COALITION FOR AMERICA'S INTEREST

March 2, 2022

The Honorable Janet Yellen
Secretary
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

The Honorable Brian Deese
Director
National Economic Council
1600 Pennsylvania Avenue NW
Washington, DC 20500

Dear Secretary Yellen and Director Deese:

On behalf of the thousands of businesses and millions of workers throughout the U.S. economy represented by the Coalition for America's Interest, we write to respectfully urge that President Biden's Fiscal Year 2023 budget support the re-instatement of the Section 163(j) EBITDA standard for business interest deductions that expired at the beginning of 2022.

Prior to January 1, 2022, businesses' interest expense deductions were limited to 30% of earnings before interest, tax, depreciation, and amortization (EBITDA). Interest deductions are now limited to 30% of earnings before interest and tax (EBIT). By excluding depreciation and amortization, the stricter EBIT standard makes it more expensive for capital-intensive companies to finance critical purchases and grow their businesses.

Under an EBIT standard, capital-intensive businesses will see an increase in their tax liability and financing costs. The stricter limitation will reduce companies' flexibility and liquidity when financing needed investments, ultimately making it more difficult for these job creators to raise capital, hire new workers, and grow—especially at a time of rising interest rates. Further, limiting business interest deductions harms U.S. competitiveness by making the United States an outlier compared to our peers in the OECD with earnings-based interest limitations, none of which employ an EBIT-style standard.

Companies impacted by the change from EBITDA to EBIT will experience major reductions to their eligible interest deductions, large increases in their tax liabilities, or both. According to a study conducted by PwC, businesses affected by the change will on average see close to a three-fold increase in their incremental tax obligations.[1] The industries most impacted by the change from EBITDA to EBIT are critical to the U.S. economy: the manufacturing and information industries will pay the most in new tax obligations under an EBIT standard, while accommodation and food services (3,462%), mining (2,840%), and transportation and warehousing (2,531%) will experience the greatest tax increases.

[1] *Economic Analysis of an EBIT-Based Business Interest Limitation*. June 2021. PricewaterhouseCoopers LLP, prepared for the American Investment Council. *Available at* http://www.americasinterest.com/wp-content/uploads/2021/06/AIC-163j-Report-Final-2021-05-27.pdf.

Bipartisan, bicameral legislation has been introduced in Congress to permanently preserve the EBITDA standard and ensure that the tax code does not penalize job-creating investment.[2] We respectfully encourage you to support investment and job growth at capital-intensive businesses across the country by including in the President's Fiscal Year 2023 budget a permanent extension of the EBITDA standard for business interest deductions.

Sincerely,

Coalition for America's Interest

[2] *Permanently Preserving America's Investment in Manufacturing Act*. H.R. 5371/S. 1077, 117th Cong. (2021).