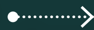
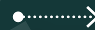
INTERNATIONAL PAPER

# TAX REFORM

As one of the world's leading producers of essential fiber-based packaging and pulp, International Paper supports a simplified tax code that provides certainty and consistency. Tax reform is positive for companies like IP because it encourages capital investment and provides economic benefits to the nation, making us more competitive globally.

**$3B**





**In the last three years, we've invested more than $3 billion in U.S. projects that allow us to transform renewable resources into pulp & packaging products people depend on every day.**

We support preserving the corporate tax rate at 21%. As we recover from the pandemic, it is essential that any changes to our tax system prioritize job growth, investment in research and development and global competition.

## Research and Development (R&D) Tax Credit

Essential manufacturers, like IP, perform nearly 2/3 of private-sector R&D in the U.S. That work not only helps finance important new projects and technological advancements, but it also helps to create well-paying jobs and power economic growth. Since 1954, the R&D tax credit has been available to companies who develop new or make improvements to business components. Immediate 100% deduction of R&D expenses was the norm until January 2022.

## Support the American Innovation and Jobs Act (HR 1304/S.749)

- Repeals the recent change to the R&D tax credit and extends the immediate 100% deduction of R&D expenses.
- Makes the R&D tax credit permanent as well as more accessible and more generous for small businesses.

### The Issue

In January 2022, the R&D tax credit changed and companies like IP are now forced to spread their R&D deductions over 5 years, making investments less affordable. If this change remains in effect, the U.S. would be the only industrialized country in the world with this policy, harming our ability to compete internationally and invest for growth in the U.S.

### Why It Matters

IP's R&D is done for 2 main reasons – safety and making a better product for our customer. We test and measure the strength of our boxes and how many can be safely stacked for efficient storage. We also conduct extensive experiments in the pursuit of making a more durable and sustainable product for our customers. The R&D tax credit change already has cost us an additional $80 million in taxes this year.

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## EBITDA vs EBIT: Save the "DA"

Prior to enactment of the Tax Cuts & Jobs Act (TCJA), businesses were generally allowed to deduct their total amount of interest paid, subject to a few minor limitations. TCJA introduced a 30% EBITDA limit on net interest expenses (earnings before interest, taxes, depreciation, and amortization).

### Support the Permanently Preserving America's Investment in Manufacturing Act (S.1077/Hr5371)

- Saves the "DA" in EBITDA by making permanent the definition of adjusted taxable income
- Maintains the limitation on the business interest deduction at 30% of EBITDA.

#### The Issue

Starting in 2022, the limit will again narrow to 30% of EBIT (earnings before interest and taxes). While the limits aim to help put the tax treatment of debt and equity financing on a more level footing, the tightening of the limit from EBITDA to EBIT will make it less attractive to invest, as it in turn increases the cost of new investment.

#### Why It Matters

When the EBIT standard takes effect, tax liability and financing costs will increase for capital-intensive businesses and essential manufacturers. This will make it more challenging to raise capital, hire new workers, and grow. Protecting EBITDA means that companies who make things in America will have the financial flexibility to expand their facilities, finance machinery purchases and contine leading the economic recovery.

## BONUS DEPRECIATION

TCJA enacted 100% bonus depreciation for short-lived assets to address a flaw in how the tax system treats investment costs. When a company calculates its corporate income tax liability, it subtracts its costs from its revenue.

### Support the Accelerate Long-Term Investment Growth Now Act (Align) Act (S.1077/Hr5371)

Permanently establishes TCJA's 100% bonus depreciation for short-lived assets.

#### The Issue

Companies are not allowed to immediately deduct all costs. Some assets are deducted over several years based on preset depreciation schedules—a building might be deducted over 39 years while an office desk might be deducted over seven years. Because of inflation and the time value of money, the present value of write-offs under depreciation schedules is smaller than the original cost of the investment.

#### Why It Matters

This raises the marginal tax rate of capital which reduces investment, output and wages in the long run. TCJA's 100% bonus depreciation temporarily remedies the issue for short-lived investments, but it will start phasing down after the end of 2022 until it expires entirely at the end of 2026.