

Testimony of

Gary R. Ellerhorst
President/CEO

of

Crown Plastics Co.
Harrison, OH

to the

House Committee on Small Business
July 25th, 2018

Gary R. Ellerhorst

President/CEO, Crown Plastics Co.....2005 – Present
COO, Crown Plastics Co.....1995 – 2005
Sales Manager, Crown Plastics Co.....1984 – 1995
Sales, Crown Plastics Co.....1978 – 1984
Machine Operator, Crown Plastics Co.....1976 – 1977

Past President, Main Street Harrison – Harrison, OH
Member, Greater Harrison Chamber of Commerce Creation Committee
Past Board President, Greater Harrison Chamber of Commerce
Current Committee Chair, Greater Harrison Chamber of Commerce
Member, City of Harrison Comprehensive Plan Steering Committee
Current Board Chair Southern Ohio District Export Council

In 1972, my father started Crown Plastics Co. After working several years as a second shift machine operator while attending Xavier University, I came on full time at Crown in 1978. In the past 40 years I have experienced just about every level of financial difficulty and success, due both to general economic as well as market specific conditions. What I have come to learn is that although a singular situation or event can bring a solid, successful business to its knees...for example streaming video's complete annihilation of Blockbuster Video, or regulatory impact on small community banks...it takes a combination of specific market and economic conditions to fuel significant profitable growth. These include internal aspects such as a skilled workforce, product value and innovation, and wages and benefits, external items such as the general economy, global competition, regulation, taxation, and availability to capital, and other, more nebulous things such as corporate and consumer confidence in the future economic environment.

Although each of these aspects plays an important individual role on overall economic performance, it is the combination of these that create the synergistic rocket fuel for a booming economy. Separately, Mentos will freshen your breath and Diet Coke will quench your thirst...but together in the proper environment they are explosive. Either of them alone won't do it, nor could you replace them with Tic Tacs or Diet Pepsi and get the same result.

So, trying to evaluate the impact of the recent tax bill contextually removed from the other contributing economic influencers which combine to generate the overall economic picture can be difficult and potentially misleading. I will, to the best of my ability, provide my perspective as to how the bill both directly and, more importantly, in conjunction with other economic and policy-based contributors, is impacting my business.

The attached exhibit is a drastically simplified illustration of the direct impact on our tax liability. As an S Corp, under the new bill Crown shareholders would be eligible for the 20% pass through tax deduction. However, we also lose the 9% Domestic Production Activity Tax deduction that was eliminated. Based on \$1 million in taxable income, which is about where we budgeted for 2018, Crown would see a net decrease of just over \$64,000 in shareholder tax liability. As with most S corporations, we commit to distributing to the shareholders enough to cover their federal and state tax liabilities, so the result is that the company would be able to reduce its distributions by the \$64,000 and still provide our shareholders the funds to meet their tax requirements.

Now, that may not sound like that big a deal for a \$14MM company, but in reality it is. Over the past 10 years, we have invested over \$5MM in new equipment, process improvements and technological updates and have paid out little-to-nothing to our shareholders. Even if we decided to just pay out the pre-tax bill numbers, it would provide the opportunity for the shareholders to keep their portion of the tax reduction and use it for themselves and their families. And as a privately held company, our shareholders are just regular folks like myself, many of them the children of the initial investors who have inherited the stock from their parents.

We could also choose to use the money to pay down debt, further reducing interest costs. \$64,000 per year would also provide us with the capability to service well over \$1MM in addition loans for further investing in our business...which is very timely as we just signed a contract on an additional building adjacent to ours which, with upgrades, will cost us about \$1.1MM. The tax savings will allow us to cover this additional expense without adversely affecting our current cash flow, which is the most critical factor to a growing business.

A key impact for us is with regards to our medical insurance benefits. We continue to pay 100% of the premiums for our employees' high deductible HSA medical insurance policies, as well as 40% of the deductible on the backside. This has been a commitment of ours to our employees, and over the past 10 years we have worked hard with our insurance broker to do whatever we could to maintain that benefit through increased deductibles, changing carriers and sponsoring employee wellness programs. We are at a point where one more large increase in premium costs will force us to start requiring the employees to contribute to the program. But with the new tax bill not only can we maintain the status quo for 2019, but for many years to come. Why? Because when we realize the impact of a booming economy along with the returns from recent investments we have made in the business, we expect to double profits next year...which means \$64,000 becomes \$128,000 in tax savings. And even more in 2020.

Another aspect that is potentially even more impactful than the tax rate itself, is the ability to accelerate depreciation of our investments into our company. Outside the purchase of the new facility, we have budgeted capital expenditures of \$800,000 for calendar 2018. Although the net impact over time is a wash, the ability to expense these investments rather than depreciating them over 5 or 7 years will provide us with an additional

\$200,000 of cash in 2018 which again, is often the most critical item for a growing company. With increased receivables, inventory and work in process, a growing business requires significant cash.

So, in closing, the recent tax reduction in and of itself will have a positive impact on our employees and our business in 2018 and beyond. But when augmented by reduction in regulation and, most importantly, the hugely positive outlook by business leaders and consumers which started the day after the 2016 election, the resulting booming economy takes that positive impact of the tax bill and increases it exponentially.

Crown Plastics, Inc.
Rough Illustration of New Tax Law
2018

	OLD	NEW	Difference
Taxable Income	\$ 1,000,000	\$ 1,000,000	\$ -
New Small Business Deduction	\$ -	\$ (200,000)	\$ (200,000)
OLD DPAD deduction	\$ (90,000)	\$ -	\$ 90,000
Taxable Income	\$ 910,000	\$ 800,000	\$ (110,000)
Max Rate	39.60%	37.00%	
Federal Taxes	\$ 360,360	\$ 296,000	\$ (64,360)
Percent of Taxable Income	36.04%	29.60%	