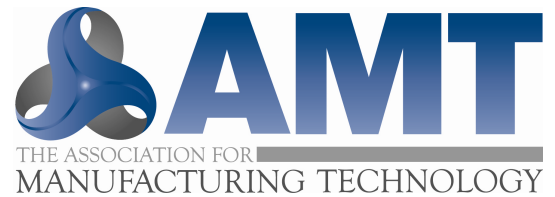


**TESTIMONY OF  
KIM W. BECK, PRESIDENT & CEO  
AUTOMATIC FEED COMPANY  
ON BEHALF OF  
AMT – THE ASSOCIATION FOR  
MANUFACTURING TECHNOLOGY  
Before the  
U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON WAYS & MEANS  
JULY 19, 2012**

***“Tax Issues Facing U.S. Manufacturers”***

Testimony embargo expires July 19, 2012 at 9:30am.



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**INTRODUCTION**

Mr. Chairman and members of the Committee, thank you for holding this hearing today and for giving me the opportunity to participate.

My name is Kim Beck, President and CEO of Automatic Feed Co. in Napoleon, Ohio. I am also a member and former Chairman of AMT-The Association For Manufacturing Technology – a trade association representing nearly 600 U.S.-based companies that produce and sell machine tools and other technologies essential to the manufacturing process. While AMT’s membership includes large companies such as ExxonMobil, 70 percent have less than \$30 million in revenue and half have revenue of under \$15 million.

I am here today because I want Congress to understand the significant impact these tax policy discussions have on small manufacturing companies like mine. Business owners have great apprehension about the actions coming out of the federal government. Even though business is much better, the best industry analysts predict a slowdown in manufacturing technology order activity in the last part of this year due in large part to uncertainty about what’s happening in Washington. Our sales people are already concerned, seeing quote activity beginning to drop off. The prospect of tax increases and the outlook for real long-term tax reform figure prominently in the anxiety.

**COMPANY OVERVIEW**

This year marks 63 years of continuous operation of Automatic Feed in Napoleon. In 1952, when our building on Canal Street was purchased, it measured just over 2,000 sq. ft. Today, we boast a 150,000 sq. ft., state-of-the-art facility. Since our humble beginnings, we have been designing and manufacturing coil pressing equipment for the auto industry. Over the years, we have received various awards and honors from automobile companies like Honda, Toyota, Nissan, Chrysler and General Motors.

The Great Recession hit us hard. In just 12 months, we went from a \$30 million company to a \$4 million company, and by 2009, our facility was mostly dark with no orders. We had to consolidate to a small portion of the plant to save on utility bills. Over the years, we offered stable employment for, at times, up to 175 people. In 2007, just prior to the recession, we employed **110** workers, almost all of which were highly skilled engineers, welders, machinists and machine assemblers – including 48 skilled union employees. Two years later, our workforce was down to just **twenty-five**.

Today, we are clawing back to about where we were before the recession, because we made difficult sacrifices to remain viable – something our government could learn from us. During the financial meltdown, the average wages of the 25 remaining employees were reduced by 40%, with

top management taking 60% pay cuts that today still have not been fully restored. It is a horrible situation when you go to bed every night and pray that those most loyal employees don't lose their homes to foreclosure because of pay cuts.

To survive, we increased our efforts to diversify away from autos. Now, we are developing new products for other industries, but it is increasingly difficult trying to remake a 60+-year-old company with the federal government seemingly working against us in every way. Each night on the news we hear of rumblings in this town that will negatively impact our business. Uncertainty abounds. Businesses fear another recession is just around the corner. Every time a new law or resolution is approved, it affects business decision-making.

## **STATUS OF THE MANUFACTURING TECHNOLOGY INDUSTRY**

Although the U.S. manufacturing technology industry is relatively small in terms of numbers, what it contributes has an enormous impact on America's ability to manufacture – and to manufacture competitively. Our companies provide the means by which all products are manufactured. We provide the innovative solutions that ensure those products are world-class. Without our manufacturing technology companies, no other American manufacturing would be possible in the United States. This country would be left to rely on foreign manufacturing technology to make parts and finished products – be they cars, wind turbines, medical devices or even defense systems.

In 1975 when I came into this business as a young man out of college, America was the world leader in building machine tools – the foundation of almost every manufactured product and critical to our defense industrial base. In 2012, we stand a distant 7<sup>th</sup> behind China, Japan, Germany, Italy, Korea, and Taiwan.

Even so, the outlook for manufacturing technology is positive considering the lackluster recovery and persistent unemployment. AMT reports that May orders were up 14.5% from April and up 19.0% from May 2011. Overall, 2012 is up 12.1% compared with 2011. This latest data indicates sound health. While the latest Purchasing Managers Index saw a slight contraction, overall indications are that manufacturing will continue to lead the general economic recovery.

