Committee On Finance
Max Baucus, Ranking Member

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For Immediate Release
Wednesday, March 3, 2004

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Baucus Leads Debate on Manufacturing Tax Relief Bill

Senator Urges Speedy Passage of JOBS bill, Need to Halt EU Sanctions

(WASHINGTON, D.C.) As a bill to provide tax relief to domestic manufacturing moves to the Senate floor today, U.S. Senator Max Baucus pushed for speedy passage in order to help many of the country's manufacturers keep their doors open and to halt European Union (EU) sanctions that went into effect on March 1 against many U.S. goods.

The "Jumpstart Our Business Strength" Act -- also known as the JOBS bill -- is a joint product of Senate Finance Committee Chairman Chuck Grassley and Ranking Member Max Baucus and will provide a 9 percent tax deduction to companies who produce goods domestically. The bill passed out of the Finance Committee by a 19 to 2 vote.

"We've put together a good bill that will provide tax relief to America's manufactures -- a sector that has been hard hit in recent years," Baucus said. "We're approaching the 43rd straight month of manufacturing losses and need to stem the tide. There are about 400,000 manufacturing plants in the U.S. and manufacturing makes up 25 percent of my state of Montana's economic base. This bill will provide tax relief to all of them -- we must pick up the pace and get it passed."

Baucus emphasized the need for the JOBS bill to quickly pass both the Senate and House and be signed into law in order to halt EU tariffs that went into effect March 1. The Grassley-Baucus manufacturing legislation would replace the Foreign Sales Corporation/ Extraterritorial Income (FSC/ETI) tax regime, which has been ruled as an impermissible export subsidy by the World Trade Organization. FSC/ETI was originally implemented in order to help U.S. manufacturers compete with European manufactures that do not pay EU value-added taxes on their exports. The tax relief in the JOBS bill is not export-dependant, so all manufacturers will become eligible for tax relief, not just those who export goods, as is the case under FSC/ETI.

"The EU sanctions are knocking on our door and companies are beginning to feel the effects of the tariffs. The JOBS bill passed out of the Finance Committee by a strong 19-2 vote and I expect we'll see the same level of support on the floor. We must move quickly toward passage to provide the nation's hard working men and women in manufacturing with relief."

Baucus today laid out his three principles for the JOBS bill as it moves through Congress:

Principle # 1: The JOBS bill must remain completely offset.

Principle # 2: All proceeds from the repeal of FSC/ETI must go to *domestic manufacturing.*

Principle # 3: The anti-tax shelter offset must remain in the bill. The JOBS bill is not simply "paid-for," but it's paid for in a way that will crack down on abusive tax shelters and help restore confidence in corporate America.

On the Senate floor today, Baucus began a series of speeches he will give throughout the debate on the JOBS bill, focusing on the state of America's economy. Additional topics will include "offshoring" - the loss of U.S. jobs due to companies moving resources or jobs overseas, the significant benefits the JOBS bill provides America's small businesses, the strong anti-tax shelter provisions that help finance the bill.

Floor Statement follows, as well as two-page fact sheet on JOBS bill:

The JOBS Bill
Floor Statement of
Senator Max Baucus
March 3, 2004

Mr. President, let me discuss what this JOBS bill is about. This bill, which the Finance Committee reported last November, is something that we simply must pass. And I hope to see it enacted into law as soon as possible.

This bill is important for three reasons. It will cut taxes for domestic manufacturers. It will simplify taxes for American companies operating overseas. And it will bring us into compliance with an unfavorable ruling by the World Trade Organization.

The JOBS bill reduces the tax rate for domestic manufacturers by 3 percentage points. The JOBS bill will help all manufacturers who produce goods in the United States. Cutting taxes for domestic manufacturers will help prevent layoffs. And it will help preserve jobs.

As we all know, this country has lost 3 million manufacturing jobs since July 2000. When I talk to manufacturers in my state of Montana, they tell me that the rising cost of doing business is their biggest problem. By cutting the cost of doing business, this bill will help alleviate job loss.

This bill helps small businesses as well as larger businesses. The tax code treats different kinds of businesses differently. C-corporations are companies that exist as a separate entity from their owners, limiting the owners' liability. Sole proprietorships and partnerships are businesses where the owners of the business are fully liable for its debts. S-corporations are smaller businesses that are incorporated for liability purposes, but taxed like a partnership. S-Corporations, partnerships, and sole-proprietorships are collectively known as "pass-through entities." These are generally smaller businesses, while C-Corporations are larger concerns.

We have extended this tax relief to all businesses, including the smaller pass-through entities. Nearly three fourths of the manufacturers in this country are S corporations, partnerships, or sole proprietorships. And about three quarters of all new jobs are created at these small businesses.

Our smaller businesses — the backbone of my state's economy and of the nation's economy — deserve tax relief just as much as larger businesses. In addition, by including partnerships and sole proprietorships, more of our agriculture producers will become eligible for this tax relief.

