Testimony of Karl Hutter

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U.S. House of Representatives

Committee on Small Business

"Hope on the Horizon: Prioritizing Small Business Growth in the 119th Congress"

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Good morning Chairman Williams, Ranking Member Velázquez, and members of the Small Business Committee. My name is Karl Hutter, and I am the Chief Executive Officer of Click Bond, a family-owned manufacturer based in Carson City, Nevada, and with an additional manufacturing site in Watertown, Connecticut.

At Click Bond, we design, manufacture and support adhesive-bonded fasteners and related assembly technology. Our products are used around the world—and even in space—in aviation, aerospace, vehicle, marine, industrial and offshore energy settings. We supply both civil and defense original equipment manufacturers and operators, and we are proud of the role we play in ensuring America's national defense in the air, on land and at sea.

Click Bond is a family business, built on innovation. My parents founded the company in 1987, combining my father's inventive genius—with more than 80 patents to his name before starting Click Bond—with my mother's technical and business acumen and experience from her own family background in manufacturing. Their vision was simple but powerful: adhesive-bonded fasteners and brackets could displace traditional vehicle assembly processes involving hole drilling and installation of bolts and rivets to improve performance, design flexibility, structural integrity and corrosion and fatigue properties. This approach would not only increase efficiency, but also eliminate opportunities for error and scrap throughout the manufacturing process.

For 38 years, we have built on that vision, pioneering technologies that extend the life of critical systems, improve performance, reduce costs, enable safe and sustainable global air transport, help America's warfighters execute their missions successfully, and expand the horizon of human knowledge in space.

Click Bond's story is unique, but it also parallels the story of countless small and medium-sized manufacturers in the United States:

- We lead from the middle through relentless innovation;
- We are a vital link in the manufacturing supply chain, working with companies far larger and far smaller than our own;
- We provide family-sustaining careers, offering competitive wages, benefits and top-tier workforce development; and
- We are committed to investing in the future of manufacturing in the United States.

We know that when manufacturers like Click Bond thrive, America's economy, workforce and national security thrive.

Like many small and medium-sized companies, however, we face significant challenges. As the Committee convenes for today's hearing on how the 119th Congress can prioritize business growth for companies like mine, I would submit that some of the biggest obstacles come from Washington itself: expiring tax policies increase both costs and uncertainty, and they make it incredibly difficult to plan and commit to long-term investments. A broken permitting system slows down projects and delays economic growth. Overreaching and unpredictable regulations impose tremendous, disproportionate burdens on small manufacturers. Rules that, on their face, only apply to the largest companies, but that nonetheless create regulatory burdens throughout the entire supply chain.

But there is hope on the horizon. Manufacturers are ready to invest, expand and hire—if Congress delivers policies that reduce taxes, ease regulatory burdens and unlock growth for small businesses across the country.

After hitting its lowest point since the pandemic, manufacturers' optimism surged in late 2024—a direct reflection of the opportunities before this Congress. In the NAM's latest Manufacturers' Outlook Survey, 98.5% of manufacturers said it is important for Congress to work with President Trump to prevent devastating tax increases scheduled for the end of this year. More than 99% of manufacturers said that policymakers should reduce our industry's regulatory burden. And nearly 70% of manufacturers with permittable projects in their pipeline said that they would be able to expand more quickly if Congress can streamline federal permitting.[1]

This is a defining moment. Congress has the chance to prevent record tax hikes, curb excessive regulations, and unlock manufacturing's full economic potential. And small and medium-sized manufacturers, which make up more than 98% of our industry, stand ready to partner with you to make it happen.

I. <u>Preserving Pro-Manufacturing Tax Policies</u>

The 2017 Tax Cuts and Jobs Act was rocket fuel for manufacturers, including Click Bond. Those tax reforms enabled us to make vital investments such as reviewing and pushing hourly and supervisory employee pay scales upward to meet the market and then meet the burden of post-pandemic inflation; investing in next-generation production equipment; scaling our engineering and development workforce and capability; delivering our employee academic assistance program that grants 100% tuition and materials payment for college and trade school; and countless more improvements.

Stories like Click Bond's were widespread throughout the manufacturing industry following tax reform's passage. In fact, industry-wide, 2018 was the best year for job creation in more than two decades. Further, manufacturing capital spending grew by 4.5% that year, and by 5.7% in 2019. Manufacturers of all sizes were able to use their tax savings to grow their businesses, create jobs,

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[1] 2024 Fourth Quarter Manufacturers' Outlook Survey, December 17, 2024, https://nam.org/wp-content/uploads/securepdfs/2024/12/Outlook_Q4_2024_Write_Up.pdf.

raise wages, add new benefits for employees, fund R&D, purchase new equipment, expand their facilities and invest in their communities.

