Written Testimony of Tom Tredway
President, Erie Molded Packaging
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Subcommittee on Tax Policy
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt
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Good afternoon, Chairman Kelly, Ranking Member Thompson and members of the subcommittee. Thank you for the opportunity to appear before you today and for holding this hearing in my hometown of Erie, Pennsylvania. As the leader of a local, family-owned small manufacturer, I want to welcome you all to the Keystone State. I am excited for our discussion today on how the tax code can support our local manufacturing community.

My name is Tom Tredway, and I am the President of Erie Molded Packaging. I represent just one of the more than 13,000 manufacturing operations in Pennsylvania—including more than 1,300 shops in Erie and the surrounding communities. More than half a million individuals are employed by manufacturers in our state, and I am proud that EMP's team is part of this robust Pennsylvania manufacturing community. Across the country, nearly 13 million people are employed by over 244,000 manufacturers, and I appreciate that you chose Erie to see a snapshot of the wider sector's experiences.

My father, Phil Tredway, founded EMP in 1982, but his desire to contribute to Erie's manufacturing economy started well before that. While running a successful chain of companies in San Diego in the 1970s, he met my mother, who also happened to be from Erie. They both wanted to move back to their home state and begin a new adventure, which they successfully accomplished and have been a pillar of our community since.

For more than 40 years, EMP has been creating custom injection molded parts and integrated packaging solutions for customers all over the country. Because of the investments we have made in our state-of-the-art facility, we are able to provide quality products to a wide range of markets, including food and beverage, personal care, health and beauty, chemical and pharmaceutical customers. We have innovated and invested in our machinery and workforce to ensure we are able to keep up with an ever-changing economic landscape. At the end of the day, EMP is a family operation, and I've been lucky enough to work alongside my father for almost twenty years to grow our business to what it is today.

For my out-of-town friends on the subcommittee who may not be familiar with Pennsylvania's iconic architecture, our state nickname is central to who we are as a people. A "keystone" is the stone in the center of an arch that holds the other stones in place. It is the strongest and most critical part of the structure—and once learn about them, you will surely recognize the symbol on our buildings and on marketing across the state. This stone reflects Pennsylvania's historic, geographic and political importance in America's early years.

The U.S. tax code also functions as a keystone for our great nation. Manufacturers across the country face unique challenges every day, but when our keystone is strong, such as having a pro-growth tax code, we are able to build something great.

However, beginning in 2022, our tax keystone began to develop cracks, weakening the entire structure. Key tax provisions that had either been in the tax code for decades or enacted as part of the 2017 tax reform began expiring in 2022, and there are more damaging changes on the way in 2025. A weakened tax code, severe worker shortages, supply chain disruptions and competition from abroad have significantly impacted Pennsylvania's manufacturing community. I want to thank all of the members of this subcommittee who supported the Tax Relief for American Families and Workers Act earlier this year, and I am calling on Congress to finish the job by getting this bill signed into law.

Manufacturers rely on two simple ideas when it comes to our tax code: tax laws must be **pro-growth**, and they must be **consistent**. That's it. End of story.

Now, I don't think any of you set out to craft policy that is chaotic or hinders businesses in your districts from succeeding. However, Congress has a major tax battle ahead of it next year, when crucial tax policies are set to expire, directly impacting manufacturing here in Pennsylvania and across America. While deliberating on the future of our tax code, I urge members of this subcommittee to keep in mind the real-world effects their decisions have on small and medium manufacturers like us, around the country and especially here in Pennsylvania.

A. Effects of 2017 Tax Reform

The 2017 Tax Cuts and Jobs Act allowed manufacturers to perform at our greatest potential. Following TCJA's passage, the manufacturing sector experienced the best year for manufacturing job creation in the previous 21 years and the best year for manufacturing wage growth in the previous 15 years.[1] Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively.[2]

Thanks to tax reform, EMP's investments in our equipment and workforce expanded rapidly. We were able to add a range of new machinery, including four new injection molding machines, two new high speed in-process lining machines, new stacking and packaging automation and tooling for two new product lines. Along with this much-needed equipment, we were able to create new positions for our quality managers, production team, sales and customer services operations. We are able to deliver even higher quality products faster than ever thanks to a tax code that supported manufacturing success.

In the years following TCJA, we were able to invest nearly $7 million in capital equipment purchases. Because of the nature of our proprietary products, we might be even more capital-intensive than most of our fellow manufacturers because we need to design, prototype and build our own production tooling to launch new products that meet our customers' needs. No two jobs are ever similar on our floor, which leads to constant innovation and maintenance of our machines and education of our employees. Also, because of these investments, we have been

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[1] National Association of Manufacturers, "Competing to Win" (September 2022), *Available at* https://documents.nam.org/ctw22/competing%20to%20win%202022%20-%20tax.pdf.
[2] Id.

able to send several entry-level employees to apprenticeship programs and collaborate with local technical schools with on-the-job training, providing the opportunity for the next generation to develop important skillsets and be exposed to quality jobs in our community.

