Thank you for allowing me to testify today about the role small businesses like us play in the economy and the impact of expired tax provisions on manufacturing companies. My name is Todd Kriegel, I am the CEO of Global Precision Parts, Inc. (GPP), a family owned business based in Ohio. I came here today to underscore the importance of small businesses manufacturing in America and call on Congress to make permanent key tax provisions which fuel our economy.

After graduating from Xavier University, I went into banking until I came back to the family business, then known as Acme Machine Automatics, Inc. Even while working for a larger regional bank, I always admired the small businesses to whom I was lending, for their unique ability to control their own destiny. I went back to manufacturing because at the end of the day, you have something to show for it and can say, “As a manufacturing company, we produced that product.”

Following its creation in 1989, GPP expanded through growth and acquisition and we now have metalworking manufacturing facilities in Ottoville and East Liberty, Ohio and Wabash, Indiana. GPP is a privately held Subchapter S Corporation owned by the Kriegel family and as my three children grow, I think about what the future holds for manufacturing and the employees working at our facilities.

We have sixty employees each in Wabash and East Liberty and eighty in Ottoville, manufacturing precision parts for the hydraulics and tube fabrication industries, automotive, light and heavy truck, agriculture and mining. Our industry is certainly starting to see a leveling off in our recovery from the Great Recession of 2008-2009, when our employee numbers were half what they are today. While we are receiving more orders these days, the volume is consistently lower. However, we can succeed and compete with any company around the world, but only if Washington does its job and lets us do ours.

Instability in the tax code prevents manufacturers from planning investment, hiring more workers, and purchasing new equipment, especially for small businesses in industries with razor-thin profit margins. As a former banker, I know the added scrutiny these companies face when financing major equipment and infrastructure investments. Today the lending market is even tighter for manufacturers as bankers try to assess our tax liabilities and downgrade our credit due
to increased potential tax liabilities from expired credits and deductions. In the real world, we cannot simply assume Congress will retroactively extend business investment provisions and spend money we may not have at the end of the tax year.

I am a member of the Precision Machined Products Association (PMPA) whose members flew to Washington this week to personally stress the importance of addressing these expired tax provisions. In preparation for those visits with Senators and Representatives, PMPA conducted a quick survey of its members. The results clearly underline the role small businesses play energizing the economy and the importance of specific tax provisions on manufacturers of our size.

Respondents had an average employee size of 60, quite similar to our facilities in Ohio and Indiana. Most businesses in the precision parts industry have roughly $12-15 million in annual revenues but as this survey shows, they invest heavily in capital equipment purchases, expecting to spend on average $552,000 in 2015. Most machines for our industry start at a quarter million dollars and can exceed $2.5 million. At Global Precision Parts, in order to maintain a competitive edge, we need to continuously upgrade our operation and buy new equipment, leading us to spend roughly two million dollars a year.

Among the tax provisions Congress allowed to expire, Bonus Depreciation is by far the most important to our company and to many other small manufacturers who must continuously invest in their businesses. In fact, some businesses like ours forego Section 179 Equipment Expensing because a single machine can exceed the $500,000 cap and rely on Accelerated or Bonus. In 2014, Bonus saved our company $151,000; money we used to hire more employees and purchase additional equipment. Bankers are very aware of these provisions as well and in recent years, manufacturers would receive notices from lenders to act quickly to finance capital expenditures before key tax provisions expired at the end of the year.

In the precision manufacturing industry, not only is our equipment expensive and heavy, it takes time to place into service, often eight weeks to eighteen months. Congress extending expired investment provisions on December 11 does little for a small business who cannot finance, purchase, and place into service a 10-ton machine by December 31 when the provision expires again.

For a typical PMPA member, the survey showed Bonus Depreciation saved them on average $188,000 with one manufacturing business reporting a $503,000 savings. Half a million dollars is a lot of money for businesses of our size – resources we could use to buy another one or two machines or hire a half a dozen skilled workers with full benefits. There is a misleading impression among some in Washington that Bonus “costs” the federal government money in lost revenue. However, the government does receive the revenue over the life of the equipment but the provision provides smaller companies like ours an immediate discount on the price of a new machine we could not otherwise afford.

Were our three facilities wholly separate and not under the control of a single company, we would also benefit from Section 179, as do many of our PMPA colleagues. The survey showed the typical small business claimed nearly $370,000 in 2014. When Congress fails to extend this
key tax provision, small businesses have a major hole to fill in their budget and will cut back their current year spending on new equipment and often suspend investment for the coming year. Remember, lower machine orders by companies like mine means fewer workers are hired and less tax revenue is collected throughout the supply chain.

