U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley, Baucus Introduce Tax Relief for Domestic Manufacturers, International Tax Reforms

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, today introduced the *Jumpstart Our Business Strength (JOBS) Act*, legislation to cut taxes for domestic manufacturers and reform and simplify taxes for U.S. companies operating overseas. The legislation is meant to head off trade sanctions from Europe that likely would force U.S. manufacturers and agricultural producers to slice jobs.

"A hurricane is hitting the East Coast today," Grassley said. "U.S. manufacturers and ag producers will face their own hurricane if we don't act. Inaction probably would cost a lot of American workers their jobs. Obviously we can't let that happen. This bill is a good solution that not only prevents Europe's sanctions, but also gives a real shot in the arm to U.S. manufacturers and ag producers, at home and abroad.

Baucus said, "We must stop the job losses in America's manufacturing sector. Reducing taxes on these businesses is a critical first step to ensure our businesses compete in an increasingly global marketplace. Even in our selection of international tax reforms, we have focused on those reforms that enhance the U.S. companies' ability to manufacture here at home."

Grassley said, "I agree we've lost too many manufacturing jobs. Now isn't the time to increase taxes on the U.S. manufacturing base. This is why every dime from FSC-ETI repeal is reinvested in tax relief for manufacturing. As a witness before the House Small Business Committee said last week, our national policy should be to export products, not jobs. That witness was from Illinois, which just shows he's got a lot of Midwestern common sense."

The Grassley-Baucus JOBS Act, S. 1637, replaces a tax regime that is very important to U.S. exporters.

Grassley said the Foreign Sales Corporation/Extraterritorial Income Tax regime, in effect, lowers the rate of income tax imposed on goods that are manufactured in the United States and exported for sale in foreign markets. The purpose of FSC-ETI is to allow U.S. manufacturers to compete with European manufacturers who do not pay European Union value-added taxes (VAT) on their exports. The World Trade Organization has ruled that FSC-ETI is an impermissible export subsidy, and has authorized the EU to impose up to $4 billion a year in sanctions on U.S. exports.

Grassley said absorbing the sanctions could have a devastating effect on the U.S. economy, especially agriculture. Some U.S. exporters would suffer greatly if $4 billion in sanctions were imposed on their products. Many likely would not survive and would cut a significant number of jobs, Grassley said. The Bush administration and congressional leadership agree the United States should repeal the FSC-ETI regime and replace it with new measures that are consistent with international trade rules under the WTO.

Grassley said the JOBS Act offers a permanent solution to the FSC/ETI problem and reliable, sustained tax relief for domestic manufacturers. A detailed bill summary follows.

Grassley said he hopes the legislation will draw significant bipartisan support in the Finance Committee and plans to schedule committee consideration of the bill as soon as possible.

"U.S. businesses are under more pressure than ever in an era of expanding global markets," Grassley said. "This bill will increase the ability of U.S.-based operations to compete with foreign competition abroad and on U.S. soil. And it'll increase the competitiveness of U.S. operations located outside the United States. All of that means more job opportunities for American workers."

JUMPSTART OUR BUSINESS STRENGTH (JOBS) ACT

<u>Overview</u>

- The bill contains domestic manufacturing tax relief and international tax reform and simplification measures.
- The bill will be revenue neutral.
- All of the proceeds from FSC-ETI repeal will be reinvested in American manufacturing tax relief.
- The international portion of the bill will be fully offset.

<u>American Manufacturing Tax Relief</u>

- The tax rate on income from manufacturing in the United States will be reduced by 3%, which will reduce the corporate rate from 35% to 32%.
- This relief will be available to <u>all</u> companies that manufacture in the United States regardless of size, including wholly-domestic manufacturers, U.S.-based multinational manufacturers, foreign corporations manufacturing in the United States, S corporations, and cooperatives.
- ETI transition will be over 3 years. Rate reductions for all companies begin in 2004.
- The tax reduction is effected through a deduction equal to 9% of a company's

manufacturing income. This deduction percentage is phased in over 5 years. Deductions begin in 2004 and increase until the 9% amount is reached in 2009.

- In the early years, multinational U.S. companies and foreign corporations manufacturing in the U.S. will be subject to a limitation on their deduction, which will be phased out in 2012, and permanently eliminated by 2013.

- Domestic manufacturing relief occurs over the following schedule:

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Manufacturing Deduction Percentage	1%	2%	3%	6%	6%	9%	9%	9%	9%	9%
Manufacturing Tax Rate Cut	.35%	.7%	1%	2%	2%	3%	3%	3%	3%	3%
Transition Based On 2002 Exports	80%	80%	60%							
Elimination of Benefits Limitation									50%	100%

International Tax Reform and Simplification

The international portion of the bill contains the following reform and simplification measures.

- Extend the foreign tax credit carryforward from 5 years to 20 years.

- Apply look-through rules for dividends from noncontrolled section 902 corporations.

- Repeal the 90% limitation on the use of foreign tax credits against the alternative minimum tax.

- Recharacterize overall domestic losses for purposes of calculating the foreign tax credit limitation.

- Revise the interest allocation rules affecting the foreign tax credit limitation.

- Modify the foreign personal holding company income rules with respect to transactions in commodities.

- Implement certain international tax simplification measures contained in the Joint Committee on Taxation's report on tax simplification recommendations (JCS-3-01).

a. Repeal of rules applicable to foreign personal holding companies and foreign investment companies.
b. Repeal personal holding company rules as they apply to foreign corporations.
c. Include in subpart F personal service contract income, as defined under the foreign personal holding company rules.
d. Expand the subpart F de minimis rule to the lesser of 5% of gross income or $5 million.
e. Attribute stock ownership through partnerships in determining section 902 and 960 credits.
f. Apply uniform capitalization rules to foreign persons.
g. Eliminate secondary withholding tax with respect to dividends paid by certain foreign corporations.
h. Repeal 30% tax on certain U.S.-source capital gains of nonresident individuals.