TESTIMONY OF

SAM MCCAMMON
PRESIDENT
ANAMET ELECTRICAL INC.

HEARING ON

THE BENEFITS OF TAX REFORM ON THE ENERGY SECTOR AND CONSUMERS

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON ENERGY

JUNE 20, 2018

SUMMARY OF TESTIMONY

ANAMET Electrical Inc. has benefitted from the TCJA: At ANAMET Electrical Inc., we have benefitted from the lower corporate tax rate—reduced from 35 percent to 21 percent—and we made investments in our employees and equipment as a result. After foregoing pay raises for consecutive years, we were finally able to give our employees a much-deserved 3 percent wage increase. Furthermore, because of the increase in the section 179 deduction limit from 100 percent of $500,000 to 100 percent of $1,000,000, and 50 percent above $1,000,000, ANAMET is planning to increase our capital expenditures in 2019 by over 100 percent from normal investment levels. These investments will reduce our cost enough to better position us among our competition, both foreign and domestic. More specifically, the savings from the *Tax Cuts and Jobs Act* will allow us to invest in equipment, which opens up new markets in bulk transfer hose and exhaust hose. We also plan a significant investment in testing a new compound for our nuclear power generation Sealtite product.

Manufacturers support the *Tax Cuts and Jobs Act* and are already benefiting: According to a recent survey of electrical manufacturers, 53 percent said that the *Tax Cuts and Jobs Act* (TCJA) has already had a net positive impact on their businesses, while an additional 34 percent are waiting for full implementation before they can assess the benefits of the legislation. Nearly one in three electrical manufacturers surveyed said they had already made investments in employee salaries and benefits, domestic employment, equipment, or research and development. The survey also found that 53 percent intend to take actions because of the TCJA; of those manufacturers, nearly 74 percent intend to increase domestic employment, 71 percent intend to invest in new plant and equipment, 66 percent will invest in research and development funding, and 64 percent will increase employee salaries, bonuses, or benefits.

Fixes need to be made to realize the full potential of the TCJA: Despite all of its benefits, there are a few issues with the *Tax Cuts and Jobs Act* that need to be resolved before we can realize the full benefits of the legislation. Three primary issues are impacting electrical manufacturers: a drafting error impacting the definition of qualified investment property (QIP, also known as the "retail glitch"), base erosion anti-abuse tax (BEAT), and global intangible low-taxed income (GILTI).

Chairman Upton, Ranking Member Rush, and Members of the Subcommittee:

Thank you for the opportunity to testify in front of you today on such an important topic—the impact that the *Tax Cuts and Jobs Act* has had on businesses in the energy sector.

My name is Sam McCammon, and I am the President of ANAMET Electrical Inc. ANAMET is the global leader in offering the highest quality products, superior service, and pioneering innovations for flexible liquid-tight electrical wiring conduit and industrial stainless steel hose. Our products are used in buildings, power plants (including the only flexible conduit rated for use in nuclear power plants), military installations, industrial facilities, and mass transit systems around the world. Based in Mattoon, Illinois, ANAMET has been serving the global electrical industry for more than 100 years.

According to a recent survey of electrical manufacturers, 53 percent said that tax reform has already had a net-positive impact on their businesses, while an additional 34 percent are waiting for full implementation before they can assess the benefits of tax reform. Nearly one in three electrical manufacturers surveyed said they had already made investments in employee salaries and benefits, domestic employment, equipment, or research and development. The survey also found that 53 percent of manufactures surveyed intend to take actions because of the *Tax Cuts and Jobs Act*. Of those manufacturers, nearly 74 percent intend to increase domestic employment, 71 percent intend to invest in new plant and equipment, 66 percent will invest in research and development funding, and 64 percent will increase employee salaries, bonuses, or benefits.

