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U.S. House Committee on Ways and Means
Field Hearing on The Success of Pro-Growth, Pro-Worker Tax Policy in the American Midwest
August 16, 2024

Good morning Chairman Smith, Ranking Member Neal and members of the committee. Thank you for the opportunity to appear before you today and for holding this important hearing in Des Moines, Iowa during a very special time of year for our community.

My name is Steve Sukup, and I am President and CEO of Sukup Manufacturing, located right up the road in Sheffield, Iowa. Sukup Manufacturing is the largest family-owned and operated manufacturer of grain storage, drying and handling equipment in the world. Our company is in Representative Feenstra's district, and I would like to thank him for being here today and for the dedication he has shown to Sukup's employees.

Sukup Manufacturing was started by my parents, Eugene and Mary Sukup, in 1963. My father was a young farmer at the time, and he saw that local farmers needed access to a better grain bin at a reasonable price. He founded Sukup Manufacturing to meet that need and passed away in 2018. Today, my brother Charles and I are proud to carry on our father's legacy alongside five members of the 3rd generation who work in the company and a 4th generation who loves to visit.

Today's hearing is special because it is being held during an exciting time for those of us from the Hawkeye State: the Iowa State Fair. The fair has a long, storied history. The first Iowa State Fair was held in Fairfield, Iowa in 1854, and has been in Des Moines since 1886. As the saying goes: nothing compares to the Iowa State Fair.

The U.S. tax code has a long, storied history as well—though its impact extends far beyond the state of Iowa. Since I was invited to this hearing, I've been thinking about what our tax code looked like when the fair first opened its doors 170 years ago. I've learned that most of the tax code we know today didn't exist in the 1850s. The first individual income tax in the United States was implemented in 1862 by President Lincoln to raise revenue to fund the Civil War and the first corporate income tax didn't come around until 1909. From 1868 until the adoption of the Sixteenth Amendment in 1913, 90% of all federal revenue came from excise taxes on liquor, beer, wine and tobacco.[1]

Obviously, our tax code looks far different in 2024 than it did in 1854. Similar to how the state fair has grown over the years, our tax code has become exponentially larger – but, in the case of our tax code, it has evolved into a complex and unwieldy behemoth. The tax code is thousands of pages long and touches almost every aspect of Americans' daily lives. As a manufacturer whose business and financial decisions are impacted by tax policies established by Congress, I can tell you that small and medium-sized companies across the country either thrive or fail due in no small part to policymakers' tax decisions.

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[1] Internal Revenue Service, "Historical Highlights of the IRS". Available at: https://www.irs.gov/newsroom/historical-highlights-of-the-irs

Prior to tax reform in 2017, manufacturing production wages were on the decline, and our tax code had not been substantially updated in almost three decades. Manufacturers like Sukup were struggling under a high tax burden that impacted how effectively we could conduct business here at home and limited our competitiveness on the world stage. Unequivocally, tax reform was a much needed shot in the arm for the manufacturing sector.

Thanks to the pro-growth provisions included in the 2017 tax law—including and especially the 21% corporate income tax rate—Sukup was able to grow our workforce by a third, bringing on roughly 200 additional employees.

Others in our sector experienced similar impacts. The manufacturing industry made huge strides in the years following tax reform:

- In 2018, manufacturers added 263,000 new jobs, the best year for job creation in manufacturing in 21 years.[2]
- In 2018, manufacturing wages increased 3% and continued going up—by 2.8% in 2019 and by 3% in 2020. Those were the fastest rates of annual growth since 2003.[3]
- Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively.[4]
- Overall, manufacturing production grew 2.7% in 2018, with December 2018 being the best month for manufacturing output since May 2008.[5]

Unfortunately, key tax reform provisions impacting research, interest loans and capital equipment purchases began expiring in 2022, and more devastating tax increases are on the way next year. I want to thank every member of this committee who supported the Tax Relief for American Families and Workers Act, which would have restored these expired provisions. I urge you to start preparing to address the expirations that are scheduled for 2025, which could harm manufacturing growth here in Iowa and across the country. Manufacturers are relying on the Ways and Means Committee to be leaders and fight to for these critical tax policies which promote consistency for small manufacturers and growth for the American economy.

