

Testimony of Brian J. Stein,

Owner of Intersource, Inc. , S&S Refractories LLC and Clearscape Industries LLC

On the Cost of Doing Business in Pennsylvania, specifically tax reform and incentives for business

Good afternoon, my name is Brian Stein, I am owner or partner in 3 small companies headquartered in Butler County, PA with a production facility in McKees Rocks, Pennsylvania.

I appreciate the opportunity to testify today regarding the need for tax reform in the State of Pennsylvania with special regard for my personal story. My story begins in Eastern PA where I was born and raised in a suburb of Philadelphia, where my father worked in a company which provided goods and services to the primary steel industry of the United States. Upon completion of the USS Building in Pittsburgh in 1972, the corporate headquarters of my father's company moved into this building to be located closer to its main customer base. Then, upon completing an engineering degree from the Pennsylvania State University in 1987, I was ready to start a career, rich with the upbringing of Eastern, Western and Central Pennsylvania.

Having a family history of serving the steel industry and living in "The Steel City" I quickly accepted an offer to join a startup company in 1988, which was an Austrian owned satellite company producing Refractory products or "steel furnace ceramic linings". With legal counsel we were advised to set up a DELAWARE COMPANY in order to take full advantage of the Delaware Loophole and avoid paying the excessive PA Corporate net income tax rate. This was my first experience with the problems of Pennsylvania policy. While our company produced net earnings and sent them back to Austria as "royalty" payments, these so called "expenses" were offsetting income on the books and lowering the net effect of paying Corporate Taxes in Pennsylvania.

My story continues 10 years later as my Austrian parent company acquired 4 others large world manufacturers of Refractory products, 2 of which were the most prominent suppliers in the United States. The Refractory industry had come full circle and what was left were a few giants all positioning themselves for market dominance, but forgetting one key ingredient to success in business, "The Customer". I quickly jumped at the chance to start my own company with 2 partners in order to provide superior products, technology and services to the customer.

In 1998, we formed over the next few years, 3 companies, Intersource, Inc. , S&S Refractories, and Clearscape Industries. Intersource supplies imported minerals for the steel industry due to the poor positioning of the United States for sources of magnesia and alumina raw materials. The second company, S&S Refractories, is a distributor for refractory brick to the primary steel industry, and finally, Clearscape Industries, LLC which is a single member Limited Liability Company and a "disregarded entity". This disregarded entity was set up to protect the owners from liabilities due to the nature of the business. This production facility was designed to reclaim steel plant waste products (some potentially hazardous) and to return them as useful materials for the steel making process. Unfortunately, this same disregarded entity is subject to the Pennsylvania "Capital Stock and Franchise Tax" which punishes windfall events over multiple years and gives no credit for "tough years" as it will not allow negative

numbers into the calculations. This taxation method unfairly skews income and fails to recognize losses, especially since the nature of this “disregarded entity” is an honorable one, in recycling materials and preventing accumulation into landfills of potentially hazardous materials. We are glad that this Tax will be phased out by 2014.

Our 3 companies all working in related fields to provide goods and services to the steel industry have seen many ups and downs over the years. Intersource, Inc. has developed and patented slag making additives which has been sold throughout the world, and has invested heavily in this intellectual property protection. Applying for patent rights in over 25 steel or raw material producing countries has been a tremendous capital expense burden which we hope will pay dividends in the long run.

S&S Refractories is a Pennsylvania Limited Liability Corp. which specializes in primary steelmaking refractory linings for steelmaking vessels. This company imports finished goods from Europe and Asia due to strategic position and availability of raw materials. Not long ago, an anti-dumping / countervailing duties claim was filed for one of the products we represent. We testified in 2009 to the US International Trade Commission in Washington DC to plead our case. The outcome was found in favor of the petitioner, who happens to purchase nearly 100% of the raw materials to make these products from the countries in question. Although we favor local production where possible, we find the ITC ruling of > 200% duty excessive considering the raw material to manufacture these products does not exist economically in this country.

