

# ExecutiveMemo

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A newsletter of the Illinois Manufacturers' Association

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## BRIEFLY

### Engler: Investment in infrastructure will create jobs, strengthen manufacturing NAM Chief calls for 25-Year strategy

National Association of Manufacturers (NAM) President John Engler last week told the House Committee on Transportation and Infrastructure that "public investments that improve and modernize our transportation infrastructure at this time of great uncertainty will help prepare the nation for its rebound by keeping steel mills going, cement trucks rolling, equipment manufacturing lines moving and Americans employed."

Engler said there is an infrastructure crisis and a need for a 25-year strategy beyond short term fixes. "The current revenue stream going into the Highway Trust Fund is unsustainable," he said. "The \$8 billion 'fix' last month was just that, a temporary patch.

"We believe the case is strong for the federal government to commit resources to transportation infrastructure projects that are ready to go and will provide meaningful, long-lasting public benefit to the economy," Engler said. "We do not have to wait for the surface transportation reauthorization to expire in September 2009 to provide the states with \$18 billion in critical funding for transportation infrastructure projects that are ready to go now."

Although federal infrastructure investment will not calm financial markets by itself, Engler said, targeted funding to transportation infrastructure will provide a solid down payment to future investments and lasting economic benefits. "To help keep U.S. businesses and manufacturers competitive, it will require spending more than 2.4 percent of our Gross Domestic Product towards public infrastructure spending and private investment must be welcomed in this economic climate," he said.

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## Strengthening dollar puts downward pressure on oil prices

The value of the U.S. dollar relative to foreign currencies has traditionally been a factor in the global price of crude oil. Throughout the world, markets for crude oil are denominated in U.S. dollars, with even The Organization of the Petroleum Exporting Countries (OPEC) denominating the oil they produce and sell in the currency. This relationship between crude and the dollar benefits American consumers at times when the dollar is strong versus foreign currencies. However, since 2002, a weakening U.S. dollar helped to put upward pressure on the price of crude oil traded in the United States.

A commonly used measure of the dollar's worth versus other major currencies is the U.S. Dollar Index (DX). The index was created by the New York Board of Trade in

1973, at which time it was valued at 100 points. After reaching 120.51 points in January 2002, the DX trended down until it hit an all-time low of 70.70 points on March 17, 2008, a decline of 41.3 percent. During this same period, the NYMEX prompt-month crude oil futures contract moved from \$18.56 per barrel to \$105.69 per barrel, a gain of 469 percent. The fall in the dollar was fueled by extremely loose monetary policy, with inflation-adjusted short-term interest rates held below zero for almost four years. Further eroding the dollar was uncertainty surrounding the U.S. economy, especially in the areas that impact foreign exchange rates the most: monetary flows, expected GDP growth, inflation, interest rates, and trade deficit.

See **OIL PRICES**, page 2

## IMA supports "Save Energy Now" program

The Illinois Manufacturers' Association has written a letter of support for the Midwest States Save Energy Now (SEN) Partnership Program. The objective of the program is to create energy efficiency partnerships between the federal Energy Department, participating states, utility companies, industrial trade groups and others. The partnerships will utilize DOE's SEN program resources as well as complementary ongoing state and regional resources to increase the number of Midwest industrial companies implementing energy assessment activities at their facilities and committing to the resulting energy related capital investments.

The proposed program identifies and secures partnerships with organizations that are in direct contact and have earned the confidence of Midwest industrial companies. These organizations include industry trade associations like the IMA, utilities,

industry service companies, engineering firms and the companies themselves. Through the partnerships, the program will create a cadre of trained Energy Savings Champions in each of the participating states that will serve as the transfer agents, identifying potential projects, promoting the benefits of the SEN and related resources and encouraging project implementation.

The end results include:

- Energy assessments at more than 200 manufacturers over three years;
- Projected savings of roughly 10.4 trillion Btu and \$85.7 million;
- Projected emission savings of 1.3 million tons of CO<sup>2</sup> removed; and
- Successful transition to sustainable energy efficiency efforts for regional and local/private partnerships.

The Energy Department has indicated it expects to make grant awards by the end of the year.



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Since trading at its all-time low, the DX recently reversed course, trading as high as 87.88 points on October 28, a level not seen since April 2006. Economic data has suggested that the U.S. economy may be in a better position for growth than its European counterpart. Investors that fled the dollar in favor of the Euro or British pound are returning, amid signals that the economic slowdown is not going to be limited to the United States. As the U.S. dollar rallied, crude oil prices fell sharply, moving from a high of \$147.27 per barrel on July 11 to a low of \$61.30 per barrel on October 27, a decline of 58 percent. While the long-term correlation between crude oil and natural gas prices is weak, the recent decline in oil markets aided in a similar move in gas, with prices falling from a high of \$13.69 per MMBtu on July 2 to a low of \$5.99 per MMBtu on October 27, a decline of 56 percent.

Crude oil prices continue to be extremely volatile, but a strengthening U.S. dollar has helped to put downward pressure on the market. Furthermore, slowing demand as a result of a weaker global economy could lend fundamental support to softening crude oil prices.

