Perspective

Second Quarter 2010

Practical ideas for manufacturers and distributors

Outlook on Jobs for America

The nation's unemployment rate continues to hover around the 10 percent mark and many industrial sectors of the economy are still experiencing difficulties recovering from the most serious downturn since the depression. A new analysis commissioned by the National Association of Manufacturers (NAM) assesses the effects of the recession on the nation, the manufacturing sector and our ability to recover in the face of fierce global competition. The analysis makes a powerful case that manufacturing can lead the U.S. into a renewed era of growth – if Congress enacts policies to promote U.S. competitiveness.

A report published by the non-partisan Milken Institute entitled *Jobs for America: Investments and policies for economic growth and competitiveness* is an in depth analysis that links the strength of the U.S. economy to the strength of its manufacturing sector. The report looks at policies and investments that can be made to create jobs immediately and grow our economy in both the short-term and in the years to come.

The reports great strength is its serious, substantive and detailed economic analysis. The authors demonstrate the critical need to reduce corporate tax rates, establish a permanent R&D tax credit, make major investments in energy and transportation infrastructure, and modernize the U.S. system of export controls.

As manufacturers, we commissioned the analysis to assess the effects of the recession on the nation and the manufacturing sector and our ability to recover in the face of fierce global competition. As the executive summary states, the severe downturn has left substantial underutilized resources in labor and product markets, and the U.S. must accelerate its economic growth in response.

The report makes note that unless sustainable growth is achieved, the unemployment rate will remain close to 10 percent in the immediate future and a portion of the nation's manufacturing will continue to sit idle. The lack of sustainable growth could lead to an even further deterioration of our economy.

Economic and tax policy changes, combined with targeted investments in infrastructure, could effectively stimulate the economy in the near term while positioning the nation for sustained higher economic growth over the medium and long term.

The report attaches numbers to the policy prescriptions. The figures are striking:

- Reducing the U.S. corporate income tax to match the average of other industrial countries (OECD nations) would trigger new growth. By 2019, it could boost real GDP by $375.5 billion and create an additional 350,000 manufacturing jobs – total employment rising by 2.1 million.
- A permanent R&D tax credit, increased by 25 percent, could boost real GDP by $206 billion (1.2 percent) and generate 316,000 manufacturing jobs.
- Modernizing U.S. export controls could increase exports in high-value areas, enhancing real GDP by $64 billion by 2019 and creating 160,000 manufacturing jobs.

A separate section of the report also demonstrates the major economic impact that would result from investments in 10 areas of infrastructure – highways, waterways and aviation (NextGen), broadband and the smart grid, and such sectors such as nuclear energy, renewable, onshore and offshore oil and natural gas, and clean coal technology.

The proposed investments amount to $425.6 billion, creating 3.4 million construction- and R&D-related jobs. Accounting for ripple effects across other sectors, the total impact would add up to more than 10 million jobs. The impact on long-term competitiveness is just as critical.

The authors write: "Many innovations have either been created or facilitated through infrastructure investment, both in the public and private sectors. Although the construction jobs created by infrastructure investment are typically only short-term, the new opportunities and

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Meeting the Challenges of Global Compliance

Global compliance is defined as the need to comply with all national requirements that are critical to a company's ongoing business in foreign countries in which it has operations. This has become one of the most challenging issues facing home office financial managers in U.S.-based global companies.

Global companies have hundreds of small units scattered around the world. Traditionally, compliance deficiencies in these operations have had very little impact on parent companies. It is not unusual for companies to rely wholly on foreign unit management to look after local tax, statutory audit and other regulatory compliance requirements and to intervene from the home office only when a compliance failure constitutes a serious threat.

With rare exceptions, U.S. parent companies have not invested the money or manager time needed to understand all of the compliance requirements applicable to their foreign operations, or to monitor whether foreign unit management is meeting those requirements. Often, home office financial managers lack knowledge about what needs to be done in each country, such as when filings and reports are due, who is responsible for the work, whether compliance deficiencies exist, and what is being done to correct them.

The problem of compliance deficiencies is not limited to foreign units under the control of foreign managers. Many U.S. companies attempt to perform the accounting and compliance functions of some of their small foreign units with staff located in the U.S. The initial attraction of this approach is obvious. The foreign operation is too small to justify a business office staff. The company doesn't want to find and pay a local accountant in the country to do the work. Home office financial staff is available with time to spare, etc.

