

March 3, 2021

Testimony before the:

Pennsylvania House Majority Policy Committee

Public Hearing on Gov. Wolf Budget Plan:

What Does It Really Mean for Small Business?

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President

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Chairman Causer, and distinguished members of the House Majority Policy Committee, I am Guy Berkebile, president and founder of Guy Chemical Company, located in Somerset County, Pennsylvania. And I thank you for inviting me to speak about how Governor Wolf's proposed budget will impact my company and on my employees.

At Guy Chemical we are manufacturers. We manufacture primarily adhesives, silicon sealants, silicon grease, two-part epoxies, anaerobic adhesives that are used by mechanics for repairing your car, by homeowners for repairing their houses, by contractors for building a building. And these products are made here in the U.S. and they are shipped across the entire world.

I started Guy Chemical in 1995 by taking the \$80,000 in savings that I had -- I took out a \$70,000 development loan, and then I mortgaged my house and I used the equity in my house as working capital for my business. The start was a very rocky one. I didn't have an employee for eight months. I lost money for two-and-a-half years. I did not draw a salary from my business for the first five years of the existence of Guy Chemical because making my payroll and the survival of my business was always more important than how much money I put in my pocket at any given time. Over the first 15 years of business, I mortgaged my house a total of 7 times to pay our obligations or to finance the growth of my business. My story as a small business owner and as a small-to-medium sized manufacturer is not unique. This is how American industry begins and eventually grows and thrives.

Today, I have over 160 employees in production facilities located in Somerset, Pennsylvania and Bethel, Vermont. The company is doing well. And whenever you have a manufacturing company like Guy Chemical

in your community, you have a real asset because, as a manufacturing company, we employ everyone. We employ engineers, chemists, skilled laborers, unskilled laborers, business managers, and accountants. So virtually everybody has an opportunity to be employed at a company like Guy Chemical. The multiplier effect we have on the economy of the greater community is vast, as well.

On February 13, 2019, I had the opportunity to testify before the United States House of Representatives Ways and Means Committee about the importance of the Tax Cuts and Jobs Act. Maybe the best way to look at what Governor Wolf is proposing is that it's the anthesis of the Tax Cuts and Jobs Act.

I am an S-Corporation. I was paying a tax rate of 39.6 percent at the federal level. When you add on my state taxes and my local taxes, I was paying a tax rate of nearly 50 percent. So nearly \$.50 for every dollar I made in profit went back to the government in the form of taxes.

Then, in 2017, came the Tax Cuts and Jobs Act. And this enabled me to keep more money in my company, and I used that money wisely. We have invested it in new equipment. We have a new lab we built that is five times larger than our old lab. We have new mixing equipment. We have new production equipment. I have also invested in my employees in the form of a higher salary and bigger bonuses.

Most importantly, the lowering of tax rates put more people in Somerset County to work. We added 29 new jobs as a result of the tax cuts. We saw unprecedented demand and our sales in 2018 were up approximately \$9 million. One of those new employees is George Tomoiag, an American-immigrant from Romania. He and his wife, Amber,

were recently married. They were able to pay for a bigger wedding. They are paying down student debt, and they are now looking for a house to purchase because they are now more financially secure.

It is evident that the tax cuts Act not only had a big impact on Guy Chemical, but also on other businesses, and on our employees.

All the good that came to the American Economy and the growth and expansion of industry that we have seen because of the lowering of tax rates at the federal level is challenged by Governor Wolf's proposal, especially with the push for a near 50 percent increase in the rate of the Personal Income Tax; the tax rate that more than 80 percent of businesses, including my business as an S-corp, pays to our commonwealth. By adding to Pennsylvania's business tax burden, we will not be able to attract new business to our commonwealth and I fear we will continue to lose the businesses we already have.

New, additional taxes on energy production and higher utility costs spurred by joining the carbon-cap-and-trade Regional Greenhouse Gas Initiative are especially threatening to manufacturers as we are large end users of electricity. If our electricity rates increase by 10 percent, that would mean an addition <<INSERT FIGURE HERE>> a month from our bottom-line, on top of the added state tax burden.

Our employees that earned higher wages and bonuses will be paying more to the commonwealth, too - money that will not be put back into the local economy in Somerset but will instead come to Harrisburg - and for what?

Pennsylvania has an opportunity to attract and retain manufacturing investment, but Governor Wolf's budget proposal will make that a challenge. Shouldn't we instead be talking about ways to make

Pennsylvania's business taxes more competitive to bring new investment here and to retain the industries we currently have? Proposals that were included in the Small Business Tax Fairness Package from the last legislative session would be a good place to start. Allowing small businesses to permit like-kind exchanges, allowing for Net Operating Loss deductions against state tax liability, and allowing for full tax deductions for qualifying equipment permitted by Section 179 of the Federal Tax Code is a start. These are the reforms needed by our small and medium sized manufacturers - not a near 50 percent increase in state tax liability, state-driven higher energy costs, and increases in state-mandated wages.

Thank you to this committee and to the General Assembly for exploring this topic and the impact that it will have on small to medium sized manufacturers like me.