But now, that progress is at risk. The pro-growth, pro-manufacturing tax policies that Congress passed in 2017 began to expire in 2022 and 2023, and more expirations are on the way. Vital incentives for innovation and capital investment—the twin pillars of manufacturing success—lapsed, with Click Bond experiencing higher operating costs as a direct result of the loss of immediate R&D expensing, interest deductibility and full expensing for capital equipment purchases. The aircraft manufacturers that Click Bond supports are transforming their production systems to remain globally competitive. Suppliers like us must heavily invest in product and process development and the associated capital equipment required to deliver on that development if they are to remain competitive and relevant. Manufacturers recognize that America's global competitiveness stems from our outsized investment in production process innovation. These investments strengthen America's national defense posture as well as our nation's ability to contribute to delivering sustainability in the products and services we supply. Today's competitive economic and geopolitical landscape makes these investments critical and necessitates a tax code that supports manufacturers that are advancing American innovation and strengthening its industrial base.

Now, our industry is on the precipice of additional tax increases. At the end of this year, key pro-growth tax reform provisions are scheduled to expire, ranging from small business priorities, such as the pass-through deduction and the estate tax exemption threshold, to provisions that impact larger businesses, including the TCJA's international tax reforms. The interconnected nature of the manufacturing supply chain means that all manufacturers will be impacted by these expirations.

A study recently released by the National Association of Manufacturers makes clear that a failure to extend tax reform would be devastating to the American economy. **Nearly 6 million American jobs will be at risk if Congress does not preserve tax reform's pro-manufacturing provisions.** In addition to these devastating job losses, more than $500 billion in employee compensation and more than $1 trillion in U.S. GDP are on the line. Manufacturing will bear the brunt of this economic damage. Our industry is facing a loss of more than 1 million jobs, $126 billion in employee compensation and $284 billion in manufacturing output if Congress fails to protect pro-growth tax policies. In short, inaction is not an option.[2]

Manufacturers like Click Bond need Congress to preserve tax reform in its entirety. Specifically, Congress must:

- **Restore expired incentives for innovation and investment**, including immediate R&D expensing, a pro-growth interest deductibility standard and full expensing for capital equipment purchases;

[2] Economic Impacts of the Expiration of Tax policies that Encourage Manufacturing in the United States, January 14, 2025. https://nam.org/wp-content/uploads/securepdfs/2025/01/NAM_EY_TCJA_Mfg_Provisions_Analysis.pdf.

- **Protect small businesses from tax increases** by preserving the pass-through deduction, the increased estate tax exemption threshold and tax reform's individual tax rates and brackets; and
- **Maintain tax reform's international tax system** by avoiding damaging changes to the FDII deduction, the GILTI regime or the BEAT.

Additionally, Congress must preserve the 21% corporate tax rate enacted by tax reform. Click Bond directly benefited from Congress reducing the U.S. corporate tax rate from 35%—which had been the highest in the developed world—down to 21%. A large share of our cost savings associated with tax reform were attributable to the new, more competitive corporate rate, and those savings allowed us to strengthen investments in our company and its future. With the confidence afforded to us by the TCJA, we began planning 150,000 square feet of new facilities that. These facilities will provide the scale and efficiency in our production necessary to achieve our bold goal of 150 percent growth in output by the end of the decade. Investments like this will increase the number of manufacturing jobs and upskill our current team into higher-paying roles created by our R&D investments into automation and process enhancement technologies. This step change in our productivity will enable us to be ready to support the efficient and capable production of America's next generation of commercial and military air vehicles. Manufacturers simply cannot afford a damaging increase in the corporate rate that will stunt such investments.

For Click Bond and thousands of other family-owned manufacturers, TCJA's doubling of the estate tax exemption gave us the assurance needed to make large investments with confidence and assuaged the fear of sudden forced liquidity caused by generational change in a company. Operating on a long-term timescale measured in generations and reinvesting substantial amounts of their profits is what gives family businesses the "patient capital" driving their unique value to the U.S. economy and the communities they serve. The estate tax undercuts this value, creating a severe burden on family businesses that often find themselves illiquid after reinvesting their profits back into their employees, communities, products, equipment and facilities—especially in the capital-intensive manufacturing sector. To pay off the tax bill that comes with generational change, family businesses often sell the business, sell capital assets, take on private equity or curb the investments necessary to sustain growth. Speaking from our perspective in the aerospace and defense industries, a substantial number of small family manufacturers make up the fabric of the defense industrial base; preserving TCJA's doubled lifetime estate tax exemption or eliminating the estate tax altogether would be crucial steps toward supporting them.

Tax hikes are not just a cost problem—they are a *certainty* problem. We need predictable, stable and reliable tax policies to make the long-term, job-creating investment decisions that drive manufacturing growth. Large manufacturing investments, like the one described, take years to execute and even longer to bear fruit. If manufacturers do not have confidence that the tax code will remain stable throughout the life of a project, it can be difficult to commit to the project in the first place. This is particularly true for smaller manufacturers. Our smaller option set for capital access and increased sensitivity to cash flow results in less flexibility to simply trust that policy changes will not undermine our investments over time. The TCJA was a massive step toward putting an end to seesawing tax policy by instituting a pro-growth tax code for American manufacturing. Now, Congress has the opportunity to finish the job by making permanent the remaining pro-manufacturing TCJA provisions and powering even more manufacturing job creation, capital investment and growth.