At ANAMET Electrical Inc., we have benefitted from the lower corporate tax rate—reduced from 35 percent to 21 percent—and we made investments in our employees and equipment as a result. After foregoing pay raises for consecutive years, we were able to finally give our employees a much-deserved 3 percent wage increase. Furthermore, because of the increase in the section 179 deduction limit from 100 percent of $500,000 to 100 percent of $1,000,000, and 50 percent above $1,000,000, ANAMET is planning to increase our capital expenditures in 2019 by over 100 percent from normal investment levels. These investments will reduce our cost enough to better position us to be competitive with our competition, both foreign and domestic. More specifically, the savings from the *Tax Cuts and Jobs Act* will allow us to invest in equipment to open up new markets in bulk transfer hose and exhaust hose. These are two product segments that we can reach with additional investment in manufacturing equipment. This investment would allow us to compete in the European market for exhaust hoses as well. We also plan a significant investment in testing a new compound for our nuclear power generation Sealtite product. This testing is a significant investment due to required radiation testing procedures.

Despite all of its benefits, there are a few issues with the *Tax Cuts and Jobs Act* that need to be resolved before we can realize the full benefits of the legislation. Three primary issues are impacting electrical manufacturers: a drafting error impacting the definition of qualified investment property (QIP, also known as the “retail glitch”), base erosion anti-abuse tax (BEAT), and global intangible low-taxed income (GILTI).

Qualified Improvement Property (QIP)

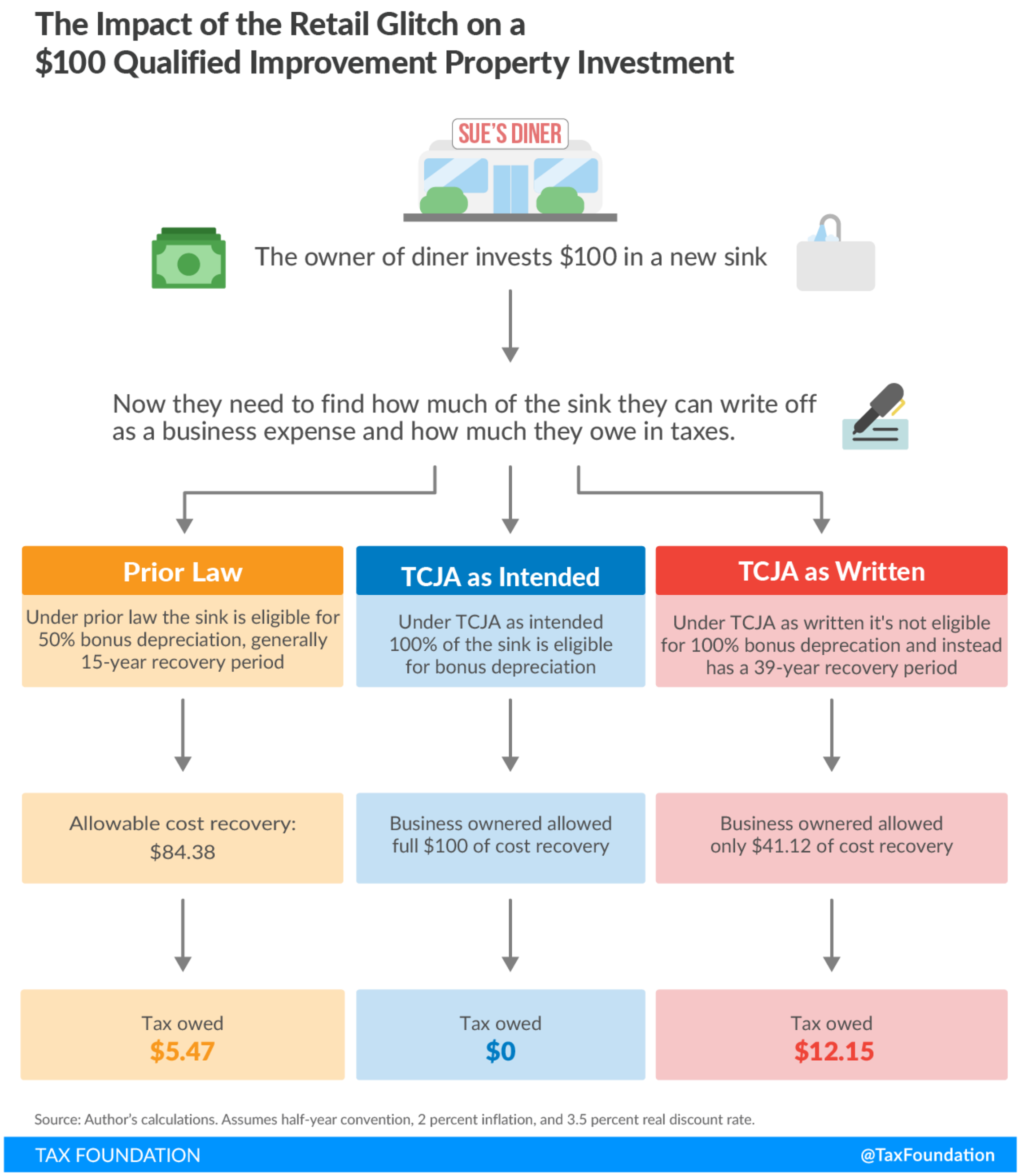
H.R. 1 aimed to spur investment in upgrades and improvements to commercial properties by making qualified improvement property or “QIP” (generally, improvements to the interior of existing nonresidential buildings) eligible for accelerated bonus depreciation and subject to a 15-year depreciation recovery period. This policy, which we support, is consistent with years of bipartisan efforts to encourage such investments.