The JOBS bill also includes long overdue international tax reform. We want to make sure that our US companies are competing on equal ground with rivals from other countries. One way to do that is to limit double-taxation. When our companies are taxed twice, that makes them less competitive. We have included international tax simplification and reform provisions that will help American companies to compete with foreign companies overseas.

A number of provisions will help companies better utilize foreign tax credits. Foreign tax credits prevent income from being taxed twice. There is a repatriation provision that encourages companies to bring back overseas profits for investments in the U.S. There is also a provision that will ease the tax compliance burden for small businesses looking to gain access to overseas market. These worthwhile policy measures restore fairness and integrity to our tax system.

This bill repeals the FSC/ETI laws to bring us into compliance with our WTO obligations. Our bill replaces a tax incentive that was dependant on exports with a tax incentive that is not dependant on exports. Our bill will partially offset the loss of tax benefits to U.S. exporting companies from the repeal of FSC/ETI. And it will also provide benefits to all American manufacturers. It will provide a needed boost for this important sector.

The JOBS bill is completely paid for. Repealing the old FSC/ETI regime will cover most of the cost of the new tax incentive. International provisions are paid for with offsets that curb abusive tax shelters. In the face of record deficits, paying for tax cuts is the responsible thing to do.

While we should strive to keep this bill paid for, it is even better when those offsets are positive in and of themselves. The offsets in this bill are good tax policy, as well as revenue raisers. The best example of this is the set of provisions that shuts down abusive tax shelters. Making the tax system more fair for honest taxpayers by cracking down on cheaters would be good policy even if it didn't prevent this bill from contributing to the deficit.

Mr. President, in formulating this legislation, I have been guided by 3 principles that I think can guide us toward the swift enactment of a sound piece of law. These are the fundamentals of this bill as it was passed by the Finance Committee. They are things that are essential to this bill accomplishing what it was intended to do. I urge all my Colleagues to keep these principles in mind as we consider this bill:

First, this bill must be fully offset.

Second, all the revenue from the repeal of FSC/ETI must go to domestic manufacturing.

Third, the bill must include the package of provisions to stop abusive tax shelters.

These principles are the foundation that the rest of the bill is built on. They are at the heart of what makes this a good piece of legislation. I would like to take a little closer look at each of them, and talk about why they are so important.

The first principle: The bill must be fully offset. This is a principle that I know many of us are concerned about on every item that comes through the Senate. The deficit is at a record high. We are looking at a $521 billion dollar deficit this year. We know that those deficit estimates grow larger when we look at things realistically. For example, if we want to look at things realistically, we have to include the costs of wars abroad, the costs of making expiring tax cuts permanent or providing AMT relief, and the costs of paying for services once the baby boom generation starts to retire. When we examine the numbers honestly, we are looking at huge deficits as far as the eye can see. That is not responsible. That is not good policy. That is not good for America.

This is a bill that has some very good provisions to help create jobs, and to help our economy. But we would undermine those benefits if we let this bill get out of control and increase the deficit even more. Continued high deficits will raise interest rates and have a negative impact on the economy. Worsening the deficit could undo the economic good that this bill can achieve.

I know that there are a lot of very good ideas out there about how to improve the tax code. I know that my Colleagues have many amendments that they would like to offer. Many of us have been working hard to generate ideas on how to spur the economy, to help keep manufacturing jobs in America, and to reform international taxes.

As we consider these ideas, I urge my Colleagues to keep in mind this principle of deficit neutrality. We all want to make this bill as good as possible, and the best way to make it good is to keep it revenue neutral.

The second principle: All the revenue from the repeal of FSC/ETI must go to domestic manufacturing. We need to keep our manufacturing sector strong. But we have lost 3 million manufacturing jobs since 2001. And there is little sign that this trend is reversing itself. The manufacturing sector needs a shot in the arm, and this bill is a chance to do it.

The administration has said that sending jobs overseas is good for America. I disagree. We need to target tax relief to the sector that needs it most. Manufacturing jobs are good jobs. And we need to do everything we can to keep them here. This principle establishes a floor on what we should be doing to help the manufacturing sector. At the least, the money from FSC/ETI should go to the manufacturers' deduction, not to tax cuts for international corporations.

This is not solely because the manufacturing sector needs the help. Manufacturers are the ones who benefited from FSC/ETI. Reducing the tax rate for manufacturers will help ease the burden of losing FSC/ETI benefits. It will also give a boost to the small manufacturers who may not have been getting any help from FSC/ETI. Those small businesses are the engine of job creation.

It is important that we replace the export-based FSC/ETI subsidies with a deduction for manufacturing that is not dependent on exporting. But that is the bare minimum of what we should be doing. This bill is not all that we can do to help manufacturers. To the extent that we can find additional revenue to do it, we should be finding ways to make this bill even better for the manufacturing sector. But we should commit to this principle, right from the start: At the very least, the FSC/ETI money should go toward the tax deduction for the manufacturing sector.