I. Harmful Tax Reform Expirations

Crucial tax reform provisions have already begun to expire, making it more difficult and expensive for us to conduct innovative research and development and purchase much-needed capital equipment. I encourage the Ways and Means Committee to build on your work in passing the Tax Relief for American Families and Workers Act and ensure that Congress restores immediate R&D expensing, 100% accelerated depreciation and a pro-growth interest deductibility standard.

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[2] Bureau of Labor Statistics, Current Employment Statistics, Manufacturing Employment, Seasonally Adjusted. *Available at* https://www.bls.gov/ces/data/

[3] Bureau of Labor Statistics, Current Employment Statistics, Average Hourly Earnings for Production and Nonsupervisory Employees, Manufacturing, Seasonally Adjusted. *Available at* https://www.bls.gov/ces/data/

[4] U.S. Census Bureau, Annual Survey of Capital Expenditures, Table 2A, Manufacturing. *Available at* https://www.census.gov/data/tables/2019/econ/aces/2019-aces-summary.html

[5] Federal Reserve Board of Governors, Industrial Production, Manufacturing, Seasonally Adjusted. *Available at:* https://www.federalreserve.gov/releases/g17/Current/default.html

Research and Development

The key to Sukup's success has been not only our culture but our dedication to innovation and pushing what is possible in our industry. Creating new technology and innovative products has been a huge part of our competitive edge - Sukup has held more than 100 U.S. patents, and continues finding ways to make grain storage, drying and handling more safe, profitable and efficient for farmers and the agricultural industry. We do this by making substantial investments in research and development, which allowed Sukup to become an innovation leader in the grain bin industry. In the years following tax reform, Sukup was able to increase our investment in research and development by several million dollars, with 95% of this investment going towards engineering and staff wages. We attracted top talent to Iowa thanks to these investments, and those who joined our team have become a part of our community.

I am also proud that our R&D investments have had an impact far beyond our business. After the devastating earthquake in Haiti in January 2010, our safety director saw an opportunity to provide relief and approached me with an idea to help those in need. I said, "build a prototype", and we created the Safe T Home to shelter those who had been displaced or had lost their home. We have built and deployed these units in the United States, Haiti, Peru, Kenya, Uganda, Liberia and Ivory Coast.

Unfortunately, our ability to conduct R&D has been harmed by the expiration of immediate R&D expensing. Allowing companies like Sukup to deduct R&D expenses in the year incurred had been part of the tax code for more than 70 years, but since 2022 we have had to amortize our R&D expenses over five years. This affects manufacturers everywhere and has a dramatic impact on the U.S. economy as the private sector accounts for more than 75% of total R&D spending,[6] with small businesses accounting for approximately $90 billion of all private-sector R&D investments.[7]

This change isn't just an innovation problem; it also affects the number of individuals we can employ. In short, not allowing manufacturers to immediately deduct R&D expenses directly translates to fewer quality jobs in the manufacturing sector. I would like to thank Rep. Estes and Rep. Larson, who both sit on this committee, for their leadership on the American Innovation and R&D Competitiveness Act, which would make the immediate expensing of R&D expenses permanent.

Accelerated Depreciation

It is no secret that the manufacturing sector is capital-intensive, which makes accelerated depreciation of capital purchases a necessity for our growth. According to the Joint Committee

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[6] National Center for Science and Engineering Statistics, National Science Foundation, National Patterns of R&D Resources: 2020-21 Data Update, NSF 23-321 (Jan. 4, 2023), *Available at* https://ncses.nsf.gov/pubs/nsf23321.

