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"How Tax Reform is Helping Small Businesses"

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Chairman Buchanan, Ranking Member Doggett, and members of the Committee, thank you for this opportunity to testify on "How Tax Reform is Helping Small Businesses." My name is Phil Homan, and I am President and CEO of Loram Maintenance of Way, Inc.

Our Company

Loram is a privately owned company with headquarters in Hamel, Minnesota. In business for just over 60 years, Loram is recognized in the railroad industry for its innovative track inspection technologies, highly productive and reliable heavy maintenance equipment and a reputation for customer focused services. Our mission is to deliver advanced equipment, innovative solutions and unrivaled customer service in a safe and reliable manner to maintain and improve railway infrastructure. The ability of our railway customers to continue investing in their infrastructure is essential to our future success. A highly efficient and safe railway system is a vital part of our nation's economy and American industries global competitiveness. Loram is proud to play a role in that.

Loram employs approximately 1,200 people with the majority of those being heavy equipment operators and maintainers working on railway lines across North America. We have manufacturing operations and corporate offices in Minnesota, Illinois and Texas. Loram has over 100 pieces of equipment in our North American contracting fleet and we have sold over 60 machines into 11 countries in the past 10 years. We have subsidiaries in Canada, Mexico, the U.K., Australia and Brazil to support our international customer base.

With the exception of the Chinese market, which I will explain later, all our products and equipment are manufactured in the United States. Although we are relatively small in size, we are unique in that there are a limited number of companies globally that produce our kind of specialized railway equipment. We, therefore, compete on a global basis and are reliant on international activities to support future growth.

Our global competition comes primarily from well-established European companies with a much longer history in the railway industry and state owned enterprises supporting their own national rail systems in China. Our future growth prospects have always been effected by our ability to compete against these organizations who, in most cases, are well supported by government backed regulatory schemes that favor local industries and local factories as well as favorable treatment of goods and services exported to other countries. In the case of China, we were required to enter technology transfer agreements and co-produce our equipment in China for sales to that market.

Our ability to effectively compete on a global scale is significantly affected by these type of headwinds; however, when compounded with higher corporate tax rates than any of our competitors the systemic disadvantages become a daunting challenge. The recently enacted tax reforms have somewhat leveled the playing field and I am confident that we will be able to translate this into future growth opportunities for our company, innovations for our customers and prosperity for our employees.

Direct Effects of Tax Reform

More specifically, I wanted you to know that with the passing of the Tax Cuts and Jobs Act of 2017 Loram embarked on a strategy of reinvesting those savings in three key areas. First and foremost our people, secondly on equipment and technology and lastly on enhancing our global competitiveness.

Investment in people:

- Loram increased the permanent wage range for our field employees by $1 per hour which represents an increase of over seven percent.
- Loram funded a $1,500 bonus to all non-executive employees.

- Loram is developing and funding new training programs for employees intended to improve safety, enhance technical skills, accelerate product development innovations, and improve project management.

Investment in equipment and technology:

- Loram dedicated funding for new capital equipment that will increase productivity for our customers, improve safety for our employees and grow our services revenue.
- Loram will increase funding for research and development focused on new product development to enable future growth.

Investments in global competitiveness:

- The tax rate reduction allows us to adjust international pricing practices as well as our manufacturing and supply chain strategies. Lowering the cost of U.S. production for Loram as well as our entire supply chain will lower our costs and improve our competitiveness.
- Loram is currently competing for several significant international orders that, if successful, would result in new subsidiaries and we are now more competitive than ever as a result of this legislation. If successful, Loram will increase U.S. production to fulfill these orders.

Indirect Effects of Tax Reform

Reducing the U.S. corporate tax rate to 21% and eliminating U.S. tax incurred when future foreign earnings are repatriated will dramatically encourage new U.S. investment. This is not just a benefit for very large multinational corporations.

Loram Incentives for U.S. Investment:

- Loram has Canadian shareholders and a Canadian subsidiary. Prior to tax reform Loram was encouraged to optimize our corporate structure for the benefit of lower Canadian corporate taxes. As a result of tax reform our shareholders will now be incentivized to reinvest more of those profits and capital in the U.S. versus past practice of returning a portion of those profits back to Canada.
- Loram's future profits from our foreign subsidiaries will be repatriated tax-free and utilized for U.S. expansion, investment and acquisitions.

Considerations for Future Legislation

With respect to prospective tax reform impacts or issues, Loram has concerns regarding the potential sunset or transitional aspects for the 100% expensing of capital investments and the capitalization of Research and Development credit expenditures.

Capital Investments - 100% Expensing:

- Currently enacted reform sunsets this benefit after 5 years.
- Loram's business is extremely capital intensive and requires complex long range planning for two year equipment build cycles. Loram and its customers invest in assets with over 30 year life cycles so the uncertainty of future tax regimens has a negative effect on capital planning and investing. It is critical that we have certainty with respect to the 100% expensing and we strongly support making this corporate tax benefit permanent by removing the 5 year term.

Research and Development (R&D) credit – Capitalization:

- Currently enacted reform requires that qualified research expenditures be capitalized and amortized starting in 2022.
- Loram's technically advanced equipment requires heavy investment in engineering positions, research and experimentation to continually improve its product lines and capabilities to meet our customer's demands. The U.S. remains globally competitive by using the R&D credit as an incentive for companies like Loram to perform their research and development in the US creating high paying

jobs. However, the requirement to capitalize and amortize the qualified research expenditures will diminish the intended benefits of the current R&D credit. Loram strongly encourages that the Tax Policy Subcommittee consider eliminating the consequences U.S. corporations will suffer if capitalization is required beginning in 2022.

Conclusion

Loram derives the lion's share of its business from U.S. based Railroads. By their very nature, these customers are almost exclusively invested in the U.S. economy and stand to gain in a meaningful way from a growing U.S. economy. We believe the tax reform legislation will have a significant positive impact on their business and we are developing plans to keep pace with that growth.

The fifteen point reduction in our effective tax rate, the ability to repatriate foreign retained earnings at a lower tax rate and the ability to immediately expense capital builds has allowed Loram to make significant investments in our people, our equipment and technology and improve our competitiveness on the global stage. It will also encourage increased capital investment in U.S. assets and infrastructure.

While companies like Loram will continue to face a host of other challenges, the recently enacted tax reform has been, and will continue to be, a tremendous help to our business and employees. I for one am excited to see how this historic and fundamental change in our corporate tax structure will impact the U.S. economy and our global competitiveness.

Thank you again for this opportunity to testify, and I look forward to any questions you may have.