The text of the final bill, however, mistakenly failed to assign QIP a 15-year Modified Accelerated Cost Recovery System (“MACRS”) recovery period. As a result of this pure drafting error, QIP no longer qualifies for bonus depreciation and defaults to a MACRS recovery period of 39 years, rather than 15 years.

It is evident this was a drafting error. The Joint Explanatory Statement accompanying the final legislative text says that the *Act* assigned "a general 15-year MACRS recovery period for qualified improvement property" and the bill was scored as if the 15-year assignment were made. This error is also among the few provisions in the *Act* identified by the Joint Committee on Taxation as needing a true "technical correction."

This error is already slowing investments in commercial renovation projects—the opposite of lawmakers' longstanding and laudable goal to grow such investments and fuel-related economic activity. It also is causing numerous ripple effects on sales of products, job creation, property values, building occupancy and rental income, cost-saving energy efficiency gains, and fire safety.

We believe this issue cannot be resolved by guidance from Treasury and instead must be fixed by Congress. We ask that Congress include a fix to this issue in any upcoming legislation that can be signed into law. The chart in my testimony clearly shows you the impact of this provision.



Base Erosion Anti-Abuse Tax (BEAT)

The next issue of concern to electrical manufacturers is what qualifies as a "base erosion payment." After reviewing the final language and consulting with tax experts, we believe the current provisions are broad and can lead to significant uncertainty. Electrical manufacturers are asking that Treasury provide guidance and regulations interpreting the provisions as narrowly as possible in order to tailor the Base Erosion Anti-abuse Tax provision as an anti-abuse provision and not an additional tax on legitimate cross-border commerce. We ask that Members of this Committee contact the Treasury as well.

Global Intangible Low-Taxed Income (GILTI)

The last issue facing electrical manufacturers has to do with the Global Intangible Low-Taxed Income provisions, which in our view need additional guidance from Treasury. We believe the congressional intent is to ensure that U.S. corporations could not permanently avoid U.S. tax on intangible income shifted to low-taxed jurisdictions. However, the actual effect on U.S. multi-national corporations without U.S. intellectual property located in a low-tax-rate foreign country appears to have been unintended. Congress should contact Treasury to reaffirm the intent of these provisions.

Conclusion

ANAMET Electrical Inc. and many other electrical manufacturers support the *Tax Cuts and Jobs Act*, and businesses like mine are already reaping the benefits. However, there are changes to the law that should be made for the full potential to be realized, including fixing the qualified improvement property error (QIP, i.e., the retail glitch), and additional guidance on base erosion anti-abuse tax (BEAT), and global intangible low-taxed income. (GILTI).

I thank the Committee for hosting this hearing and for inviting ANAMET Electrical Inc. to testify. We look forward to working with and being a resource for the Committee as you continue your work to make U.S. manufacturers like ANAMET more competitive.

Thank you for your attention, and I look forward to answering any questions you might have concerning my testimony.