Testimony of Courtney Silver
President and Owner of Ketchie, Inc.
U.S. House of Representatives
Committee on Ways and Means
"The Need to Make Permanent the Trump Tax Cuts for Working Families"
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Chairman Smith, Ranking Member Neal and distinguished members of the committee, thank you for holding today's important hearing focused on preserving the landmark, transformational Tax Cuts and Jobs Act.

My name is Courtney Silver, and I am president and owner of Ketchie, Inc., located in Concord, North Carolina. Ketchie is a third-generation, full-service precision machine shop that was established in 1947. We provide complex parts for large manufacturers across the country, ranging from the railroad industry to industrial clothing production machines to parts for motors used by the U.S. Navy and mining industry. Our mission is to support the entire U.S. manufacturing supply chain by delivering competitively priced, high-quality machined parts in a timely matter. We invest in machining equipment, technology, people and processes so that our customers have confidence in their supply chain and can focus on what they do best. Most importantly, we provide jobs to our local community and invest in the next generation of manufacturing workers in North Carolina. I know I am bias, but I truly believe there is no better way to serve humanity than through a small manufacturing business.

Today marks the beginning of a historic year for this committee. The looming expiration of crucial pro-manufacturing provisions of the Tax Cuts and Jobs Act hangs over our industry—and Congress has an opportunity to rise to this challenge by providing certainty to manufacturers and a competitive tax code for the American economy.

Congress and President Trump delivered on years of promises when they passed tax reform in 2017. In the years leading up to the TCJA, there was a bipartisan agreement that our tax code was broken. It had been decades since Congress had truly reformed vital provisions impacting families and businesses—and America's tax code had fallen behind on the world stage as a result. Investing and creating jobs in America was more expensive and less competitive than elsewhere in the world. But in this very room, members on both sides of the aisle worked together to solve the problem. You held dozens of hearings, created bipartisan working groups and accepted thousands of public comments on what the next generation of the tax code should look like. Policy solutions with strong bipartisan support—such as the need to lower our corporate tax rate, ensure fair treatment for small businesses, provide relief to families and update our international tax system—became the bedrock of what would become the Tax Cuts and Jobs Act.

Manufacturers spent years calling for Congress to fix our outdated tax code: our industry was facing significant headwinds, and we said that if Congress could give us the economic tools required to right the ship, we would do so. I am proud to say that manufacturers across the country kept our promises. In 2018, the year after tax reform was signed into law, manufacturing experienced the best year for job creation in 21 years and the best year for wage growth in 15 years. Manufacturers used the pro-growth provisions from tax reform to grow our businesses, purchase new capital equipment, create jobs, add new benefits for employees and invest in our communities. The evidence is clear: when manufacturing grows, the economy grows.

This was especially true for Ketchie. After tax reform was signed into law, we experienced our best year in Ketchie's seven-decade history. In 2018 and 2019, we invested more than $1 million into new equipment, which allowed us to keep up with the surge of demand from our customers in the railroad, heavy machinery and road construction equipment industries—who were likewise experiencing record years thanks to tax reform. We were able to expand our shop floor workforce by 20%, providing well-paying and fulfilling jobs to members of our community.

Manufacturers know that the best path to sustained success is to use your profits productively by pouring them back into your team. Ketchie made major capital investments using our savings from tax reform, such as new machining equipment and technology, advanced robotics, tooling, fixtures, HVAC systems for our facilities and new security and safety systems for our team members. Additionally, we were able to provide 100% of our team members, no matter how long they had been with the company, with pay raises and quarterly bonuses. We also expanded our team members' benefits, including enhanced 401(k) matching. Small and medium-sized manufacturers operate on extremely slim margins, so all of these changes—higher wages, investments, enhanced benefits and more—were thanks to tax reform. The TCJA also allowed Ketchie to have the cash flow and liquidity necessary to survive the unexpected years resulting from the pandemic.

Tax reform has also helped Ketchie give back to our community as we work to build the next generation of North Carolina manufacturers. In 2023, I created "Opportunity Knocks," an internship program for high school students that allows them to shadow experienced machinists in our factory while earning school credit. The local high school we partnered with consists of 70% minority students, and almost 100% come from economically disadvantaged situations. I would not have been able to establish this program or invest in the machinery and the team members necessary to make it a success without tax reform. By shadowing at Ketchie, students are learning valuable trade skills while also preparing for careers that will bring them fulfillment and pride. I am incredibly proud of what these students are accomplishing on a day-to-day basis—the benefits of the program are immediate and noticeable in these young adults. I have also loved getting to know them and learn about their lives and passions; in fact, one of our apprentices invited my family and members of the Ketchie team to his sister's quinceañera at the end of last year, which was a very special memory for all of us.