## The new “simplified” R&D Tax Credit . . . why more manufacturers now qualify

So, let’s say that in the past, you tried to take advantage of the U.S. R&D tax credit. You, or your CPA, ran some numbers, only to conclude that there were just not enough qualifying research expenditures eligible for the credit.

What do you do now in 2008? I’ll tell you: don’t quit . . . don’t give up . . . revisit the issue now. The game is changing. There are new tax laws. The U.S. R&D credit is getting better and better and there is an excellent chance you could qualify for the credit for the first time in 2007 and 2008.

Now, there is a new way to make the R&D credit computation called the “simplified method.”

So, why did they come up with this new “simplified” credit? Who does it help?

The “why” question is easy. Congress wants more and more companies to be eligible for the U.S. R&D tax credit. The R&D credit is not new. It started in 1981. Initially, the qualifications were tough to meet. Mostly, it was the large Fortune 500 companies taking the credit.

Everyone else who thought they were doing some research & development but who could not meet the U.S. definition had other ideas. They discovered that other foreign countries had a much more liberal definition of R&D. So, why not just set up a small R&D division in Canada to get the more liberal Canadian R&D credit? Or, why not outsource to China or other foreign countries?

That’s exactly what happened. The U.S. Congress discovered that U.S. companies were sending their research across borders and overseas to these countries. They found out that we were losing high tech jobs to foreign countries. It was not until then that they knew the U.S. law had to change. Finally, they rewrote the R&D tax credit rules, expanded and liberalized the definition. New regulations were finalized in January, 2004 broadening the tax definition of R&D. Many more manufacturing companies, not just high technology companies, then qualified for the credit.

Beginning in January 2007, Congress recognized that other foreign countries still had a stronger and better R&D credit than the U.S. A new credit calculation was necessary to account for different business structures and changing economic circumstances. So, they sweetened the pot so more manufacturers would qualify. They changed the method of doing the computation.

Now, again in 2008, just a few weeks ago, the U.S. Congress decided to sweeten the pot even more! They extended the R&D credit through 2009 and increased

See [R&D TAX CREDIT](#), page 3

## DATES OF NOTE

More information/events may be found at <http://www.ima-net.org/calendar.cfm> and <http://www.ima-net.org/MIT/open.cfm>

### November 13, 2008

#### IMA EVENT: Privacy Law Primer NIU-Naperville Campus, 1120 E. Diehl Rd., Naperville, 8:00-11:00 a.m.

According to the 2008 Information Security Breaches Survey, 96 percent of large businesses had a data security breach in the last year. The experts from CyberSecurity Specialists at Chubb Insurance and the Vedder Price data privacy attorneys will update you on how to navigate a data security breach. Cost: \$85 IMA member; \$100 Non-member. To register, visit: [https://www.ima-net.org/plp\\_seminar.cfm](https://www.ima-net.org/plp_seminar.cfm).

### November 19, 2008

#### IMA-MIT Event: Developing and Maintaining a Respectful and Harassment- Free Workplace DePaul University’s O’Hare Campus, 3166 River Road, Des Plaines

In this day of spiraling lawsuits, it is essential to be continually on top of what constitutes harassment in order to maintain a safe workplace for all employees. This half-day, interactive workshop will help managers, supervisors and employees analyze the components of a respectful workplace, and learn to create and maintain a harassment-free environment.

### December 5, 2008

#### IMA-MIT Event: Time Management and Personal Effectiveness Skills DePaul University’s O’Hare Campus, 3166 River Rd., Des Plaines

Learn to delegate with confidence, plan and execute productive meetings, prioritize daily activities for ultimate results, develop techniques for planning and achieving goals.

### December 9, 2008

#### IMA-MIT Event: Essential Internal Training Skills and Techniques — DePaul University’s O’Hare Campus, 3166 River Rd., Des Plaines

NOTE: Attendance is limited to 16, so register early to ensure your spot! Essential Internal Training Skills and Techniques is a one-day seminar that will introduce the new internal trainer or subject matter expert to the skills necessary for them to be a successful trainer or facilitator. Not just a re-titled presentation skills seminar, Essential Internal Training Skills and Techniques will cover such core skills as how to create rapport with your learner, how to communicate learning objectives, how to introduce a learning activity, how to ask the right question, and how to engage and re-engage the adult learner.

## Illinois Manufacturers’ Association

### 2008 Annual Meeting Friday, December 5, 2008

Hotel InterContinental, Chicago  
Keynote address by University of Illinois  
President B. Joseph White.

Visit [www.ima-net.org/annual08a.cfm](http://www.ima-net.org/annual08a.cfm) for  
more information and to register.



the credit percentage for the “simplified” credit calculation.

Who does this help? This new “simplified” credit calculation basically helps companies and manufacturers who could never claim the credit in the past when using the more “traditional” calculation. To compute the credit, one must have R&D expenditures in a current year that exceed a “base” amount. The new calculation changes the calculation of this base amount. Basically, you take the average R&D expenditures for the prior three years and then multiply this number by 50 percent. That’s your base. If current year R&D expenditures exceed this base, you have an increment. Take that times 12 percent (up to 14 percent in 2009), and there you have your U.S. credit. Plus, there also is an Illinois R&D credit. Every \$1 of credit earned saves you \$1 of taxes.