Although many PMPA members are contract manufacturers who do not design their own consumer end product, we still benefit greatly from our own Research and Development activities, and even more so from our customers’ R&D efforts. The typical PMPA company claimed roughly $40,000 in 2014 in R&D Credits, with the maximum being just over $100,000. At GPP, last year we claimed $28,000 in federal R&D and saved another $10,000 under the Indiana state R&D credit. Small businesses in particular are increasingly wary of R&D triggered federal and state tax audits and prefer to avoid spending $20,000 on accountant and legal fees to defend a $40,000 claim. However, I believe a permanent enhanced and expanded federal R&D Tax Credit will incentivize more small manufacturers to further engage in developing their own new technologies.

Inside the beltway, you may not feel the ripple effects of your inaction, but in the real world, we certainly do. When we do not know what the future holds, businesses, like investors, spend less, take fewer risks, and reduce or stop hiring all together. As a responsible business owner, I have to find a way to cover that $150,000 gap Congress created for our company if Bonus Depreciation remains expired. Our lenders will recognize we have less cash on hand, artificially increasing the price of a new machine we could have bought.

I cannot underscore enough the importance on small businesses and our economy of these three tax provisions Congress keeps allowing to lapse. Dysfunction in Washington could cost the average small manufacturer $370,000 in Section 179, $188,000 in Bonus Depreciation, and $40,000 in R&D. Who is going to cover this $600,000 tab Congress unnecessarily created? As usual, it is America’s small businesses and their millions of employees who suffer most, not politicians in Washington or the “fat cats” on Wall Street.

The expired tax credits and deductions are only one layer to the complicated relationship small businesses have with the Internal Revenue Code. The vast majority of companies like ours are not C-Corporations but are structured as pass-through businesses, often Subchapter S-Corporations, paying taxes at the higher individual rate. Throughout PMPA, pass-throughs make up two-thirds of our 400-member association; and in the broader economy, they account for over half of all business revenue.

We structured ourselves as an S-Corporation because, as a family owned business, it provides us flexibility in the event that my children decide to become the next generation of manufacturers. Especially as many of the original owners are considering retirement, we can develop critical succession plans that ensure the previous generation still receives some compensation for their contributions while bridging the business to the younger Americans who will serve as the backbone of our industry for years to come. Indeed, we are not alone in recognizing the advantages of a pass-through over C-Corps – the U.S. Census estimates less than six percent of all businesses today are C-Corporations.
Given these statistics on the number of pass-throughs in the country, and the clear fact that the majority of them are small businesses, I am curious why some in Washington are calling for C-Corp only tax reform. If we leave America’s small entrepreneurs behind, big business wins as usual and Congress will only have themselves to blame. We need comprehensive tax reform for all businesses, C-Corp or pass-through, large and small, family owned or publicly traded. Washington must create an environment in which manufacturers cannot only compete globally but can defeat our competition.

This is not about paying less taxes, it is about the government being smarter about who it taxes and how. The top tax rate for pass-throughs is 39.6% and 44% when factoring in health care taxes, higher than the 35% C-Corp rate, which Congress is considering lowering to 25-30%. Some are arguing that lowering the rates for pass-throughs will amount to a tax cut for Wall Street and pharmaceutical giants. I assure you that does not describe us nor do we have plans to reincorporate in Ireland, but do want to grow here in the U.S. if Congress lets us.

GPPs current federal effective tax rate is 39.4%, far higher than our C-Corp counterparts, not to mention the Chinese companies who we really are competing against. In 2008, we had a 28.07% effective federal tax rate with the Alternative Minimum Tax. That 11.33% jump in our tax liability cost us hundreds of thousands of dollars we could have used to hire more workers for the machines we would have purchased. Instead, we sent that money to Washington rather than putting it in workers’ pockets. Yes, I said workers’ because at GPP last year we reinvested 71% of our profits back into the business. When we can leave the money in the business instead of sending it to bureaucrats and politicians, it generates additional payroll and sales tax revenue as we add employees and order new machines.

I believe that small businesses can continue driving the economy and serving as the backbone of our nation. However, Washington’s inaction on comprehensive reform and Congress allowing the continued expiration of key tax provisions creates a globally uncompetitive environment for small businesses manufacturing in America. Absent updating the Code for all companies, Congress must make permanent Bonus Depreciation, Section 179 Equipment Expensing, and the R&D Tax Credit to allow small businesses to invest and plan for the future. Remember, Congressional inaction can cause as much harm as acting and nowhere have those negative effects been felt more than by the small businesses on Main Street.

Thank you for the opportunity to testify before you today on this important issue.