Just the FACTS...

... about Domestic Production Activities Deduction (Sec 199)

For income from eligible domestic production activities, Section 199 allows a deduction equal to 9 percent of the income derived from that activity. The provision is ineffective, and poorly targeted:

1

Fact: The level of domestic manufacturing appears unaffected by the introduction of the production activity deduction. The Bureau of Labor Statistics reports the manufacturing sector accounted for only 8.1 percent of domestic jobs in 2010, and will further decline to 7 percent by 2020.

2

Fact: Roughly one-third of all U.S. corporate activity now qualifies for this deduction, including mining, oil extraction, farming, construction, architecture, engineering and the production of software, recordings and films.

3

Fact: The jobs associated with qualifying production activity income do not need to be skilled or high-wage jobs. Non-production activities that create substantial economic benefit and high-skilled jobs, such as medical research, do not qualify for the subsidy.

4

Fact: The producer is not required to demonstrate that any new jobs were created by the activity. Indeed, if a producer is able to increase net income by cutting wages and benefits or replacing workers with machines, the result would be an increased production activity deduction.

5

Fact: The Joint Committee on Taxation estimates that the production activity deduction will result in $78.2 billion of tax spending for the years 2013 through 2017.

Our Take: The production activity deduction provided under Section 199 of the Internal Revenue Code (IRC) is a poorly-targeted policy that creates inefficiency in the tax code while draining resources from other job-creating investments or broader tax reductions.

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