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US House of Representatives; Committee on Ways and Means
Hearing on How Tax Reform Will Grow Our Economy and Create Jobs Across America
Written Testimony of: **Zachary Mottl**

Mr. Chairman and members of the committee, my name is Zach Mottl. I am the Chief Alignment officer for Atlas Tool Works, a fourth-generation family-owned small manufacturer located in Lyons, Illinois.

I am here today representing not only my own company, but also the more than 750 manufacturers who are members of the Technology and Manufacturing Association (TMA) in Illinois.

These manufacturers, many in Congressman Roskam's district, are proud to provide good paying jobs and careers to about 30,000 individuals in the greater Chicago Metropolitan area. The members of TMA are small-to-medium sized supply chain manufacturers that have survived NAFTA, weathered the China tide, and managed through the great recession. Through innovation, modernization, and cost control, these manufacturers and others like them throughout our country, now produce more product than we did 20 years ago. Plus, we're poised to take advantage of the well-earned opportunity for re-shoring. American manufacturers are successfully competing against the best that Europe, Asia, and the world has to offer. We are proud to help manufacture the wealth of America.

However, in order to continue our success and grow our manufacturing industry while creating more good paying jobs for Americans, we need your help. I am here today to testify in support of your work to comprehensively reform the U.S. Tax Code. I believe this is the best and fastest way to grow the US economy and create more jobs in America.

I want to highlight two things: the opportunity for trade competitiveness through tax reform and the unique pain felt by small manufacturers due to excessive complexity and unfair treatment under the current tax code.

Today, the most difficult barrier to growth American manufacturers face is our self-inflicted tax code. Much of it was written decades ago, and it fails to account for today's internationally competitive environment. I realize this will be hard and contentious work. Manufacturers understand that there will be those who argue for simply reducing current tax rates. While a reduction in tax rates may be helpful in the short run, I believe our economy and our citizens need and deserve permanent, comprehensive tax reform that also improves America's trade competitiveness. That is why the manufacturers I represent are so pleased that this committee has placed border adjustability at the center of its tax reform efforts so we can neutralize the border tax problems imposed on us by other countries and reclaim our competitive edge in international trade.

Currently nearly every one of our international trading partners use "Border Adjustable" consumption tax systems (BATs) , in the form of value added taxes (VATs) or goods and services taxes (GSTs), averaging 17% globally which act as tariff and subsidy replacements.

A VAT is a consumption tax that is applied to companies at every stage of the production process, instead of just at the final sale like an American state sales tax. The big advantage of a VAT is that it is imposed on all imports and generally rebated on exports. Other domestic taxes, like income taxes, must be reduced to gain the trade advantage offered by any BAT regardless of the form, either a VAT or GST, but the income generated by BATs allow the taxing regime to shift towards more border adjustability while reducing other taxes.

Most European Union nations have VAT rates between 17% and 22%. Every American exporter into an EU nation must pay those VAT rates to sell their product there. When Mexico agreed to the NAFTA and abolished most tariffs charged on U.S. goods, it raised the Mexican VAT rate to 15%, thus erecting a new tax "wall" so to speak against American goods. Under the leadership of prime minister Narendra Modi, India is now in the process of adopting a nationwide GST tax.

Furthermore, a country can mimic a currency devaluation by increasing its VAT and using the proceeds to reduce other domestic taxes. Domestic producers and consumers receive no net tax increase. Exports are cheaper due to the VAT rebate combined with the domestic tax cuts. Imports are more expensive because the VAT is applied with no offsetting domestic tax reduction for foreign suppliers.

Looking at the mechanics of these BATs combined with the understanding that over 150 of our trading partners use them, it's clear that the US is out of alignment with the rest of the world when it comes to globally competitive taxation schemes. What I mean is that most other countries have lowered tariffs, often times through trade agreements, but then replaced those tariffs by combining a border adjustable consumption tax increase with a cut in non-border adjustable, usually income, taxes while maintaining similar overall tax revenue. The shift from non-border adjustable to border adjustable taxes is their strategic secret, one that the U.S. government has not, in the past, figured out. The effect has been a major impediment to retaining and growing more manufacturing jobs in the USA and has resulted in the disenfranchisement of main street America on trade.

In reality, tax policy and trade policy go hand in hand and I believe that tax policy has far greater effect on trade than any trade agreement ever could. Good tax policy, one that encourages domestic production and exports, is in effect good trade policy. Moreover, it is unilateral, meaning we don't need to negotiate with anyone, ask permission from any international bodies, or risk sparking a trade war. Remember, nearly every one of our trading partners already has some type of a BAT system. We simply change our tax laws and immediately American producers regain their advantage in the global economy.