Unfortunately, this approach usually ends up causing serious compliance problems. For one thing, the U.S. staff has none of the training and preparation in local regulations enjoyed by even the most humble professionals in the country where the business unit is located. The U.S. staff struggles to find, understand and keep up with the foreign country's compliance requirements, and usually loses the battle.

Four steps your company can take to improve compliance

The challenge in serious global compliance management is caused by the multiplier effect. Many companies have large numbers of small units in different jurisdictions. Since each jurisdiction has its own set of compliance requirements and dates, determining the compliance profile of each foreign unit can be daunting.

When U.S. managers do succeed in pulling back the veil on their operations abroad, their jobs become even more complex, as they find a number of issues. Common issues found, include:

- Compliance deficiencies in value added tax (VAT) registration
- Reporting issues
- Errors and delinquencies in requirements pertaining to employees

These errors, even in small companies, can result in fines and even suspension of business.

There are four steps companies can take now, to avoid potential difficulties in the future:

1. **Develop a comprehensive compliance checklist and compliance calendar for each foreign jurisdiction in which the company has operations**

2. **Undertake a high-level compliance assessment for each of your foreign operating units**

3. **Prepare and implement a follow-up plan to correct compliance deficiencies**

4. **Update the compliance checklist and plan annually.**

These solutions are not complicated, but they are tedious, time-consuming and not easily accommodated into the already busy workloads of U.S. financial staffs. As fines begin to rise for some companies, take time to identify your areas of weakness in the countries where your company has operations.

For more information on how your company can meet the challenges of ensuring global compliance, download our free white paper Global Compliance – The Growing Challenge of Global Companies.

How the Health Care Reform Bills Change your Company

On March 24, 2010, President Obama signed the Patient Protection and Affordable Care Act (H.R. 3590) into law. The House also passed the Health Care and Education Affordability Reconciliation Act (H.R. 4872), which modifies key provisions of H.R. 3590, by a vote of 220-211. H.R. 4872 modifies H.R. 3590 by raising additional revenues from high-income households and reducing the impact that new excise taxes on high-cost health insurance policies will have on middle-class households.

The Patient Protection Act and the House Reconciliation Act will fundamentally alter the health care system for individuals and employers. The bills push the U.S. closer to universal coverage by requiring all individuals not covered by Medicaid or Medicare to obtain health care coverage or pay penalties. Employers electing not to offer qualifying coverage would be subject to penalties. To learn more about these changes and the implications to your company, read our extended article House Passes Health Care Reform Bills.

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economic activity fueled by infrastructure investment continue for years, if not decades, after the projects are completed."

The Milken Institute's report also reinforces the findings of another recent and important analysis commissioned by the NAM and its Council of Manufacturing Associations, "Manufacturing Resurgence – A Must for U.S. Prosperity." Written by economists Joel Popkin and Kathryn Kobe, that report also substantiated the value of reducing the corporate income tax and making the R&D tax credit permanent, among other findings. (It is available at www.nam.org/popkinreport.)

We strongly recommend you review the "Jobs for America" report since it applies not just to U.S. manufacturing generally, but more specifically to your industry and company. With its in-depth analysis of jobs and GDP, it should prove an effective resource for your discussions of manufacturing with employees, the media and elected officials.

You can access the report online at www.nam.org and the Milken Institute has an interactive site on the report at www.milkeninstitute.org/jobsforamerica.

Jobs for America: Investments and policies for economic growth and competitiveness is truly a pro growth agenda that we can all use in our efforts in advocating for manufacturers. We need to make sure all the investments not only being made by ourselves but those by the government will make our nation stronger as a competitor in the global marketplace.

HIRE Act Offers New Tax Breaks

On March 17, the Senate passed H.R. 2847, the Hiring Incentives to Restore Employment (HIRE) Act, by a vote of 68 to 29. The House approved the bill on March 4 by a vote of 217 to 201.

The two most important provisions of the HIRE Act are a tax credit provision and a limited "payroll tax holiday" provision, both of which encourage companies to hire unemployed workers in 2010. Other provisions include:

- Enhanced expense treatment for new equipment placed into service in 2010
- Extended eligibility for tax credit bond issuers
- Increased funding to highway and transit programs
- New anti-offshore tax abuse measures
- Delayed the implementation of worldwide allocation of interest

To learn more about these provisions, read our extended article HIRE Act Offers Tax Breaks for Employers and Other Incentives.

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