing.

Many manufacturers fund these projects by financing the debt and paying interest. In planning large scale improvements and capital projects, companies have presumed that the interest expense on the debt instruments used to finance the project will be deductible for tax purposes.

If Congress were to curtail the availability of this interest deduction, manufacturers would be heavily impacted. This would certainly impact manufacturing more than any non-capital-intensive business. Many manufacturers will see a total tax obligation increase if interest deductions are limited.

In addition, many investor-owned utilities are heavily debt-financed. Increased taxes on interest debt would be passed on to the manufacturers via rate hikes. The cost of energy which is often significant for manufacturers will increase. Ultimately, this makes U.S. manufacturing less competitive.

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Since the inception of corporate income tax in the U. S. in 1909, a deduction for interest expense has been available. Interest deductions are rooted in tax principles for income tax systems in many countries worldwide. No other developed nation limits interest deductions using an across-the-board limit. If the United States were to do this, it would impede the ability of U. S. manufacturers to compete globally and could ultimately impact American jobs.

At SSAB, we are excited about the prospect of a recovering U. S. and global economy and for the opportunities that recovery will provide for our company and our employees. As Senators from steel producing states, you are keenly aware that our trade- exposed, capital-intensive industry is also currently facing many challenges. We ask that you consider the severe impact that a limit on interest expense could have on U.S. manufacturers as you contemplate tax reform. We look forward to discussing this in detail at your convenience.

Sincerely,

Patricia Snyder
Manager, Tax Planning and Analysis, SSAB Americas

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Thomas J. Gibson
President and CEO

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Dear Senators Portman and Schumer:

I am writing on behalf of the American Iron and Steel Institute (AISI) to provide you and the Senate Finance Committee International Tax Working Group with stakeholder input as the working group continues its evaluation of ways to reform the nation's tax code within its jurisdiction. Steel and other manufacturing industries are the backbone of the U.S. economy. A strong manufacturing sector creates significant benefits for society, including jobs with family supporting wages, investment in research and development, essential materials for our national defense, and high-value exports. As a result, a robust American manufacturing sector, including a strong and vibrant steel industry, is critical to ensuring a healthy domestic economy and tax policy should incentivize investment in domestic manufacturing facilities and equipment.

The majority of AISI's U.S. member companies operate facilities within the United States. Therefore, changes to the international taxation system are unlikely to have a significant direct effect on our member companies. However, we strongly caution against repeal of tax credits and deductions that are geared toward increased investment in domestic manufacturing in order to finance a transition to a new international taxation system. New investments are critical for U.S. manufacturers who are continuously striving to improve their products and processes in order to compete in the global marketplace. In capital intensive industries, like iron and steel, new investment decisions are generally driven by the cost of capital and the rate of return on an investment. As such, credits and deductions that reduce the cost of capital and promote new investment by capital intensive industries, like accelerated depreciation, the interest expense deduction, percentage depletion, intangible drilling costs (IDCs), and the research and development tax credit, play a significant role in whether or not certain investments are undertaken.

In particular, an enhanced capital-cost recovery system, like the Modified Accelerated Cost Recovery System (MACRS), has always been viewed as one of the most effective

ways to spur real business investment and to make U.S. manufacturing more competitive. However, many proposals that reduce the statutory tax rate and change to a territorial international taxation system do so by proposing a repeal of MACRS and replacing it with a system similar to the alternative depreciation system (ADS) which requires longer recovery times and the use of a straight-line depreciation method.

For capital intensive industries like steel, accelerated depreciation is a cash flow issue which is extremely important in making capital investment decisions. By providing a faster return on capital investment, accelerated deprecation provides strong incentives, and in many cases actually makes it possible, to undertake new investments which require significant cash expenditures and take a number of years to yield a return. Proposals which would repeal this cost recovery system and replace it with ADS, which provides depreciation lives for production equipment that are two times as long as under MACRS, will directly penalize those who invest the most in capital expenditures and ultimately impact whether or not many manufacturing companies make certain discretionary capital investments. While we recognize that this change may not affect a company's earnings statements, it will negatively impact a company's investment decisions and will have the effect of raising the cost of new capital investments while providing tax savings to investments already made.

Additionally, using slower depreciation is a questionable revenue offset because while in the short-term, it will increase the amount of revenue coming into the federal government, in the longer-term, those same cuts will lead to revenue losses, having the effect of increasing the budget deficit. Conversely, some analyses assert that if you implemented the Camp tax reform plan, but kept accelerated depreciation, you would generate more GDP than you will under Camp's plan with the repeal of MACRS. As such, we have real concerns about the impact of slowing depreciation on the overall economy as well as on our member companies and their ability to make new investments and would encourage against slowing depreciation in order to find revenue to offset the cost associated with transitioning to a territorial taxation system or lower statutory tax rate.

We would also caution against proposals that would make changes to interest expensing, like those included in former House Ways and Means Committee Chairman Dave Camp's tax reform legislation, which are of concern to a number of our member companies who have foreign ownership. As you know, under current law, a U.S. corporation can deduct interest payments including payments to a related party.

However, if the taxpayer's debt-to-equity ratio exceeds 1.5 to 1, interest payments to related parties that are not subject to U.S. tax are disallowed to the extent that the taxpayer has "excess interest expense." "Excess interest expense" is a taxpayer's net interest expense in excess of 50 percent of the taxpayer's adjusted taxable income. Former Chairman Camp's plan would have reduced the threshold for excess interest expense to 40 percent of adjusted taxable income. Currently any disallowed interest deductions can be carried forward indefinitely; while any "excess limitation" may be carried forward three years. The Camp proposal would have also disallowed corporations to carry forward any "excess limitation."

Limiting a corporation's ability to deduct its interest expense will increase the overall cost of capital, disproportionally hurting those capital intensive industries that need to borrow to grow because of the considerable costs associated with those investments. In addition to penalizing foreign companies who may have made substantial investments in the U.S., as in the Camp draft, placing limitations on interest expense deductions will negatively impact small and medium size businesses that do not have access to other sources of capital. Like other provisions in the tax code, the ability to deduct a company's interest expense is very important and contributes significantly to decisions to invest in major manufacturing facilities.

In closing, I want to commend the Finance Committee members and staff for continuing to push forward on tax reform, which is no easy task. We appreciate the opportunity to provide input into this process and we look forward to working with you and the Finance Committee as efforts to reform the tax code move forward in the weeks ahead.

Sincerely,

Thomas J. Gibson
President and CEO
American Iron and Steel Institute