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Twin City Die Castings Company - 1070 SE 33rd Avenue - Minneapolis, MN 55414

Testimony
of
Doug Harmon, CEO, Twin City Die Castings
Before
the House Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access

"Adding to Uncertainty: Small Businesses' Perspectives on the Tax Cliff"

September 13, 2012

Good morning, Chairman Walsh, Ranking Member Schrader, and members of the Committee, thank you for the opportunity to testify today. I am here to discuss the severe economic consequences that small manufacturers will face due to the so-called "fiscal cliff" as it relates to taxes that will occur in January 2013, unless Congress intervenes. Failure to act on the looming year-end tax increases would yield the largest tax increases in American history coupled with draconian, ill-designed, across-the-board discretionary spending cuts. These increases will hurt not only my business and employees, but my customers as well.

My name is Doug Harmon. I am the CEO of Twin City Die Castings Company, a second generation family-owned business employing two hundred fifty employees. We manufacture hundreds of different types of precision aluminum and magnesium die castings for the automotive, recreational, industrial equipment, defense, aerospace, computer, and medical industries.

I am testifying today on behalf of the North American Die Casting Association where I serve as a member of the Government Affairs Committee and on the Board. NADCA is the sole trade and technical association representing over 300 U.S. based companies and industry suppliers that produce and sell castings essential to the manufacturing process. Die casters supply to almost every industry segment in North America and many are tier-one and/or tier-two supplier to the biggest names in the automotive industry. In fact, U.S. die casters contribute over $7 billion to the nation's economy annually and provide over 50,000 jobs directly and indirectly throughout the country with the highest geographic concentration of facilities located in the mid-West.

Company Overview

Twin City Die Castings is one of the oldest die casting companies in North America. It was founded in 1919. My father took a gamble and purchased this small business in 1974 with our family savings. After college, my brothers and I joined the business. My dad taught us not only how to produce quality castings, but the need to invest in our employees and the shop. He remained active in the day-to-day operations and served as the Chairman of the Board until his passing in April 2011.

Here are a just few examples of the wide variety of castings we have produced this year - a control module that is used in the anti-lock braking system for the Boeing 787 Dreamliner. We are making a die casting that is used in hospitals on a pole clamp assembly which is used to hold IVs. We are also manufacturing a faceplate for a defense contractor located in Rochester, New York that goes on the Falcon 3 communications radio that is used by the military. On the automotive side, we are making an engine component for a German customer that sells to Ford called the EGR Valve. This assembly recirculates the exhaust gas of a diesel engine to reduce emissions.

Over the years, we have worked together to grow and expand our business. In fact, we now operate three die casting facilities in the U.S. – our original location is in Minneapolis, one is in Monticello, Minnesota and another is in Watertown, South Dakota. We are also exporting 22 percent of our total casting sales in eight different countries around the world, with Canada and Mexico being our top two export markets.

In order to compete in the global marketplace, Twin City Die Castings has continually invested in its employees, new equipment and technology which allowed us to reduce overall product costs, and at the same time, provide consistently high quality parts. The methods we've developed have been instrumental in helping us win multiple industry honors and awards. In all of our operations, we provide good paying blue color jobs, health reimbursement accounts and other benefits to our employees, whom we consider as members of our extended family.

The Recession hit our industry and my company hard. A number of die casters that had been in business for more than 25 years were forced to shut their doors. We were faced with downsizing our workforce to 155 workers from 250 when millions of dollars of orders simply dried up. Fortunately, orders have been slowly coming back and we were able to rehire many of our employees, but we are still not back to pre-recession production and sales levels.

Prior to the recession our average investment in equipment has been typically $3 million a year. The impact of the recession was really felt in 2010 when Twin City Die Castings was only able to invest $1.5 million in new die casting equipment. We were fortunate to have the funds available to purchase several expensive new die casting machines in 2011. In 2012, we have been much more cautious in our hiring and the types of capital improvements that we have undertaken given the uncertainty over taxes and the economy.

<u>Impact of Tax Cliff Will Adversely Affect Small Manufacturers</u>
For manufacturers like me, this tax cliff or taxmageddon is a serious threat. Come January 1, 2013, some $500 billion in tax increases will hit the U.S. economy, which already suffers from a weak economy and an uncompetitive tax code. In fact, trillions of dollars in tax provisions will expire, from the Bush-era cuts on income to a wide range of tax breaks for business.

As you well know, many tax provisions are enacted on a temporary basis - in large part due to budgetary and political constraints - requiring repeated extensions (occasionally even retroactively). The uncertainty resulting from such temporary tax policy makes it difficult for die casters, which rely on three- and five-year business strategies, to plan effectively for the future and remain competitive in an increasingly global economy.

Not knowing whether or not Congress will renew the Bush-era tax cuts and the pro-business tax extenders which expired at the end of 2011 is keeping many die casters and for that matter most manufacturers from investing as much as they could to grow their business, purchase new equipment and hire more employees. In order for die casters to prosper in this country we need two things – stability with a pro-growth approach and transparency in our tax code.
Given this uncertainty over taxes and other potential government regulations, instead of hiring new employees, increasingly the die casting industry is choosing to hire

temporary workers to fill their employment needs utilizing and/or implementing overtime with its current workforce.