Congress now has the opportunity to support more stories like Ketchie's. As we are all well aware, critical tax reform provisions have begun to sunset, and more are set to expire at the end of 2025—putting our progress since 2017 at risk. I want to thank every member of this committee who voted to advance the *Tax Relief for American Families and Workers Act* almost one year ago to the day. That bill would have restored three incentives for innovation and investment: the ability to immediately deduct R&D expenses, enhanced interest deductibility on business loans and the ability to deduct the cost of capital investments in the year acquired. Unfortunately, that bill didn't make it over the finish line in the Senate—meaning crucial pro-growth policies remain lapsed. Making matters worse, more detrimental changes are on the way, including the expiration of the 20% pass-through deduction, an increase in individual income taxes, a reduction of the estate tax exemption threshold and changes to tax reform's international tax system.

These changes will increase costs and lead to greater uncertainty for manufacturers of all sizes. Chairman Smith has often talked about the need for certainty in our tax code, and I could not agree more. Manufacturers—and especially small manufacturers—face significant uncertainty on both the revenue and expense side of the equation. In recent memory, Ketchie has been forced to address increased costs arising from:

- A 7% increase in property and liability insurance;
- Increased expenses for items like coolant, tooling and travel;
- Recovering supply chains due to inflation and the pandemic; and
- Increased training expenses, including the cost of machinery and practice materials needed to train the next generation of manufacturers.

This last one is especially heartbreaking, as Ketchie is trying to play the long game and train those in the North Carolina community who want to experience the rewarding work and fulfilling careers that come with being part of the manufacturing workforce.

As I mentioned earlier, the members of this committee have a great opportunity ahead of them. The U.S. tax code impacts every single American. Congress should preserve the Tax Cuts and Jobs Act, ensuring that tax policy supports families and businesses instead of allowing their tax bills to rise at the end of this year. Extending tax reform will encourage increased investment, support job creation and provide much-needed certainty that we simply don't have right now with such significant tax increases hanging over our heads. More broadly, a stable, pro-growth tax code would ensure that manufacturers of all sizes—from start-ups and family-owned businesses to Fortune 500 companies and global leaders—have the tools we need to drive America's economy, both here at home and on the world stage, for decades to come. Simply put, the time is now for Congress to preserve the Tax Cuts and Jobs Act's pro-manufacturing reforms.

Economic Impact of the Expiration of Pro-Manufacturing Tax Policies

I am the immediate past chair of the National Association of Manufacturers' Small and Medium Manufacturers Group. Today, the NAM is releasing a new study showing the impact on the American economy and workers if Congress does not extend the Tax Cuts and Jobs Act.

The study examines the economic consequences of the expiration of the TCJA's pro-manufacturing provisions. Unsurprisingly, the economic fallout from the loss of these provisions is staggering. If Congress fails to act, **5.9 million jobs**, **$540 billion in employee compensation** and **$1.1 trillion in U.S. GDP** are on the line. The manufacturing sector is disproportionately impacted by these expirations. In our sector alone, **1.14 million manufacturing jobs** will be at risk, potentially impacting **$126 billion in manufacturing worker compensation** and **$284 billion in manufacturing output**.

The solution to prevent this economic devastation is simple: Congress must make permanent crucial pro-manufacturing tax provisions from the Tax Cuts and Jobs Act. Specifically, Congress should:

- Protect small businesses by:
  - Preserving the **pass-through deduction**;
  - Preventing **individual income tax** increases; and
  - Safeguarding family-owned businesses from the **estate tax**;
- Support innovation and investment by:
  - Restoring **immediate R&D expensing**;
  - Reviving **full expensing** for capital investments; and
  - Reinstating a pro-growth **interest deductibility** standard; and
- Enhance American competitiveness by:
  - Preserving the **FDII deduction**;
  - Preventing an increase in the minimum **GILTI rate**; and
  - Preventing the **BEAT rate** from increasing.