The third principle: The Tax Shelter Package must be part of this bill. This is a package that raises revenue, and helps keep the bill revenue neutral. More important, though, is that this package will cut down on the abuse of our tax system. Honest taxpayers should not be left holding the bag because someone else came up with an elaborate way of cheating the system. By cutting down on abusive schemes, we will send a message to the hardworking, honest people that make up the majority of taxpayers. We are telling them that nobody is going to get a free ride, leaving the honest people paying more than their share.

It is long past time to stop abusive tax shelters. The Senate recognizes that, as we have passed the tax shelter package again and again, but have yet to see it become law. The JOBS bill before us today is a must-pass bill. And I think it is our best chance to get the shelters package across the finish line. That is why it is essential that the bill that leaves the Senate floor has the shelters package in it. Those three principles are all built into the bill that we voted for in the Finance Committee, 19 to 2. We need to make sure that they remain the focus of the bill.

It is important that we enact this bill quickly. The deadline for EU sanctions has already passed. The longer we wait, the worse those sanctions will get. That is one reason why we should stick to the heart of the matter. We can't afford to allow this bill to get bogged down with extraneous issues. We need to keep this bill focused, so that it can move forward quickly, get help to the manufacturing sector, and end the EU sanctions before they cause even more job losses.

By enacting this bill, we can help our domestic manufacturers without adding a nickel to the Federal deficit. I say to my Colleagues in both the House and Senate: Let's get the "JOB" done.

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Fact Sheet: JOBS Bill Summary
"Jumpstart Our Business Strength"
U.S. Senator Max Baucus
Ranking Member, Committee on Finance

Overview

- The Jumpstart Our Business Strength (JOBS) Act, S. 1637, will provide tax relief to the nation's domestic manufacturers in order to strengthen the economy and assist the manufacturing sector, which is facing 43 straight months of job losses. The bill will also allow America to live up to its international obligations by repealing the Foreign Sales Corporation/Extraterritorial Income Act (FSC/ETI) tax regime, which has been ruled against by the World Trade Organization.

- The JOBS Act also includes long over-due international tax reform. International tax simplification and reform provisions have been included that will help American companies compete with foreign companies overseas.

- The U.S. Senate Finance Committee-passed JOBS Bill, crafted by Finance Committee Chairman Charles Grassley and Ranking Member Max Baucus, is completely paid for, mainly through anti-tax shelter legislation.

Baucus Principles

Senator Baucus has laid out three guiding principles as the JOBS bill moves forward in Congress:

Principle # 1
The Finance Committee-passed JOBS bill is fully offset and the final bill must remain that way.

Principle # 2
All proceeds from the repeal of FSC/ETI must go to *domestic manufacturing.*

Principle # 3
The anti-tax shelter offset must remain in the bill. The JOBS bill is not simply "paid-for," but it's paid for in a way that will crack down on abusive tax shelters and help restore confidence in corporate America.

Legislation Details

- The JOBS bill will permanently cut the tax rate by 3 percent for companies that produce goods domestically. The 3% tax reduction is effected through a deduction equal to 9% of a company's domestic manufacturing income and is phased in over 5 years (2004-2008). Deductions begin in 2004 and increase until the 9% amount is reached in 2009.

- FSC/ETI will be repealed, with current FSC/ETI beneficiaries receiving a three-year phase out of base year 2002 FSC/ETI benefits. The phase out is 80% of 2002 FSC/ETI benefits in 2004 and 2005, and 60% in 2006.

- All of the proceeds from the FSC/ETI repeal ($56 billion over 10 years) will be used for manufacturing tax relief.

Eligible Companies

- This relief will be available to all companies that manufacture in the United States regardless of size.

  Eligible companies include:
  - Wholly domestic manufacturers,
  - U.S.-based multinational manufacturers,
  - Foreign corporations manufacturing in the United States,
  - S-corporations,
  - Sole Proprietorships,
  - Partnerships, and
  - Agricultural and horticultural cooperatives.

Multinational Corporations (MNCs)

- The JOBS bill includes a foreign domestic haircut for MNCs that will be permanently phased out beginning in 2010. A MNC will receive a reduction in its deduction amount equal to the ratio of its domestic production to its world wide production:

$$\textbf{Deduction} = \textbf{9\%} \times \textbf{Domestic Production Income} \times \frac{\textbf{Domestic Production Income}}{\textbf{World wide Production Income}}$$

Definition of manufacturing:

- The definition of manufacturing under the JOBS bill is any tangible personal property, computer software, film, video and sound recordings which is manufactured, produced, grown or extracted in the United States.

  Excluded items:
  - Services and products integral to the delivery of services,
  - Electricity and all other utilities,
  - Water supplied by a pipeline,
  - Certain books, magazines and newspapers.