Our market is expected to realize a 10-15% growth in orders for 2012 over 2011. This is phenomenal when taken in perspective. In 2010, the industry realized a 91% gain in 2010 over 2009 and another 66% gain last year over 2010 – finally overtaking 2007 levels, our last peak year before the recession. We've made up a lot of lost ground in two years, but it will be difficult to sustain that upward trajectory without some decisive action out of Washington.

## **TAX CODE ADVERSELY AFFECTS SMALL MANUFACTURERS**

It seems as though the largest obstacles to continued growth are created by the U.S. government. High taxes, burdensome regulations, increasing healthcare and energy costs, outdated policies and complicated, broken processes all contribute to the significant competitive disadvantage American manufacturers face when compared to our foreign counterparts.

Your first reaction might be to ask “What law can we enact? What program can we create? What tax incentive can we pass to reverse this trend?” I am here to tell you little will make any difference unless we take action to make the United States a better place to do business. The cost of running a company in this country is becoming prohibitive.

My company's competition is foreign-based. Every competitor is at least 100 times bigger than us. They are German, Korean, Japanese, Spanish and Chinese. For Automatic Feed to be competitive, we must have a cost structure similar to our competitors. For us to consistently outpace our competition, we need to have a lower cost structure. U.S. manufacturers cannot be successful against foreign competitors that have little or no regulatory costs, lower taxes, and export subsidies without appropriate action from our government to level the playing field.

A major obstacle is our own tax system. It significantly adds to our competitive disadvantage in the global marketplace. The United States now has the highest corporate tax rate in the industrialized world. In addition, unlike most industrialized nations, it has a worldwide system of taxation. These factors make it less attractive for companies (foreign and domestic) to invest and manufacture in the United States and more attractive for companies to invest and manufacture overseas.

Bad tax policy is not only anticompetitive; it also leads to less tax receipts collected by the federal government. For example, in 2007, my employees paid \$1 million in payroll taxes. Automatic Feed paid another \$1 million in income taxes. Two years later, with only 25 employees and drastically reduced revenue, tax receipts from my company decreased substantially. Those remaining 25 employees, in an attempt to save the company, accepted pay reductions that not only represented a significant decline in income, but in tax revenue as well. Obviously, our laid off workers didn't pay taxes either.

### **SHORT-TERM – EXTEND ALL BUSH TAX CUTS**

Now that business is stronger, small manufacturers need to reinvest their income into developing new products and conquering new markets. New products mean innovation and job creation. Tax increases simply leave less for investment and jobs. The last thing Congress should do right now is raise taxes on small manufacturers just as we are rebounding after a devastating recession, especially to finance more government spending. President Obama and some in Congress propose to do exactly that by calling for the expiration of the Bush tax cuts on incomes over \$250,000 a year. The federal government must recognize that a tax increase on those who report income in the top brackets is a direct tax increase on manufacturers like me. Partnerships, LLC's, Sole Proprietorships and Subchapter S corporations are a significant share of those who are considered "wealthy" under current tax law, because they file individual income taxes.

Economists estimate that letting the cuts expire for upper earners would generate \$850 billion over 10 years. That's \$85 billion a year in revenue, a sizeable sum by most metrics; but it amounts to less than seven percent of our projected 2012 deficit of \$1.17 trillion. A 3-4% tax increase, on the other hand, means a lot to the small manufacturers that have been starved of profits during the recession. They are eager to reinvest their income directly back into their businesses and continue to drive the economy forward. Successful small businesses that are investing and creating jobs – essentially leading the recovery – would bear the brunt of the burden.

### **EXTEND 100% BONUS DEPRECIATION/INCREASED SEC. 179 EXPENSING**

American manufacturers are never going to compete successfully with low-cost foreign producers on the basis of low wage rates or lower worker benefits. We can only compete on the basis of our higher productivity and quality – making things faster, cheaper, and better. That's where newer and more productive equipment comes in. Companies emerging from the recession are eager for the latest manufacturing technology, and they come from all sectors of the economy – healthcare, automotive, defense, energy and aerospace. If manufacturing is to continue to strengthen U.S. economic growth and competitiveness, these companies must be able to expand their investments in state-of-the-art machinery and manufacturing processes.

In today's emerging markets, rapid innovation is what determines who gains market share. However, the anemic recovery and nagging uncertainty about the future have made many companies cautious about investing and hiring. Bonus depreciation and increased Section 179 expensing can be deciding factors for businesses considering equipment upgrades or company expansions. These two incentives most assuredly contributed to the impressive growth in manufacturing technology orders in 2011. Reducing these incentives for 2012 and beyond effectively increased the cost of job-producing capital investment at the worst time – just as the economy is showing signs of life. This is the wrong time to thwart the investment and modernization that is directly related to innovation and job creation in the United States. Now is when 100% bonus depreciation and enhanced Sec. 179 small business expensing can have a significant impact on 2012 investment decisions.