Additionally, though the **21% corporate tax rate** is not set to expire, Congress should remain vigilant against any calls to increase taxes on manufacturers by raising the corporate rate given its impact on businesses throughout our industry—including smaller companies like Ketchie that do not pay tax at the corporate rate but that rely on larger businesses in our supply chain that do.

Congress has the opportunity to preserve all of these vital provisions from the Trump tax cuts— and, in the process, to preserve nearly 6 million U.S. jobs.

Tax Reform's Pro-Manufacturing Policies

Pass-Through Deduction and Individual Income Tax Rates

Ketchie, like many small, family-owned businesses, is organized as an S-corporation. We are therefore eligible for a 20% deduction on our business income thanks to the Section 199A pass-through deduction created by the TCJA.

Pass-through owners see their business income reflected on their personal tax returns, and this deduction reduces the amount of pass-through income subject to tax, allowing us to reinvest. This provision is set to expire at the end of 2025. So are the individual income tax rates that dictate pass-through businesses' tax obligations. In combination, these changes will dramatically increase the tax burden on small manufacturers like Ketchie. This is a one-two punch for small business owners that will severely impact our ability to invest and grow. If Congress allows the pass-through deduction to expire and individual income tax rates to increase, pass-throughs' effective tax rates will increase by at least 10 percentage points—a drastic tax hike for small businesses across the country. Congress should instead make these provisions permanent so small businesses like Ketchie have the certainty we need to invest for the future.

Corporate Tax Rate

While Ketchie does not pay tax at the corporate income tax rate, many businesses in our supply chain certainly do—including many of our larger customers. These companies, and therefore the entire manufacturing supply chain, benefit from the 21% corporate tax rate enacted by the TCJA.

Prior to 2017, the U.S. corporate tax rate was 35%, which was the highest corporate tax rate in the OECD and the third highest in the entire world. The U.S. was an outlier among our global competitors, maintaining a corporate tax rate 15 points higher than the OECD average. When tax reform lowered the corporate tax rate to 21%, it unlocked America's manufacturing potential and made the United States a more attractive home for manufacturing investment. Unlike many of tax reform's pro-growth provisions, the corporate rate is not scheduled to change at the end of this year. But I want to make clear to the committee that increasing the corporate rate is not an option: maintaining or even lowering the 21% rate is critical given that the productivity it spurs from C-corporations in my supply chain directly impacts Ketchie's ability to grow.

Full Expensing

Like most manufacturers, Ketchie is a capital-intensive business. In the years following the TCJA, I was able to maintain greater levels of capital investment because tax reform reduced the cost of purchasing equipment and machinery by allowing full, immediate expensing for these purchases.

Unfortunately, full expensing began to phase out in 2023. When I testified before the Senate Finance Committee in March 2024—with first-year expensing at 60%, down from tax reform's 100%—I spoke on how the phase-down made purchasing a significant machine for my shop much more difficult. Now, the first-year expensing level has been further reduced to 40%, and the designated spot I'm holding on my shop floor for that machine remains just as empty just as it was a year ago. Such an expensive investment remains too risky for a small manufacturer, and its absence continues to limit my ability to meet customer demand. By not being able to invest in this machining technology, we risk falling behind our international competitors who are leveraging similar advancements to improve efficiency, precision and output. The decision directly impacts our ability to remain competitive in the market, as it limits our capacity to deliver higher-quality products and cost-effective solutions.

According to the Joint Committee on Taxation,[1] the manufacturing sector, and specifically small manufacturers, overwhelmingly utilize full expensing more than any other sector. Congress should make full expensing permanent, enabling manufacturers like Ketchie to invest, grow, compete and create highly skilled and high-paying jobs.

Interest Deductibility

At the beginning of 2022, the deduction for interest on business loans was reduced in a manner that disproportionately affects manufacturers. The maximum deduction allowed under Section 163(j) of

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[1] 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/.

the tax code was narrowed from 30% of a company's earnings before interest, tax, depreciation and amortization (EBITDA) to 30% of earnings before interest and tax (EBIT). Excluding depreciation and amortization expenses from the interest deduction reduces the amount of interest businesses can deduct, making it more expensive for manufacturers to finance capital equipment purchases.