More specifically, creating a U.S. goods and services tax at perhaps 12%-15% while using the proceeds to fund the elimination of the payroll tax burden and reducing overall tax rates would be revenue neutral domestically but would cause a tremendous boost to our trade competitiveness. US labor costs would be reduced, workers would get an immediate raise, and the price of goods and services would be largely unaffected. In short, I want to get back to a world where American producers complete, and win, on price, quality and service, rather than tax regimes.

Besides the importance of border adjustability to tax reform, the second point I want to highlight is the importance of simplifying the tax code and reducing the overall tax rate.

My company is very similar to the other 750 TMA member companies in that we are all small businesses, we are all manufacturers, and we are often family owned. Usually we own our own real estate, and we do not have a significant staff of tax accountants or tax attorneys to help us. We work hard to be competitive, to create jobs, to do the right thing, and pay our fair share. However, what exactly is our fair share is not clear.

Consider, for example, that smaller businesses have provided some of the fastest employment and output growth for the United States, yet receive some of the worst tax treatment under the current code. As a result, smaller American businesses pay some of the highest income taxes in the world. According to BLS and Census data, 98 percent of America's manufacturing firms are small. More than one in three Americans who work in the manufacturing sector are employed by a business which employs fewer than 500. In addition, most large manufacturing companies in the United States rely on small and medium-sized manufacturers as essential suppliers. However, the current U.S. nominal corporate tax rates are the highest in the developed world, higher than any other OECD member state. The OECD non-U.S. average rate is 25 percent, and is forecast to fall to 24.2 percent this year based on already enacted reductions, compared to the U.S. 35 percent nominal rate.

I support the Committee's focus upon destination based business taxes. A destination based profit tax, through sales factor apportionment, should be considered in addition to a destination based cash flow tax. Sales factor apportionment, already in use by the states, would largely eliminate base erosion through profit shifting to tax havens because income is attributed to the tax jurisdiction where the final sale occurred. This would broaden the tax base by as much as 30% thereby enabling lower rates for all businesses. The rates could be applied across all business types.

In addition, oftentimes, tax issues affect manufacturers of different sizes in different ways, usually smaller manufacturers, like the TMA member companies, are the only companies paying a higher tax rate because we do not have the staff or the resources to develop a comprehensive global tax avoidance plan like our larger peers who actually pay far less in taxes that we do. That is why I believe we must reduce the overall rate, offer a reduction in payroll taxes, and fund these reductions through BATs to avoid an unsustainable loss of government revenue.

Additionally, it is important to simplify the required computations in order to avoid disadvantaging Subchapter S and LLC businesses, many of which are small businesses. Subchapter S and LLC businesses, both large and small, report taxes on the owner's or member's personal income taxes and the calculations are excessively complicated. My own family businesses, which together employ about 80 people, have 3 different tax structures. One is a C corp, two are S corps, and one is an LLC.

All of this is ridiculously complicated, given our small size. However, at the time each entity was set up, made sense to do it this way and there was a valid reason. Now, as we have grown and laws have changed, this messy structure has become a burden. My family would like to transfer ownership to the next generation and, with the help of my sisters, become a woman owned business. However, because of the tax implications we are stuck and cannot do this prudent planning. We can't even move our fiscal year end so that all the companies share the same year end without triggering a massive tax liability. I'm sure if I was a much larger business with a staff specialized in this, we could perhaps figure out a way. Instead, we must deal with our situation and hope and pray that comprehensive tax reform, simplifying this whole mess, will occur sooner rather than later.

TMA member companies, and tens of thousands of others like them throughout the United States are not looking for a hand out, or an unfair advantage. What we are hoping for is a level playing field from our U.S. Tax Code, and the opportunity to earn our prosperity by winning on price, quality and service. U.S. manufacturers are proud of our workforce, we are proud to lead the world in productivity, innovation and quality, and we will continue to innovate and control costs. All we are asking from Congress is a permanent tax code that drastically improves our competitiveness through a move toward a more simplified and reduced tax system that places emphasis on a border adjustable tax component. This reform will provide a level playing field so that we can dramatically increase good paying American jobs and grow the American economy at a rate we have not seen in decades. Thank you for the opportunity to provide this input. I look forward to your questions.