## **EXTEND THE RESEARCH & DEVELOPMENT (R&D) TAX CREDIT**

Since the R&D tax credit was first enacted in 1981, it has been extended more than a dozen times, sometimes retroactively. This obviously negates its effectiveness as an incentive to expand research. Most recently, the credit was allowed to expire just as companies were in a better position to take advantage of it. There's no question R&D leads to new technologies and innovation – key drivers of productivity, economic growth and job creation – and that the R&D tax credit spurs greater R&D. We used the credit during the recession to keep our company going, developing a new product at a critical time. Without the credit, we may not have made the investment.

## **LONG-TERM TAX REFORM IS CRITICAL**

Fear of the unknown is a considerable impediment to growth, especially in a lackluster economy. Until Congress takes significant action to fix the tax code and rein in spending, businesses will continue to play it safe with investment and hiring decisions. Piecemeal fixes and temporary extensions of incentives important to American businesses only add to our competitive disadvantage.

Congress must find the political courage and determination to tackle real tax reform to give businesses the confidence they need to invest and hire. It must be simple and balanced. I commend Chairman Camp's leadership in offering a tax draft for consideration which lowers corporate rates and moves the U.S. to a territorial system of taxation. I urge this Committee to remain mindful of the small manufacturers that don't file under the corporate code. Both individual and corporate rates must come down to a level which allows us to compete with other nations. Otherwise, manufacturing goes overseas and with it goes innovation and jobs. Simplification and balance are key to bringing down compliance and filing costs.

It is important that attention be given to the small manufacturers in my industry that are cash-based businesses, which depend on working capital for orders that can take many months or longer to complete. Uncertainty surrounding the timeliness of paid receivables and a need for a steady cash flow for day-to-day operations and investments creates challenges for these critical supply chain manufacturers. Often, we are squeezed between our customers that require terms that don't pay in full until after delivery (or, in many times, after the equipment produces its first parts) and our lenders who are increasingly hesitant to fund Work-in-Process, making it impossible to take orders. So the orders go to our foreign competitors. Some companies have turned to self-financing to avoid banks altogether, but this takes resources away from R&D, business development and job creation. Tax preferences, such as 100% expensing, net operating loss carryover and a permanent R&D tax credit, are essential to helping alleviate the negative impact of uneven cash flow on day-to-day operations.

For our customers, a permanent R&D tax credit and 100% expensing mean increased investment in research and state-of-the-art facilities and processes. Current depreciation schedules are sorely out of sync with the rapid pace of manufacturing technology. Allowing companies to recover the cost of their capital investments sooner will encourage modernization of plants and processes.

Our tax code must do more to support small business growth rather than hinder it. According to the Small Business Administration, small businesses represent more than 99% percent of all employer firms, employ half of all private sector employees and generated 65 percent of net new jobs over the past 17 years. Yet they get little support from the federal government and repeatedly bear the brunt of tax provisions targeted for other groups. The estate tax is a prime example.

My most valuable investment is the company itself. Automatic Feed has been in my family for 63 years. Many of our nation's best companies are small, family-owned businesses that want the opportunity to keep the business in the family from generation to generation and to continue to provide good, high-paying manufacturing jobs in the community. However, families are often

forced to sell their businesses to pay estate taxes. Absent total repeal, Congress should extend the current estate tax rates. Estate taxation is one of the most arcane and complicated parts of the federal tax code and must be part of comprehensive reform.

I recognize that the original intent of the estate tax was to prevent massive wealth from building up among a small number of families. But that intent has long been outwitted by an ever-complicated tax code that allows very wealthy individuals a number of options for shielding their “wealth” from this federal tax, including corporate structures and foundations. As a result, a tax originally aimed at the super rich is hitting small American businesses on the chin – and ensuring that families that don’t have the resources to shelter their “wealth” are the ones who bear the burden of this tax. Stop gap measures usually have this result. The Alternative Minimum Tax is another example.

In any discussion of tax reform, fiscal restraint must be part of the equation. The real problem is not a lack of revenue but out-of-control spending. Consider that in 2000 (the last time the U.S. ran a budget surplus), the federal government spent \$1.8 trillion and collected \$2.0 trillion in revenue. Fast forward to 2012 when spending is projected to reach \$3.4 trillion and tax receipts to total \$2.4 trillion. Government spending nearly doubled over a 12-year period. If I had operated my business the way our elected leaders run our federal government, I would not be sitting here before you today.

## CONCLUSION

I commend Congress’ efforts to tackle these significant issues. We cannot put people back to work and get this economy moving again if high taxes and other costs of doing business continue to sap manufacturers’ ability to compete. What American small manufacturers need right now is tax relief and tax certainty.

Perhaps more important than what we need is what we don’t need. We don’t need higher taxes on top of increasing health care costs and regulatory requirements that are increasingly burdensome. We don’t need temporary fixes, and we most assuredly don’t need additional spending paid for on the backs of small manufacturers.

I hope you understand the importance of what you have heard here today and take the bold action necessary to rein in federal spending and enact simplified, balanced tax reform to create a better business environment for America’s small manufacturers. That is the only path to sustainable economic growth and world-class competitiveness.

Thank you. I would be pleased to respond to your questions.