Full expensing in the years following TCJA was a game-changer for EMP. The ability to immediately deduct the full amount of an equipment purchase is massive for capital-intensive businesses such as manufacturers. According to the Joint Committee on Taxation,[3] the manufacturing sector, and specifically small manufacturers, utilize accelerated depreciation more than any other sector. When full expensing was in effect, we were able to purchase new equipment that not only allowed us to scale our operations, but ensured our employees were operating efficiently and as safely as possible with reliable equipment. Allowing this provision to phase out beginning in 2023 and to ultimately expire in 2027 is devastating for the manufacturing industry. I want to thank Mr. Arrington, who sits on this subcommittee, 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.

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

Because we do not carry as much debt as some of our peers, we may not experience a direct impact of this tax policy change. However, our customers throughout the supply chain certainly do, which means the impact of this change makes its way to us. The majority of my customers buy and sell large pieces of capital equipment that require debt financing, and their inability to deduct interest makes borrowing more expensive, impacting small manufacturer's economic health and ability to grow. The impacts of policy changes cause ripple effects across every level of the supply chain, and small manufacturers often take the biggest hit.

Another harmful change that went into effect in 2022 was the requirement to amortize our R&D expenses rather than being able to deduct them in the year incurred. This is a massive change for EMP, as the private sector accounts for more than 75% of total R&D spending,[4] with small businesses accounting for approximately $90 billion of all private-sector R&D investments.[5] This change isn't just an innovation problem, it has effects on the number of individuals we can employ at EMP. Historically, 90% of our R&D expenses went to our engineering payroll. That means that limiting R&D doesn't just limit innovation—it also has a direct impact on people's jobs here in Erie. And these are quality, high-paying jobs—but they are at risk if immediate R&D

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[3] 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/.

[4] 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.

[5] 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.

expensing isn't restored. In short, Congress not allowing manufacturers to immediately expense R&D expenses directly translates to fewer quality jobs in the manufacturing sector while our foreign competitors are implementing vastly more beneficial R&D benefits. I would like to thank Mr. Estes and Mr. Larson, who both sit on this subcommittee, for their leadership on the American Innovation and R&D Competitiveness Act, which would make the immediate expensing of R&D expenses permanent.

Again, I thank every member of this committee who supported the Tax Relief for American Families and Workers Act which would allow for the TCJA R&D, interest standard and full expensing provisions to be extended from their expiration until 2025. However, manufacturers will be right back in this fight next year even if this legislation is signed into law.

B. Tax Policy Must Provide Certainty

While there is no question the TCJA accomplished providing pro-growth policies to the manufacturing sector, that growth is at risk if these provisions are allowed to expired as scheduled at the end of 2025.

For a small manufacturer like me, I can tell you from experience the R&D changes in 2022 caught me completely off guard. In 2023, a full year after R&D expensing had switched to an amortization requirement, I was presented with taxable income that was almost six figures higher than I had been anticipating. I was not alone in my surprise, and I spent countless hours on calls with my fellow Pennsylvania manufacturers as we figured out how to navigate these tax changes. Changes like this mean I have to spend time with my accountants and lawyers to figure out how to best prepare for these alterations. This is time-consuming and disheartening when I could be spending my time growing my business.

EMP is organized as a pass-through, meaning when the 20% pass-through deduction expires at the end of 2025 AND the individual tax rates increase, our tax bill will be *significantly* higher. Many small manufacturers are organized as pass-throughs, so our sector will be disproportionately harmed by the expiration of the deduction, severely hampering our growth trajectory. I would like to thank Mr. Smucker, who sits on this subcommittee, for his leadership on the Main Street Tax Certainty Act, which would make the 20% deduction for pass-through businesses permanent.

EMP is a family business, which means we have spent a significant amount of time understanding the ramifications of the estate tax. EMP is not a liquid company; almost every penny we earn is poured back into our business so we can grow and compete. 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. The estate tax has 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. The increased exemption is set to expire at the end of 2025, which will threaten my ability to pass EMP on to my children. I would like to thank Mr. Feenstra, who sits on this subcommittee, for his leadership on the Death Tax Repeal Act, which would permanently repeal the estate tax.

These tax policies implemented by the TCJA were revolutionary for manufacturers, and they also face expiration in the near future. The changes to the pass-through deduction, individual rates and estate tax threshold on top of the expirations of R&D expensing, interest standards and full expensing will be devastating for every manufacturer in America. I urge every member of this committee to preserve these provisions which allowed manufactures to function as the backbone of our domestic economy and compete on a global scale. As you begin to craft the next generation of our tax code, I hope you keep these guiding principles in mind:

- Tax policy should promote economic growth, U.S. jobs creation and the ability of U.S. manufacturers to compete in the global markets;
- Federal tax policy should be simple and permanent; and
- The tax burden should be minimal, competitive with other jurisdictions and nondiscriminatory.

I once again want to thank the members of this subcommittee for inviting me here today. I hope your time in our great state leaves you with a lasting impression as you return to work in D.C. Pennsylvania is a blueprint for America's manufacturing greatness, and our values and dependability are represented in manufacturers across our state. I hope you keep the keystone in mind as you debate our tax code over the next year and a half, and ensure it supports the American manufacturing dream for the decades to come.