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Opportunities for U.S. Manufacturers Under the Second Trump Administration

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Expanding on our prior alert, the next administration is expected to implement economic policies that will present significant opportunities for companies who make or want to make their products in the United States with American workers. President-elect Trump's statements regarding economic policy demonstrate a desire to increase domestic manufacturing and to reshore manufacturing into the United States through incentives, as well as the imposition of tariffs. President-elect Trump has outlined four main pillars to revive American manufacturing: 1) Reduce the corporate tax rate from 21% to 15% solely for companies that make their products in America; 2) Expand Research & Development (R&D) tax credits; 3) Re-institute 100% bonus depreciation; and 4) Expand expensing for new manufacturing investments. In addition, the next administration is expected to create incentives to revive the military-industrial manufacturing base through the Defense Production Act (DPA), Section 232 Investigations, and working with Congress to enact favorable legislation. We expect further incentives to come as the next administration takes office and the economic policy comes into full view, although some tax credits under the Inflation Reduction Act may be eliminated or cut back. There are likely to be two budget reconciliation bills in Congress in 2025, both with significant tax provisions.

1. Reducing the corporate tax rate from 21 percent to 15 percent solely for companies that make their products in the United States

We expect this proposed legislation to be tailored to provide a lower tax rate to companies that do not “outsource, offshore, or replace American workers.” Details on how this will be achieved and what thresholds companies must meet to qualify, and whether they will be given time to phase out foreign production, have not been provided. We expect the next Congress to work with the administration to achieve this priority.

2. Expanding R&D incentives

There is bipartisan support for restoring expensing (rather than capitalization) of R&D expenses. Because this carries a significant budget impact, it is unclear how a bill to restore expensing will impact R&D tax credits. However, we expect this will be achieved through the budget reconciliation process, which is likely to occur in two phases - one in the first quarter when the Republican-controlled Congress addresses President Trump's 2017 Tax Cuts and Jobs Act (TCJA) and one later in the year. Therefore, manufacturers need to monitor these developments closely.

3. Re-implementing 100 percent bonus depreciation

The 100 percent bonus depreciation for qualified property, plant, and equipment was part of the TCJA but included phaseouts. We expect it to be revived in the next tax bill. The House passed a bill to restore 100 percent bonus depreciation, but it narrowly failed in the Senate. This provision may also be part of a reconciliation bill in the next Congress and there is discussion about making it retroactive. Bonus depreciation can apply to both new and used assets, provided they are new to the taxpayer.

4. Expand expensing for new manufacturing investments

President-elect Trump's tax proposals will be a priority in his first year. The favorable environment for U.S. manufacturing also means that there may be further federal incentives, as well as state incentives. President-elect Trump has stated he wants to ensure expensing provisions apply to all manufacturing investments.

Moreover, he has stated that he would appoint a "manufacturing ambassador" to travel the world and encourage international companies to move their manufacturing operations to the U.S.

Defense Production Act (DPA) and Section 232 Investigations

President-elect Trump is expected to utilize the DPA to accelerate domestic production of key industrial sectors, technologies, and materials. Utilizing the DPA will allow the use of grants, investment, and other incentives to accelerate U.S. manufacturing in key sectors to be identified by the next administration. Similarly, Section 232 investigations will be used to review the effect of imports on national security as it relates to the key sectors that are investigated. We discussed Section 232 tariffs in our prior alert, but Section 232 can be used to take other non-trade-related actions. Recommendations from past Section 232 reports have included tariffs, quotas, stockpile expansion, domestic initiatives, multilateral negotiations, and Congressional action.

Our prior alert identified potential supply chain opportunities and challenges under the second Trump administration. Our International Trade and National Security team will continue to monitor these developments and provide updates as warranted. If you have any questions or would like to discuss opportunities for U.S. manufacturers under the new administration in further detail, please reach out to P. Lee Smith, Matthew G. Duff, or any member of Baker Donelson's International Trade and National Security Team.