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. Almost a decade after enactment, the level of domestic manufacturing has continued its steady decline from almost 30 percent of total gross domestic product in the early-1950s to roughly 13 percent in 2011.

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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