Ketchie is impacted by the change in the interest deductibility standard because many of our customers utilize debt financing for the projects that our parts are used in. The more restrictive standard makes it more expensive and riskier for our customers to finance large projects and buy and sell large pieces of capital equipment—ultimately threatening Ketchie's economic health and ability to grow. That's why I am hopeful that Congress will make the EBITDA standard for interest deductibility permanent and support the large-scale, job-creating projects that are so critical for manufacturing growth.

Immediate R&D Expensing

The ability for manufacturers to deduct R&D expenses is crucial for our investments in innovation. For decades, the tax code allowed manufacturers to immediately deduct 100% of R&D expenses in the year they incurred. In 2022, however, the tax code began requiring so-called "amortization" of these expenses, forcing manufacturers to recover only a small portion of the costs over several years.

This directly harms Ketchie, as it makes it much more costly for our customers and suppliers to invest in the R&D they need, impacting their business capacity with us. Ketchie delivers machining solutions to government and commercial customers in a wide range of industries, including rail, agriculture, textile, heavy machinery, industrial equipment and many specialized original equipment manufacturers. When they can't afford to innovate, we can't provide them with the parts they need to succeed.

Taxing manufacturers' investments in critical R&D expenditures means that we will have less funds to invest in workers and our future growth. The private sector accounts for more than 75% of total R&D spending,[2] with small businesses accounting for approximately $90 billion of all private-sector R&D investments.[3] Unfortunately, the U.S. is now one of just two developed countries in the world who require the amortization of R&D expenses. China, on the other hand, offers a "super deduction" on research spending—and they are not the only country offering better R&D incentives. Seventeen countries now provide a deduction exceeding 100% of eligible R&D expenses, making the United States a less attractive, less competitive place to conduct R&D. Congress should reverse this trend and return to permanent, immediate R&D expensing—restoring a policy that was the law of the land for more than 70 years and supporting manufacturers as we innovate for the future.

[2] 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.
[3] 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.

Estate Tax

Ketchie is a third-generation family-owned company, and we want to remain a linchpin of the Concord community for many generations to come. But the threat of the estate tax has a significant impact on our longevity.

I know firsthand the struggle that family-owned businesses face when a loved one passes away. When I lost my husband in 2014 to brain cancer, not only did I have to worry about keeping the business afloat, but I was so worried about a looming tax bill that might have forced us to halt production altogether.

In 2017, the TCJA increased the exemption threshold for the estate tax, allowing more of a family-owned business's assets to be passed on to the next generation without incurring a tax burden. This change was especially important for family-owned manufacturers because our companies consist largely of illiquid assets that would need to be sold or leveraged to satisfy the estate tax burden. However, the increased exemption is set to expire at the end of this year, which will expose more assets to taxation, threatening family-owned businesses' viability following the death of a loved one. Congress must protect family-owned businesses by preventing the scheduled reduction in the estate tax exemption threshold—or by repealing the estate tax altogether.

International Tax

The manufacturing supply chain spans the globe. American manufacturers are investing all around the world, bringing products to customers in foreign countries and stimulating the U.S. economy by expanding operations globally. Ketchie is just one part of this global supply chain, but we acutely feel the impacts of any supply chain disruptions. We saw this through a positive lens when Congress reduced the corporate tax rate from 35% to 21%, providing rocket fuel to the entire manufacturing supply chain. On the other hand, we experienced the negative supply chain impacts of the COVID-19 pandemic. In short, what happens to our customers and suppliers impacts us here at Ketchie.

I am concerned that the international tax changes scheduled for the end of 2025 could have an impact on us. While none of the TCJA's international provisions impact us directly, our larger customers with global operations could face significantly increased taxes if these changes are allowed to take effect. Without congressional action, the FDII deduction will decrease (reducing incentives for businesses to locate IP here in the U.S.), while both the GILTI and BEAT rates will increase (imposing higher taxes on globally engaged manufacturers). I am hopeful that Congress will prevent these tax increases on Ketchie's customers and supply chain partners—and thus prevent any downstream economic damage for small businesses like mine.

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I want to thank Chairman Smith and Ranking Member Neal for giving me the chance to testify today, and I want to commend all of you in advance for the hard work you will do this year to prevent damaging tax increases on manufacturers of all sizes—including small manufacturers like Ketchie. I am grateful to be with you today, but also for the opportunity to lead a team of people that make things with their hands, hearts and minds to produce parts that we all depend on in our daily lives.

Congress has the opportunity to usher in the next age of manufacturing growth, job creation and innovation, and I know you will rise to the challenge.