[7] National Center for Science and Engineering Statistics, National Science Foundation, InfoBrief, NSF 22-343 (Oct. 4, 2022), *Available at* https://ncses.nsf.gov/pubs/nsf22343 and InfoBrief, NSF 23-305 (Dec. 14, 2022), *Available at* https://ncses.nsf.gov/pubs/nsf23305.

on Taxation,[8] the manufacturing sector, and specifically small manufacturers, utilize accelerated depreciation more than any other sector. In the years following the 2017 tax law, Sukup went from roughly $5 million in capital spending annually to almost $15 million thanks to 100% accelerated depreciation.

In 2023, 100% accelerated depreciation began phasing out, and it is scheduled to fully expire in 2027. This is already impacting the manufacturing industry, as full expensing not only allows us to purchase new equipment to scale our operations, but ensures our employees are operating efficiently and as safely as possible with reliable equipment. Sukup has already had to make difficult decisions regarding which equipment we should purchase due to this policy beginning to sunset. I want to thank Rep. Arrington for his leadership on the Accelerate Long-term Investment Growth Now (ALIGN) Act, which would make full expensing for capital equipment purchases a permanent part of our tax code. It is imperative to the growth of manufacturing in the United States that Congress restores 100% accelerated depreciation.

It is also critical for Congress to preserve Section 179, which is an immediate expense deduction that small manufacturers can take for purchases of depreciable business equipment instead of capitalizing and depreciating the asset over a period of years. This tax policy, along with full expensing, ensures manufacturers can make the investments necessary to continue to grow and compete.

Pro-Growth Interest Deductibility

Many manufacturers borrow funds to finance long-term investments in equipment and facilities, which in turn help create jobs and enable manufacturers to compete effectively in today's global economy. Tax reform allowed manufacturers to deduct interest on business loans, up to a cap: 30% of a business's earnings before interest, tax, depreciation and amortization (EBITDA). But this pro-growth EBITDA standard expired in 2022, and the cap is now limited to 30% of a business's earnings before interest and tax (EBIT). This change has been damaging to Sukup's supply chain, as our partners at all levels often use debt financing for investments, including purchasing our products.

By excluding depreciation and amortization expenses from the interest deduction calculation, the EBIT standard makes debt financing more expensive—punishing manufacturers with significant investments in depreciable assets like equipment and machinery as well as valuable intellectual property subject to amortization. Among the 35 countries that have a rule that restricts interest deductibility based on a ratio of interest expense to some measure of earnings, the United States is the only country that has an EBIT-based rule. Increasing the cost of debt financing makes it more costly for manufacturers to invest in growth and expansion.

Policymakers should not impose limitations that inhibit manufacturers ability to finance investments. I want to thank Reps. Adrian Smith and Kevin Hern for their sponsorship of the American Investment in Manufacturing Act, which would make permanent the EBITDA standard for interest deductibility. Congress should support manufacturers' efforts to get job-

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[8] Joint Committee on Taxation, "Tax Incentives for Domestic Manufacturing," JCX-15-21 (March 2021), *Available at* https://www.jct.gov/publications/2021/jcx-15-21/.

creating projects off the ground by returning the U.S. to an EBITDA standard for interest deductibility.

II. More Devastating Changes on the Way

The expiration of immediate R&D expensing, enhanced interest deductibility and 100% accelerated depreciation are just the tip of the iceberg when it comes to harmful tax increases manufacturers are facing. At the end of 2025, our industry faces even more challenges when other key provisions of the Tax Cuts and Jobs Act are set to expire. Congress must act before the end of next year to prevent these tax increases from chilling job creation, wage growth and the investments we make in our communities.

Corporate Tax Rate

Sukup is organized as a C-corporation that is subject to the corporate tax rate. The reduction of the United States' corporate tax rate from 35% to 21% was one of the most consequential aspects of tax reform, allowing manufacturers like Sukup to invest like never before. The competitive corporate rate reduced our tax burden, directly translating to an increase in investments, job creation, wage growth, economic expansion and a stronger supply chain. As I mentioned earlier, we took these savings and grew our workforce, creating hundreds of new jobs in our community.

