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Tax Reform Is Growing Our Economy Plus Additional Steps Congress Should Take To Improve the Competitiveness of US Manufacturing and Drive Job Growth in the USA.

Written Testimony of Zachary Mottl

Mr. Chairman, Ranking Member Levin, and members of the committee, my name is Zach Mottl. Thank you for having me here today. I am the Chief Alignment Officer for Atlas Tool Works, a fourth-generation, family-owned, small manufacturer located in Lyons, Illinois. Atlas employs around 80 people and produces precision parts and components for many markets including: Aerospace and defense, medical devices, telecom and electronics, and industrial products. My great-grandfather founded Atlas in 1918 and this year we're celebrating 100 years of meeting the needs of American industry and providing good jobs for American workers.

I'm here representing not only my own company but also the more than 750 manufacturers who are members of the Technology and Manufacturing Association (TMA) in Illinois as well as the four million members of the Coalition for a Prosperous America (CPA).

TMA's Illinois manufacturers, including many in Congressman Roskam's district, are proud to provide good-paying, skilled jobs for roughly 30,000 individuals in the greater Chicago metropolitan area. These TMA members are small and medium-sized supply chain companies that have survived NAFTA, predatory trade from China, and the downturn of the "Great Recession." They are among the most productive in the world, and have worked hard to make their operations as lean and efficient as possible. Thanks to innovation, modernization, and cost controls, TMA companies like Atlas now produce more product than 20 years ago, and are poised to take advantage of new reshoring opportunities.

CPA's farmers, ranchers, labor unions, and manufacturers are an alliance of producers across America who believe that the trade policies of the past several decades are not working. Our members want to see the US find a better way to engage with the world—a world that has become full of state-run competitors whose mercantilist policies are perverting the very mechanisms—including free, floating market-based currencies—that are supposed to prevent trade cheating.

In short, CPA members are calling for bold new ideas that benefit American producers and create jobs in the USA.

The tax package passed last December was very helpful for companies like Atlas and my families' related companies, Accushim, Abet Industries, and Two of Us LLC. Congress did its job and provided much needed improvements to our tax code. Thank you.

So far, the needle appears to be moving in a positive direction. I would say that, thanks to the tax package, there is a perception that the United States is once again "open for business." Perception drives reality, so if tax reform did nothing more than improve attitudes about business in America, we have already won. However, tax reform did much more than that. We have to remember that most small businesses are part of the supply chain for larger businesses. Anything Congress does to drive demand in the domestic supply chain is important and helpful.

As a whole, my business entities will see a tax decrease. However, it's more complex than that. For Abet, a C-corp, whose sales are less than $1 million annually, but profitable—with some Net Operating Losses (NOL's) on the books from prior years—we will see no tax change. If we didn't have the NOL's on the books, or if they were from restricted years, we would actually see a slight tax increase. That is primarily because of the repeal of the Domestic Production Activities Deduction (DPAD) in relation to the size of the business and what we do.

For Atlas, a C-corp whose sales are close to $9 million and was profitable last year but also has some NOL's on the books, we would see no tax change thanks to those NOL's. However, even with the DPAD repeal and if we had no NOL's or if they were exhausted, we expect to realize a significant tax decrease in the future. Atlas, because it's our bigger C-corp, is where we expect to realize much of the benefit from the new tax law, assuming we are able to remain profitable. With continued demand growth, we will be.

For Accushim, an S-Corp that produces and distributes precision shims and alignment equipment, and Two of Us LLC, our families' real estate holding company, both operate as pass-through businesses. Due to the timing of some significant, one-time charges related to expanding the business, Accushim generated a small loss in 2017, but we do expect significant profits in 2018 and beyond. That is when the benefits of the new tax law on pass-through income will start to be realized at Accushim. As far as the real estate company, we are still a bit unsure because it all comes down to Qualified Business Income Deduction (QBI) rules. The simplest way I can say it is that if QBI rules end up being the same or similar to what came before, we expect some tax savings at the real estate holding company as well.

Ambiguity is an important point. Many large businesses have fleets of accountants and lawyers to dissect the tax law and figure out how it applies to them. They have a pretty good idea of the law's benefits. However, small and mid-sized businesses who do not have that depth of tax talent on their bench, and often rely on outside accountants to help, probably have not yet figured out how the tax law will impact them. Many of the accountants I spoke with do not know exactly how the tax law will impact their clients. That's because there has been a lack of guidance from the IRS thus far. So business owners, who are tax-risk averse, are probably not realizing the full benefits of the tax law. Until the rules and guidance are clear from the IRS, they will not take risks on deductions or other things that might help them for fear of running afoul of the IRS.

One extremely positive change that we are all clear on is accelerated expensing for capital investments. In late December of last year, my company spent nearly a quarter million dollars on new inspection equipment and a precision jig grinder. Early in this year, we invested in a new compressor, a significant cost but necessary as the heartbeat of our factory because it is much more reliable and energy-efficient. The 100 percent expensing of these investments made the difference for us to buying now versus waiting longer.