The increased cash flow from these R&D credits could be tremendous. Too often in these tough economic times, manufacturers focus on the top line sales. They brainstorm on how they can increase gross revenues. Or, they focus on how they can cut operating expenses to add to the bottom line. Seldom do they spend as much energy into managing their tax burden.

Think about it. Let’s assume you can generate a \$50,000 tax credit and save \$50,000 of taxes. Now, let’s assume that one percent of top line sales drops to your bottom line, cash to you after taxes. If you didn’t take this \$50,000 credit, you would have to generate \$5,000,000 of new sales. Which is easier . . . hiring a stronger sales force or developing a new product, or increasing marketing expenses to generate \$5,000,000 of more sales to drop \$50,000 of cash, after taxes, in your pocket? Or, is it easier to take advantage of the R&D tax law and claim a \$50,000 R&D tax credit and add this cash in your pocket? You be the judge.

### Conclusion

At the recent alliantgroup Midwest Tax Conference in Des Moines, Iowa, the keynote speaker was Senator Charles Grassley. For those who may not know, Senator Grassley is the Ranking Member on the Senate Finance Committee, the committee responsible for writing the U.S. tax law. A direct quote from his speech best summarizes the key points here:

“. . . What worries me is that many of you here, business owners and accountants, and even government officials, too often think these tax incentives for R and D, for energy, you name it — are just for the big guys. Nothing could be further from the truth. I can assure you I am not writing these

tax laws to help only the Fortune 500. I’m writing these tax laws to help all businesses.

The IRS reported recently that about 85 percent of the R&D Credit went to the largest companies in America. A key reason — the largest companies were much more active than small and medium companies in applying for the credit. Too often small and medium businesses are just simply not taking advantage of the R&D and many other tax incentives. A comedian once said that 90 percent of life is just showing up. The same is true in tax — small and medium businesses need to show up and take advantage of these benefits. So my message to you is, learn about the tax incentives that are available to you. These incentives can help your business succeed and thrive, especially in this down economy . . .”

*Author Rick Meyer, CPA, MBA, MST is a member of the Illinois CPA Society Business Tax Committee. He is the Chicago Director for alliantgroup, a national R&D tax consulting firm. As an IMA member, he has agreed to, as a courtesy, consult with any IMA member on R&D and calculate an initial R&D projection. He can be contacted at [rick.meyer@alliantgroup.com](mailto:rick.meyer@alliantgroup.com) or by calling the Chicago office at 312-386-9770.*

## Financial crisis looms on minds of voters; affordable health care a major concern as they head to the polls

Eight out of 10 Americans fear that the current financial crisis will affect their ability to pay their medical bills, according to the results of a poll of more than 4,000 U.S. adults released today by the Deloitte Center for Health Solutions, a non-partisan research group. The poll also examined consumers’ attitudes about health care, an issue weighing heavily on voters’ minds as they head to the polls this election season.

Only six percent of Americans surveyed believe their family is completely prepared

to handle future health care costs. Additionally, seven out of 10 believe the financial crisis will make it harder for those who are uninsured to receive medical treatment.

“Health care is a pocketbook issue for most Americans,” according to Paul Keckley, Ph.D., executive director of the Deloitte Center for Health Solutions. “As they make their final decisions on which candidate to vote for, our research suggests that the financial crisis has only compounded the significance of other issues, such as the affordability of health care. Consumers already struggling to pay their mortgages or put food on the table are now also asking themselves how their vote will affect their ability to afford health care for their families.”

Two out of three Americans believe health care will be an important issue for the new president to address in his first term. More than half of respondents surveyed said that reducing costs (67 percent), increasing access (56 percent) and improving quality (57 percent) of health care are issues that are important to them in selecting a president.

“Regardless of which candidate gets elected, consumers agree that the health care system is in major need of change,” said Keckley. “More than one in three respondents (37 percent) graded the system a D or an F and half (51 percent) believe that at least half of all money spent in the U.S. health care system is wasted.”

Additional findings from the survey demonstrate how stretched many households are financially to afford health care. Of respondents who reported delaying or skipping care in the past 12 months, 27 percent said they did so because they could not afford the cost. Nearly half (47 percent) said their household’s spending on health care products and services has increased during the past 12 months and 63 percent said it limits their spending on other essentials.

*The Deloitte Center for Health Solutions is a part of Deloitte LLP. For more information, visit [www.deloitte.com/centerforhealthsolutions](http://www.deloitte.com/centerforhealthsolutions).*

## Benchmark with IMA publications . . .

### IMA’s 2008-2009 Annual Benefits Report and 2008-2009 Annual Compensation Report

Compiled by the Illinois Manufacturers’ Association with assistance from RSM McGladrey, these Reports contain valuable compensation and benefits data specifically relevant to Illinois manufacturers.

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