

Business

Investment strategy: Manufacturers seek new way to save money, grow companies

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Like most manufacturers, Jamison Scott knows he needs to invest in capital improvements, work force training and equipment if his Woodbridge company is going to retain its edge in an increasingly competitive global marketplace.

But those types of investments cost money, which is why Scott is among the Connecticut manufacturers supporting newly proposed federal legislation that recently was introduced to Congress by Rep. Rosa DeLauro, D-3, that would offer small manufacturing companies a new way to save for such expenses.

The Manufacturing Reinvestment Account Act, if ultimately enacted into law, would allow manufacturers to save some of their profits in a manufacturing reinvestment account, or MRA. Like an individual retirement account, the money in MRAs would grow tax-free, with the stipulation that the money eventually be used for equipment purchases, work force training, expansion efforts or other approved uses, Scott said.

Under the most recent version of the bill, manufactures could put aside up to \$500,000 a year for up to seven years in an MRA, he said. When the money is withdrawn from the account for appropriate uses, it would be taxed at a rate of 15 percent. Money placed in the account that is not used within the seven-year time frame would be taxed at a higher rate, he said.

"There's a lot of huge advantages to this," said Scott, corporate officer at Air Handling Systems, which makes dust collection systems. A main benefit, he said, is the tax savings. "We can set money aside without paying taxes upfront" and then are essentially "forced to reinvest that money back in your business."

It also gives companies a way to pay for projects with savings, meaning they will not need to take out a loan and incur additional debt, said Jerry Clupper, executive director of the New Haven Manufacturers Association.

"Manufacturers of that size (targeted by the bill) really can't afford to take debt," Clupper said. Most legislation intended to help business tends to focus on loans, whereas the bill introduced by DeLauro provides an alternative, he said.

"What we're trying to do here is create a way for smaller manufacturers to set aside money that they can use for investment but keep it at a low tax rate," he said. Many of the companies that would be impacted typically are taxed at a higher rate than the MRA money would be, he added.

The legislation, in a slightly different form, was introduced during the previous session of Congress but no action was taken on it. "We were psyched" when DeLauro introduced it on the first day of the new session, Scott said.

The bill would give manufacturers a vital advantage at a time when competition is increasing, both domestically and abroad, amid a global marketplace, said Hugh McCann Jr., an owner of Identification Products Corp. in Bridgeport and an original supporter of the idea for several years.

McCann, whose company makes control panels and other items for commercial uses, said he saw in his own business the need for a better way to pay for investments. "My rate of reinvestment in my company...was slower than the rate of change in a global economy," he said.

Manufacturers are under constant pressure to become more efficient and many have felt the need to reinvest in their businesses more quickly than they are able to. "The type of equipment we need in the manufacturing world is expensive," he said. "If we have cutting edge equipment, we can be more competitive."

An important component of the legislation, according to manufacturers, is that MRAs would be held only at community banks.

"This is really a win-win all the way around," Clupper said, adding that MRAs will help improve community banks' balance sheets. It also would make it easier for manufacturers who decide to seek loans for projects — to supplement the money they have saved in an MRA — to obtain funding from community banks since they would already have a relationship with them, he said.

"They'll now have capital that they can use to get better terms on the loan," he said.

Manufacturers are hopeful the legislation could help bolster the "reshoring" movement, an effort to bring manufacturing jobs back to the United States from abroad.

"We need to move away from being a nation that simply buys things, and return to a nation that builds things right here," DeLauro said. "The Manufacturing Reinvestment Account Act does this, enabling America's manufacturers to invest in their business and get a bigger return on their hard-earned dollars."

DeLauro said she visited and spoke with manufacturers in her district when crafting the bill. "In today's tough economy, our businesses need our support and our focus must be on creating and sustaining jobs for hardworking Americans, and this is why I introduced this legislation on the first day of the new Congress."

Making it easier for manufacturers to reinvest in their businesses will have a broader impact by creating jobs, spurring factory expansions and fostering economic development, she said.

"That creates a multiplier effect; it ripples throughout the economy," DeLauro said. "Connecticut is a manufacturing state; that's what our history is," and the bill can ensure that legacy is revitalized, she said.

But, while they enthusiastically support it, some manufacturers wonder how far the legislation will progress in Congress.

"We've got a lot of work ahead," Scott said. "We need to get support from throughout the nation."

Manufacturers continue to seek additional co-sponsors for the bill, approaching Senators in particular, including Senators Richard Blumenthal and Joseph Lieberman. "This stuff takes time," Scott said.

McCann said he worries the bill may not get the support it needs, both nationally and on a bipartisan level. "I'm concerned we don't have the correct audience to present to," he said, though work is under way to try to engage the appropriate people.

But he and other manufacturers said they are hopeful the bill will make progress this year and lawmakers will recognize the substantial boost it could provide to manufacturers.

DeLauro said she is optimistic early on in the Congressional session. "I have very high hopes for this piece of legislation because it is not a partisan issue," she said.

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