AMERICANS for TAX REFORM

722 12th Street N.W.
Fourth Floor
Washington, D.C.
20005
T: (202)785-0266
F:(202)785-0261
www.atr.org

April 15th, 2021

Dear Senator:

I write in support of legislation introduced by Senators Roy Blunt (R-Mo), Rob Portman (R-Ohio), James Lankford (R-Okla.) and Jim Inhofe (R-Okla.) to prevent a tax hike on American businesses deducting interest expenses. If lawmakers fail to act, this deduction will narrow at the end of the year.

Currently, businesses can deduct net interest expenses (i.e. debt) up to 30 percent of earnings before interest, tax, depreciation, and amortization (EBITDA) under IRC section 163(j). However, effective 2022, this deduction is narrowed to 30 percent of earnings before interest and tax (EBIT).

Removing depreciation and amortization from the calculation of the deduction will reduce the value of the tax deduction, resulting in a tax hike for many capital-intensive taxpayers including manufacturing businesses.

Allowing the EBIT standard to go into effect could result in a tax increase exceeding $100 billion over the next decade. As noted by the Joint Committee on Taxation report analyzing the Tax Cuts and Jobs Act (which first instituted the interest limitation), the EBITDA standard raises $90 billion in revenue in the first five years, while the EBIT standard raises $163.2 billion. Approximating this difference over the ten-year window would imply that failing to pass Sen. Blunt's bill would result in a tax hike of at least $140 billion over the next decade.

In addition, the EBIT standard could disproportionately harm businesses that have been hit hard by the Coronavirus pandemic. A 2020 study by Ernst and Young notes that the 163(j) limitation tends to increase taxes on businesses during economic downturns because they are more likely to report lower income and higher interest expense. Given we are still recovering from an economic downturn due to the Coronavirus pandemic, making the EBITDA standard permanent is more important than ever.

Finally, an EBITDA standard is globally competitive whereas an EBIT standard would harm American businesses relative to foreign competitors. According to the Tax Foundation's International Competitiveness Index, many foreign countries including the United Kingdom, France, Germany, Korea, and Mexico utilize an EBITDA standard for their interest deduction limitations. Maintaining this EBITDA standard will therefore help American manufacturers and other businesses compete with foreign businesses.

I urge you to support Sen. Blunt's legislation to make the EBITDA standard permanent for calculating interest deductions. This legislation will prevent a tax hike exceeding $100 billion from going into effect, will ensure American businesses have a tax code on par with foreign competitors, and will help businesses with cashflow coming out of the pandemic.

Onward,

Grover G. Norquist
President, Americans for Tax Reform