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Testimony

of Drew Greenblatt

Marlin Steel Wire Products

on behalf of the National Association of Manufacturers

before the Small Business Committee

U.S. House of Representatives

Hearing on Modernizing the Tax Code: Updating the Internal Revenue Code to Help Small Businesses Stimulate the Economy

April 10, 2008

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Good morning, Chairwoman Velazquez, Ranking Member Chabot and members of the Committee. My name is Drew Greenblatt. I am the President and owner of Marlin Steel Wire Products in Baltimore, MD. Marlin was founded in 1968. We manufacture wire baskets, hooks and wire forms. We also have the capability to produce a wide range of custom products for our customers. Our products are used in industrial, aerospace, automotive and medical industries by clients like Caterpillar, Boeing and Toyota. Thank you for the opportunity to appear today on behalf of Marlin Steel Wire and the National Association of Manufacturers.

The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. I was pleased to learn of the subject of today's hearing—updating the Internal Revenue Code to help small businesses stimulate the economy. The NAM's Tax Policy agenda is designed to promote U.S. jobs and competitiveness and ensure continued economic growth. I'd like to touch on a few items of specific concern to my business and to small and medium-sized manufacturers across the country. Specifically, making the income tax cuts permanent, providing a permanent and strengthened R&D credit, and repealing the 3 percent withholding requirement on government contracts.

Because Marlin Steel is organized as an S-corporation, we pay taxes at the individual rate. Many manufacturers like us are in the same boat. In fact, about 50 percent of NAM's members are similarly organized, as "flow through" companies, meaning they pay individual rates. For us, the legislation passed in 2001 and 2003 that lowered the top individual tax rate to 35 percent has been extremely beneficial. Lower tax rates mean we have more money after taxes to expand our operations and create new jobs. When enough manufacturers expand, we fuel economic growth, and that translates into higher government tax receipts and lower federal deficits. It's paradoxical but true that lower tax RATES mean higher tax REVENUES. Conversely, letting the Bush tax rate cuts expire, effectively raising taxes in 2011, will mean cutbacks at a time when the economy may well be in a downturn.

There has been a lot of talk recently about not only raising the individual income tax rates, but also placing a surtax on folks in the upper brackets. Many folks in Congress think this means that they're raising taxes only on the wealthy. But, I'm here today to remind you that these rate increases will strike at the heart of small businesses. My tax return includes all of my business income even though we have never paid a dividend. We pour every penny of profit back into the company, to grow. So this so-called profit that the IRS is taxing me on is not cash in my pocket; it's money that I'm keeping in my company so we can buy another welding machine to make baskets like these. If my taxes go up, I will have less money to buy that welding machine and hire that welder off the streets of Baltimore. So the toll will be paid not only by manufacturers like me, but also the company that makes the welding machine and the unemployed fellow collecting unemployment benefits. Wouldn't we be better off if I'm buying new equipment and hiring young kids whom I pay double the minimum wage? Wouldn't the tax revenues go up and the unemployment benefit load on us go down if we follow that path?

The R&D tax credit is also instrumental to the US maintaining its competitive edge. As the primary innovators in the United States, manufacturers clearly understand that research and development drives new product development and increased productivity. R&D is how we stay fresh and competitive. I can't compete with other countries when it comes to wages, so I have to win on innovation.

Chairwoman Velazquez, let me give you a concrete example. Travers Tool, one of the excellent companies in your Congressional District, buys this basket from me. They resell it worldwide. No one is going to get rich on this one basket model. Travers needs a steady flow of fresh ideas – new products that are competitive and different. We use this R&D tax credit to do our Thomas Edison imitation, to be different and innovative by coming up with new products for Travers to sell. Travers appreciates this because their clients demand fresh products. This tax credit helps Marlin stay innovative and contributes to jobs in your district.

Unfortunately, because of the temporary nature of the credit, it's been an on-again, off-again tool for us. The fact that we're never certain when or if the credit will be extended makes it extremely hard for my business to plan ahead. Should we hire another engineer? Should I buy an AutoCAD design system? As of right now, the credit has expired. Because Congress failed to act, we've now been hit with a big tax increase. Making the credit permanent would end the years of speculating and waiting for congressional action. It would give my business the certainty we need to plan ahead and put us on par with many of our trading partners who already have the advantage of a permanent credit.

My company also does business with the government. I want to thank this committee for working hard to open government contracting opportunities for small and medium-sized businesses. But, there is a looming change to the tax code that will be disastrous to those of us who work with the government. In 2011, the government will be required to withhold 3 percent of all contract payments to companies. Most of our profit margins are already less than 3 percent. If this law is allowed to go into effect, we will stop bidding altogether. The result will be the undoing of years of hard work by small businesses trying to cultivate the biggest customer of all, the federal government. I pay my taxes and work hard to be a good corporate citizen – is

it right that our company would be penalized like this and that the government would have fewer vendors willing to bid for its work? I hope Congress will look long and hard at the negative consequences of this law and repeal it before it goes into effect.

The reality is that taxes are too high and vastly too complicated. Temporary and expiring provisions make life extremely difficult for small companies like mine. The alternative minimum tax means my taxes have to be figured twice – essentially doubling my tax preparation costs. We pay 1 percent of our sales just on accounting fees alone. If you simplify the forms to a three-page document instead of this 60-page document that I filled out last year with the help of my accountant, I would save so much on accountants' fees that I could hire another welder at $15/hour. I hold two life insurance policies to protect my sons from facing the estate tax down the road. All of these costs are just wasted dollars – money that could have been used to hire another employee or buy more welders. I've figured out that I could buy four more welding machines with just the money I spend on accounting alone.

In conclusion, tax relief enacted since 2001 for families and businesses has played an important role in stimulating economic growth and job creation. Making this tax relief permanent will provide an insurance policy for continued and durable economic growth. Lower tax rates and a permanent R&D credit are necessary tools to ensure that U.S. companies can thrive and compete in the international arena and attract and keep manufacturers in the United States. Simplifying the code by repealing the 3 percent withholding, consolidating the alternative minimum tax with the existing tax structure, and repealing the estate tax will go a long way toward helping small businesses like mine add jobs and increase productivity.

I want to again thank the committee for the opportunity to be here today and talk about the tax code and its impact on Marlin Steel Wire. I'm happy to answer any of your questions.