

THE HILL



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SPECIAL SECTION

TAXES

In FSC/ETI bill, U.S. jobs should be first

By Rep. Donald A. Manzullo (R-Ill.)

Our nation's economy has shown strong signs of a turnaround. The president's tax cuts have helped Americans turn an important corner. Many parts of our economy have regained their strength and have surged ahead with new vitality.

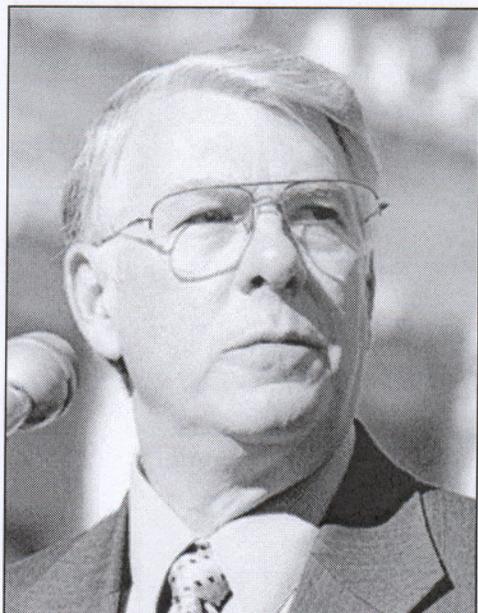
However, our manufacturing sector is still in decline and too many Americans need jobs. U.S. manufacturers have cut jobs for 41 consecutive months now, putting more than 2.8 million Americans on the unemployment lines. Many of those jobs have gone overseas, victims of businesses' outsourcing and offshoring trends in search of cheap labor.

We need to give our manufacturers and their suppliers incentives to put Americans back to work and keep their jobs in the United States. That's why I have been working for some time with more than two dozen of my Republican colleagues to make sure that the replacement for the foreign sales corporation/ extraterritorial income (FSC/ETI) tax program doesn't inadvertently raise taxes on manufacturing in America at exactly the wrong time. In fact, our goal is to reward companies for keeping manufacturing in the United States by giving them a lower tax rate for their domestic production. The more you produce in the United States, the lower your taxes.

American manufacturers are already at a substantial disadvantage in world markets. We are quickly becoming a less attractive and costly location for operating a business. Our manufacturers know the numbers all too well. We are a relatively high-tax jurisdiction with costly regulatory burdens that reduce incentives for expansion and choke research and development.

The United States must do something to change this situation if we have any hope of protecting our nation's manufacturing base.

Before we can enact substantial reforms that small-business leaders tell us will help them compete in world markets, we must first be resolved (like good doctors) to "do no harm." An FSC/ETI replacement bill that raises the costs of domestic manufacturing is unacceptable, and I am pleased that House Ways and Means Chairman Bill Thomas (R-Calif.) has moved to help secure some new savings for U.S. manufacturers in his bill. However, the current bill still leans heavily to the side of international tax relief. As a result, it would actually



FILE PHOTO

Rep. Donald Manzullo has several suggestions for protecting U.S. jobs while heading off a trade war over the FSC/ETI tax program.

encourage manufacturers to send more jobs overseas where they can get a lower tax rate for international production.

To date, I have made several suggestions. As we come to the end of a long period of negotiation on how to best bring the United States into compliance with the World Trade Organization's decision that we must repeal FSC/ETI, I still believe that the following principles should guide us:

- Since, under current law, 90 percent of FSC/ETI benefits go to domestic manufacturers, domestic manufacturers should benefit accordingly under the bill (not multinational corporations operating overseas).
- Any repeal should be aimed at helping all manufacturers, not just large corporations. The Thomas bill should be expanded to cover other forms of businesses besides C corporations, as is the case in the Senate Finance Committee-passed bill.
- The Thomas bill includes a provision that increases taxes on foreign-owned companies doing business in the United States. During a period of crisis in the manufacturing sector, we should not increase taxes on these corporations that hire millions of U.S. workers. I assure you they will create their jobs elsewhere. The Thomas earnings-stripping proposal should be modified to apply only to those companies that engage in tax avoidance.
- We should ensure that the current FSC/ETI companies and their small-business suppliers don't close their doors or move overseas when this benefit goes away. We should try to make the transition as painless as possible.

The European Union has given us until March 1 to repeal FSC-ETI or face retaliatory tariffs on the products U.S. manufacturers export to Europe. We should work quickly to pass a clean FSC/ETI replacement bill that helps those currently receiving the benefits — American manufacturers producing in the United States.

Our competitors have enough advantages over U.S. manufacturers. It's time we gave our companies incentives to keep jobs here in the United States. The FSC/ETI replacement bill gives us the opportunity to help U.S. manufacturers keep jobs on our shores.

American workers will be the big winners.

Manzullo is chairman of the House Small Business Committee.