How die casters are organized and the way we pay taxes has the single greatest impact on our industry. Our company is structured as a Subchapter S Corporation where the individual owners pay the taxes. More than 70% of manufacturers are structured as S-Corporations or other flow-through entities, meaning they pay taxes at the individual rate. Since we are put in this top tax bracket, we could see our rates jump to 39.6 percent from 35 percent. We could also face a 3.8 percent tax on certain types of investment income, passed in the Affordable Care Act effective in 2013. On top of these increases, small businesses like mine will also have to deal with a 0.9 percent surtax on wage income earned above $200,000 for individuals and $250,000 for couples.

Bottom line for Twin City Die Castings is that if the current tax rates are not renewed by January 1, 2013 and individual rates increase by nearly 5 percent (at a minimum), we will face a hefty increase in our tax bill. We will not be able to reinstate the 401K match for our employees' retirement nor will we have the extra funds to increase our workers' Health Reimbursement Accounts. We will likely hold off hiring any new employees. Furthermore, we are a very capital intensive industry and if the bonus depreciation goes away it will have a huge impact on our tax liability as well.

Other family-owned die casters have told me confidentially that the threat of increased taxes has already curtailed their investment spending and are holding off on investing in any new equipment in case they need to apply these funds to an increased tax bill. In addition, they have already started feeling the effects of their customer base not building up their inventory. Furthermore, if their taxes are increased, they will be forced to reduce wages and/or delay wage increases to their employees, as well as impacting their workers benefit packages.

As a small business, we may report thousands of dollars or more in profit, but few manufacturers take those profits home – they are overwhelmingly reinvested back in the business, our employees, facilities and equipment. This means that the less resources we have due to paying more in taxes the less resources we have for improving our employees' wages and benefits and buying new equipment.

Right now, the tax code forces die casters to make investment decisions based on the tax code, not by what is best for their business. As any business owner knows, you typically purchase capital equipment in one of two ways – out of your profits or through loans from the bank. Unlike larger corporations, small manufacturers like us are required to provide a personal guarantee for most loans when purchasing capital equipment or expanding our facilities. This means as a small business owner, I have to put my family's home on the line, and take significant risks if I want to grow the business and compete in this global economy. This is where tax deductions and credits come in as the only tool we have to reduce our effective tax rate – unless Washington can finally act on comprehensive tax reform.

In sum, when more money goes towards federal, state and local taxes, it results in reduced cash flow into the business – meaning less money is reinvested in our employees, equipment and manufacturing plants. It is imperative that Congress act this year to reduce the uncertainty facing manufacturers by addressing the tax cliff facing all businesses. For now, we urge Congress to extend the current tax rates and revive the tax extenders which will provide a bridge to comprehensive tax reform.

Importance of Pro-GrowthTax System

NADCA supports comprehensive reform of our current tax code to make it fairer, simpler, more competitive and predictable. Because of the critical importance of manufacturing to our nation's economy, any effort to rewrite the tax laws should result in a fiscally responsible plan that allows domestic manufacturers to prosper, grow, compete and create jobs.

NADCA believes it is important to keep our current tax system in place until lawmakers agree on a final reform plan. The expiration or pending expiration of a number of business tax extenders represents a tax increase for die casters and manufacturers that use these incentives. Similarly, other piece-meal changes or repeal of long-standing rules will inject more uncertainty into business planning, making U.S die casters even less competitive and threaten economic growth and U.S. jobs.

Several key business tax breaks currently available are set to change or expire entirely after December 31, 2011. In particular, we urge lawmakers to renew tax extenders widely used by the manufacturing sector, such as the R&D credit, bonus depreciation and Section 179 expensing.

It is critical that any tax reform plan recognize the important role of research and technology investment in the growth of U.S. jobs and innovation. U.S. manufacturers perform half of all R&D in the nation, which drives more innovation than any other sector. To maintain this competitive advantage, tax provisions must be enacted that will stimulate investment and recovery, including strengthening the

R&D tax credit and making it permanent.

Another key provision is bonus depreciation. From September 2010 through the end of 2011, manufacturers could elect to immediately deduct the cost of qualifying purchased property. Currently, however, we can only elect to deduct 50 percent of the cost of these investments. A real incentive for manufacturers to make investments in new equipment would be if Congress restored the 100 percent bonus depreciation through 2012 and 2013.

These historic capital investment incentives have had a positive impact and incentivized manufacturing purchasing and job creation in recent years.

Conclusion

The looming threat to our recovery, and the major concern to the business community, is how lawmakers will address the fiscal cliff that awaits the country at the end of the year.

If we go over the fiscal cliff, jobs will be lost, our company sales will likely decrease, investment will slow, and our nation's competitiveness will suffer. The President and Congress can prevent this from happening immediately extending all of the 2001 and 2003 tax rates (including current marginal rates, dividend and capital gains rates, and estate tax relief) for all taxpayers; extend expiring business tax provisions; provide alternative minimum tax (AMT) relief; and find spending cuts to replace a sequestration never intended to go into effect. This would go a long ways to avert America's impending fiscal cliff.

Die casters are ready to work with lawmakers on comprehensive tax reform in the next Congress and possibly forego some tax credits and deductions if it means a lower effective tax rate and helps solves our nation's budget crisis. However, we cannot afford to fix our nation's problems on the backs of small businesses and their employees.

Small manufacturers cannot compete globally or even survive domestically if we do not continually invest in equipment and our people. This is why tax reform is so important to manufacturing companies across the country – to free up capital for investing in people and equipment and to provide more certainty so we can plan for future years.

Thank you for the opportunity to testify before the committee today and I look forward to answering your questions.