Moreover, the biggest news that I want to share with you is that we're seeing increased demand for our products, many of which go into capital projects at large companies. As we start Q2 in 2018, Atlas has orders on our books that already total nearly all of 2017 sales. If this trend keeps up, we could double our revenues in the next year or two. This leads me to believe that reductions in the corporate tax rate are helping larger firms. And if they're doing better, and that drives increased demand, smaller companies like mine will benefit.

It's critical that we consider the corporate food-chain, otherwise known as the "supply chain." Most small businesses are dependent on a few large companies for 80 percent of their revenues and profits. It's the 80/20 rule. If large companies increase spending with their smaller suppliers, and those smaller suppliers are in the USA, we will see amazing things happen. However, if the cash windfall of a corporate tax cut drives investment in multinational corporations' foreign supply chains, and all of their stock buybacks increase the value for foreign shareholders, the benefits of tax reform are not guaranteed to go fully to Americans' paychecks. When this happens, it can encourage arbitrage, not American productivity.

That brings me to my next point: opportunities for improvement. As 2018 progresses, we're likely to see further benefits from tax reform, including increased capital spending. This matters greatly because our overseas competitors are doing a lot to attract supply chains to their countries. It's critical that our tax system be fair, modern, have a broad base, and incentivize the right outcomes, lest our investments in growth fail to benefit Main Street America.

While tax reform is helping to drive increased demand, Congress has a good opportunity to do more. Let's keep in mind that we urgently need to grow jobs for Americans of all skills, inclinations, and abilities. And, at the ground level, it's clear that higher education alone isn't the road to better jobs. Yes, it's important. But I think we have oversold that promise, and many are now confronting mountains of student debt. It's a silent crisis. I believe that good manufacturing jobs and skilled trades are critical for resuscitating our middle class. Those types of jobs exist at smaller companies like mine, who in turn, depend on large companies to include us in their supply chains.

Businesses like mine and the workers we employ in the USA would benefit even more if future tax reform prioritized destination-based taxation and territoriality more fully. A truly "America First" tax system would shift further toward a border adjustable tax—which would spur exports and increase the domestic market share for US-based producers. Here are two important suggestions on that.

First, a US goods and services tax should be considered to finance reduction or elimination of payroll taxes—the benefits of which would go immediately into the pocket of every American and every business. No ambiguity there. This could be done in a revenue-neutral and distribution-neutral manner to increase exports and lower the cost of labor. Most foreign countries use a consumption tax system—in the form of a "Value Added Tax" or "Goods and Services Tax"—to impose a de facto tariff on US exports. Foreign VATs average 17 percent globally and are added to tariffs that companies like mine face when we export.

The pre-TCJA tax system had incentivized corporate inversions, profit shifting, recognition deferral, and other notorious ills. It relied upon separate accounting of profits on a location by location basis so that multinational corporations (MNCs) could strategically allocate earnings and costs in each location in which they operate. Though our former system purported to tax multinational's worldwide income, profit shifting allowed them to evade taxation on the basis of their net income "landed" rather than where their gross income originated. The result was tremendous incentives to "earn"—to declare—income in low-tax countries.

The TCJA made progress toward fixing these problems. But the GILTI, FDII, and BEAT provisions are still complex and imperfect. Taxation by origin of income can still be manipulated. Tax haven shopping can still occur.

In addition, my company would benefit from taxation of corporate profits based upon destination of sale through a sales factor apportionment (SFA) system. The Tax Cuts and Jobs Act made strides toward territoriality, elimination of offshoring incentives, and addressing tax haven abuse. But sales factor apportionment (SFA) is, in my view, the best way to tax all firms—domestic, multinational, and foreign—fairly in an integrated world economy.

Overall, I want to again stress the importance of the US supply chain. For most of my company's 100 years in business, the telecom industry was our biggest market and customer base. When the telecom industry moved its manufacturing to Asia around the year 2000, we had to lay off people and reinvent our company. We survived by the skin of our teeth—but many other companies did not survive. The telecom supply chain was not only critical for the civilian economy, but remains critical for our national security, too. And since wireless communications will be critical for the next generation of automobiles, it's critical for the car industry too. Industries like telecom, technology, and automotive are some of the most important growth industries of the future. There is no reason why all the best ideas for microchips should come out of California—yet all those chips should then be made in Taiwan and Korea. Contrary to many people's assumptions, labor costs are often a small fraction of the cost of manufacturing high-volume and high-tech products like chips and telecom equipment and are NOT the reason why these jobs moved overseas. Congress should be working on ways to bring these companies, supply chains, and jobs back—both for civilian prosperity and national security reasons.

In summary, my company is one of many thousands of smaller USA supply-chain firms working hard to stay in business and to employ skilled workers. We create the majority of jobs in the US that provide the real wealth of the nation. These are the jobs that sustain your constituents. My family and I put our time and treasure into our businesses, and we care about our workers and the values that our company promotes. Small manufacturers work to be inclusive of everyone and we try to invest our money in training the next generation for a better tomorrow. With your help, we can build on the success of the Tax Cuts and Jobs Act and bring exponential growth and wealth home to American businesses and the fine American people they employ.

Thank you for the opportunity to provide this input. I look forward to your questions.