Thankfully, the 21% corporate rate is not scheduled to expire, though some policymakers have proposed increasing the rate next year. President Biden's FY2025 budget proposal includes a 28% corporate rate, which would again subject manufacturers in the U.S. to one of the highest tax rates among our peers in the OECD. [9]

Manufacturers throughout the country are calling on Congress to preserve tax reform in its entirety—including the 21% corporate rate. Maintaining a competitive corporate rate will enable manufacturers to continue leading on the world stage while driving innovation and job creation here at home.

Estate Tax

Sukup is a multi-generational, family-owned manufacturer. I'm proud that my daughter, Emily Schmitt, and her husband, along with three other family members, are involved with the company. However, there is a tax policy change on the horizon that makes it harder for family-owned manufacturers to transfer their business to a loved one without facing a large tax bill in the process. At the end of next year, the exemption level that protects family-owned businesses' assets from the estate tax will be cut in half.

Manufacturers believe that the U.S. tax code should protect and promote the 90% of American businesses that are family-owned. Unfortunately, the estate tax unfairly punishes families during one of the most difficult times in their lives.

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[9] OECD Tax Database. *Available at*: https://www.oecd.org/tax/tax-policy/tax-database/

At the end of 2025, more of our assets will be subject to taxation, compounding the estate tax's impact on manufacturers. The expiration of tax reform's increase in the estate tax exemption threshold will have a disproportionate impact on family-owned manufacturers because our companies consist largely of illiquid assets that would need to be sold or leveraged to satisfy the tax burden. Congress must act before the end of next year to prevent the scheduled change in the estate tax exemption level—or, even better, to repeal the estate tax and protect family-owned manufacturers from facing this damaging tax at an extremely difficult time for families. I want to thank Rep. Feenstra for his leadership on the Death Tax Repeal Act, which would permanently repeal this harmful tax policy.

Further, Congress should fully preserve stepped-up basis, which prevents a business owner's heirs from being forced to pay a capital gains tax on the asset appreciation that occurred during the owner's lifetime.

Pass-Through Deduction and Individual Income Rates

Small and medium-sized manufacturers, many of which are organized as pass-through entities, are a crucial part of the manufacturing supply chain. Today, more than 96% of businesses in America are organized as pass-throughs.[10] These companies employ millions of Americans and are a vital economic engine for local communities across the country. Many of Sukup's supply chain partners are organized as pass-throughs.

Tax reform created a 20% deduction to allow these manufacturers to invest more of their earnings back into productive, growth-focused activity. Tax reform also lowered the top individual income tax rate, at which most pass-through manufacturers pay tax, from 39.6% to 37%. The lower tax burden from the pass-through deduction and the reduced individual tax rate provides pass-through manufacturers with additional capital to hire workers, increase wages and expand operations. Currently, both the pass-through deduction and the 37% tax rate are set to expire at the end of 2025.

While Sukup is organized as a C-corporation, many of our partners in our supply chain utilize the 20% pass-through deduction and pay tax at the individual rate. Their success leads to our success, so if these important provisions are not preserved then Sukup and other small C-corporations like us will certainly feel the impact. I want to thank Rep. Smucker for his leadership on the Main Street Tax Certainty Act, which would make the pass-through deduction permanent. Next year, Congress should work to protect manufacturers of all types—including both C-corporations and pass-throughs—from devastating tax increases.

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Thank you for the opportunity to appear before you today. Our company and community benefited greatly from tax reform, and now we are depending on you to preserve these policies. Congress must act to protect the people who make things in America from devastating tax

[10] Congressional Research Service, "Section 199A Deduction for Pass-Through Business Income: An Overview" (March 2024). *Available at:* https://www.everycrsreport.com/files/2024-03-22_IF11122_827ba9d5373fd4f44d9054bfb20376459d05e20b.pdf

increases. I hope you have seen the impact that a strong tax code has on folks here in Iowa, and I sincerely hope you can do what is right—and necessary—to help us keep working toward a better tomorrow.