As an importer of minerals, some finished goods and a manufacturer of recycled materials all used in the primary steel industry, we face many unique challenges every day. Our main focus as a group of small companies doing “Business to Business” is the customer. As I mentioned earlier, our companies focus on customer needs and in the case of Pennsylvania, attracting new customers has been lacking for many years. High corporate tax rates and increasing regulation has forced many large companies out of the state or worse, never to even considered Pennsylvania as a potential business climate worth investigating. One of the staples to successful small business growth is a large base of C-corporations which bring employment and residents. These result in spending on local goods and services. Pennsylvania policy is sorely lagging behind other states in attracting large manufacturing business which bring more people, more jobs and ultimately more tax revenue for Pennsylvania.

Since the collapse of the Primary Steel industry in the United States in 1982, there has been a steady growth and prosperity in the US steel industry. Closing of old technology, inefficient mills with high legacy costs together with the rebirth of the new, high technology “mini-mills” has added 30 million tons of steel capacity in the United States since 1998. This may sound like great news, but the fact remains that nearly 100% of these new, high tech, efficient and clean steel making companies have been constructed in places other than Pennsylvania. Many decisions are made when choosing a facility site, such as proximity to the market, transportation, waterways, raw materials such as coal, limestone, scrap and iron ore. If you were going to build a new steel plant facility today and listed those key points as the only consideration to build a steel plant, I would pick Pennsylvania every time. What could be a better place than a state with an abundant supply of power, low sulfur coal, scrap and excellent waterways to

get your products to market economically? To answer this question more completely, I wish to give you the names of the cities of the last 30 million tons of new steel capacity in the United States.

Berkeley, SC	Armoredel, AR	Blytheville, AR	Decatur, AL	Tuscaloosa, AL
Calvery, AL	Mobile, AL	Axis, AL	Crawfordsville, IN	Butler, IN
Pittsboro, IN	Columbia City, IN	Muscatine, IA		

The first thing that comes to mind is that these are all “Right to Work” states, and that the corporate tax rates are low and incentives in power supply or taxation were given to attract these large corporations. They hold no other advantage over the State of Pennsylvania. In fact, many of them are in a poor location for raw material transportation costs and yet still flourish in that environment.

Of the 22 Right-to Work states, they contain only 40% of the nation’s population [Source: U.S. Census] but over 60% of NEW PRIVATE SECTOR JOBS in the United States. [Source: Haver Analytics/BLS] Critics of Right-to-Work states call them “right to work for less” states or “right to get fired” states, but the facts remain that individual income in RTW states is growing at a faster rate than forced-unionism states. From 1993-2010 real per capita personal income grew 39.5% in RTW states compared to 35.7% in forced-unionism states. [Source: BEA/Haver Analytics] I also strongly believe that a good job is a privilege and not a right, and that an employer should have the right to fire anyone that would be deemed detrimental to the productivity of the workplace.

These policies together with one of the top corporate income tax rates in the country has been responsible for Pennsylvania losing \$ 9.7 billion in adjusted gross income due to out-migration between 1993 and 2008. [Source: The Tax Foundation]

Many small businesses operate heavily leveraged and carry large inventories as is the case in our field of work. The primary steel industry is a 24/7 operation and heavy on demands of the suppliers. The heavy tax burden placed by federal, state and local municipalities is in direct opposition to the conditions set forth by our lenders. The banks expect us to make earnings with which those debts are repaid with interest to the lenders. The higher the tax burden upon small business, the less ability we as small business owners have to have capital to grow and succeed in good or bad economies. The only way we will grow as small business is to gain more customers and increase revenues. I advise the State of Pennsylvania to also GROW its ability to attract manufacturing business like the modern steel industry, and the result will also be increased revenues, thus lowering the tax burden on all residents.

Finally, I would like to mention the Inheritance tax issue which plagues any small business owner and his desire to pass the labors of their efforts on to its family members. The argument for inheritance or estate taxes are that the “the children of the rich are spoiled and lazy” and that this alone justifies the confiscation of AFTER TAX wealth accumulation. Even if this assumption were true, we live in a country where we should be free to make that decision and not have it forced upon us upon leaving this earth.