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CORONAVIRUS & TAX RELIEF

Encourage Supply Chain Jobs Back To the U.S.

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The Congress and the White House are now grappling with a list of tax proposals to address the economic impact of the Coronavirus. As policymakers wrestle with ways to best assist families and to also keep the economic engine going – thought should be given also to ways to reduce our nation's dependency on overseas manufacturing of drugs and products – the supply chain. In short, to look ahead now at tax policies that can help minimize the economic and health impact of the next Coronavirus.

As a reminder, the FDA has stated that it is monitoring twenty drugs manufactured in China for impact – including disruptions — on the medical product supply chain. As the Senate Finance Committee Chairman – Senator Grassley (R-IA) noted – 80 percent of active pharmaceutical ingredients are produced abroad with the majority in China and India. Congress has expressed bipartisan concern about the situation – with Senators Rubio (R-FL) and Murphy (D-CT) writing to the FDA about the impact of coronavirus and import of pharmaceuticals and medical supplies.

A similar story is told in traditional manufacturing – with significant supply-chain disruption now casting a shadow over U.S. manufacturing. A recent Harvard Business Review article predicts that the Coronavirus will force thousands of companies to temporarily close assembly and manufacturing plants in the U.S. The auto industry is already seeing significant disruption with parts supplies being severely impacted.

Given all this, policymakers are understandably more and more concerned about what steps can be done to bring manufacturing jobs back in this country – with Senator Hawley (R-MO) for example sending out a tweet today asking for Corporations who may receive taxpayer dollars – to explain how will they ". . . . move supply chains and jobs back to America . . . ."

The federal tax code – surprisingly – has little to say about encouraging and incentivizing companies to make drugs in this country or to manufacture products in the U.S. The tax code is fairly good at encouraging domestic R&D in this country with the R&D tax credit (the code makes clear that the R&D tax credit is only for R&D work done in this country). But when it comes to encouraging domestic manufacturing – not so much.

Happily, there is a straightforward solution to encourage drugs to be produced in this bipartisan solution to encourage drugs to be produced in this country as well as encouraging other domestic manufacturing: – create an enhanced R&D tax credit for those companies that do both R&D in the U.S. and manufacture in the U.S.

Even better news for policy makers negotiating the Coronavirus tax package – they can reach for the shelf for this solution: Senators Roberts (R-KS) and Coons (D-DE) introduced legislation in a previous Congress (S. 1293 "Invent and Manufacture in America Act") that would accomplish this goal of encouraging U.S. manufacturing with an expanded R&D tax credit for domestic manufacturers. The bill enhances the value of the R&D tax credit by up to 25% for companies that perform the majority of manufacturing operations in the U.S. The increased benefit is phased in so that the credit rate increases as the percentage of a company's domestic manufacturing operations increases. In short – businesses that show more love for domestic manufacturing get more love from the tax code. The legislation introduced by the Senators would ensure that the tax code rewards those businesses that hires U.S. workers for the research but also the manufacturing. The R&D tax credit is at its core a hiring incentive – let's incentivize businesses to hire both the chemist in the lab as well as the worker on the shop floor.

Further, encouraging colocation of R&D and manufacturing in this country has also shown in numerous studies to improve productivity and efficiency for businesses.

As Senator Coons noted in the introduction of the legislation – companies are twice as productive at R&D when operations are co-located with a manufacturing facility. I've seen this first-hand in my work with companies – so much of the practical application and innovation happens on the shop floor.

Also of note — such an incentive will particularly benefit American small and medium businesses – businesses that already look first to manufacturing in the U.S.

A tax credit that encourages companies to bring the supply chain home – especially for drug production and general manufacturing – it will support good paying jobs; improve productivity and competitiveness – what's not to like?

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Dean Zerbe is alliantgroup's National Managing Director based in the firm's Washington D.C. office. Prior to joining alliantgroup, Mr. Zerbe was Senior Counsel and Tax Counsel to the U.S. Senate Committee on Finance. He worked closely with then-Chairman and current Ranking Member of the Finance Committee, Senator Charles Grassley (R-IA), on tax legislation. During his tenure on the Finance Committee, Mr. Zerbe was intimately involved with nearly every major piece of tax legislation that was signed into law – including the 2001 and 2003 tax reconciliation bills, the JOBS bill in 2004 (corporate tax reform), and the Pension Protection Act. Mr. Zerbe is a frequent speaker and author on the outlook for short-term and long-term changes in tax policy, as well as ways accounting firms can help their clients lower their tax bill. He holds an LL.M. in Taxation from NYU and a J.D. from George Mason University.

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