II. Rolling Back the Regulatory Onslaught

Manufacturers have faced a regulatory onslaught in recent years—but the new Congress and the new administration can right-size the regulatory burdens on our industry.

Manufacturers need smart, workable rules of the road. And manufacturers believe in protecting workers, consumers and the environment—in fact, companies in our industry are often at the innovative forefront of developing new products and processes to meet these goals. At Click Bond, we know safety and sustainability are not good outcomes to strive for, they are natural enablers of business success. A record number of our employees have completed the OSHA 10- and 30-hour training, leading to extraordinary safety performance at both of our campuses. Commercial aviation can only progress if fuel burn and emissions are reduced, a noble mission to which the use of our products contributes by delivering reduced aircraft weight and enhanced efficiency. We have been disheartened by the recent spate of unbalanced regulations over the past several years, however. They harm manufacturers' ability to focus on innovation, growth and job creation.

Across the economy, companies spend more than $3 trillion every year to comply with federal regulations. Manufacturers bear a disproportionate share of this burden, shouldering $350 billion in regulatory costs annually. The situation is particularly acute for small manufacturers, which spend more than $50,000 per employee per year on federal regulations. In our industry, these funds are diverted from more productive uses, such as hiring additional personnel, expanding production lines or investing in R&D.[3] In addition to being costly, in many instances the rules in question are also ineffective or infeasible. Regulations that do not reflect business realities, incorporate appropriate science or allow for reasonable implementation can *only* increase costs—with minimal benefit for society. Regulatory overreach forces Click Bond to divert funds away from production- and employee-enhancing investments to address variable, costly and ineffective regulatory compliance.

Our experience with these rules is emblematic of the impact that overreaching and unworkable federal regulations are having on small and medium-sized manufacturers across the country. Not only do small manufacturers experience disproportionate regulatory burdens from the federal government directly, but we also often face regulatory costs from rules that are not supposed to apply to us at all. Reporting and disclosure rules for larger companies, for instance, sometimes exempt smaller businesses—but a reporting requirement for one of our customers more often than not becomes a reporting requirement for Click Bond. Recent proposals from the SEC and the DOD at the federal level, from the California Air Resources Board at the state level and from the European Union related to large companies' greenhouse gas emissions are illustrative of this dynamic. As an important part of many large companies' supply chains, Click Bond is likely to incur significant compliance costs necessary for tracking emissions and reporting the data to our larger customers—even though these rules do not technically apply to us. The regulatory

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[3] The Cost of Federal Regulation to the U.S. Economy, Manufacturing and Small Business, October 1, 2023, https://nam.org/wp-content/uploads/2023/11/NAM-3731-Crains-Study-R3-V2-FIN.pdf.

onslaught's impact on business growth is often unavoidable, even when exemptions are written for small and medium-sized businesses.

Fortunately, Congress and the Trump administration have an opportunity for course correction. The NAM sent a letter to President Trump shortly after the election identifying more than three dozen regulatory actions the administration can take to ease the regulatory burden on manufacturers—important first steps toward a more balanced regulatory environment for our industry.[4] Congress has a critical role to play as well, whether by overriding unworkable standards from the Biden administration, working with the Trump administration on new rules or providing oversight of federal regulators to ensure they keep small business concerns top of mind when promulgating new regulations.

Outlined below are just a few specific examples of where and how regulatory overreach has had a profoundly negative impact on small and medium-sized manufacturers in America.

A. Chemicals Regulations, Small Businesses and Manufacturing Supply Chains

As small businesses continue to recover from pandemic-induced supply chain disruptions, recent regulations have made this task even more difficult. Specifically, reporting requirements imposed by the EPA on various chemicals have created mountains of red tape and wasted man hours. Click Bond is no stranger to these types of requirements, having lived through the poorly considered conflict minerals reporting requirement imposed by Dodd-Frank. Then, as now, companies of all sizes were required to interrogate their supply chain for evidence of certain inputs, despite the inquiry being difficult and extremely costly at best and impossible at worst. Indeed, we are once again experiencing with the EPA's chemicals mandates that, for many small companies, it is often impossible to procure and supply the required information, harming our relationships with our customers and driving business away from American supply chains.

A telling example of this approach to chemicals regulation is the Biden administration's implementation of an amendment made to the Toxic Substances Control Act by the National Defense Authorization Act for FY 2020. This new section, Section 8(a)(7), requires reporting and recordkeeping of PFAS going back to 2011. Rather than taking a measured approach to promulgate a pragmatic rule that is workable while meeting congressional intent, the EPA chose to take a heavy-handed approach. The regulation provides no *de minimis* threshold nor exemptions for small businesses who simply do not have the capacity to comply with reporting on thousands of potentially covered substances going back more than a decade.

In practice, the small and medium-sized companies that are key to many manufacturing industry supply chains have been unable to meet the requirements of this rule when reporting requests come in from multiple larger customer companies. For smaller companies, the burdens of addressing these information provision regimes pile up quickly and become strangling due to the lean staffing available. Immediately, critical resources are diverted from actually operating and growing the business to address these requests. The EPA itself has had to delay the start date for reporting under the rule because it lacks the ability and capacity to catalogue, process and

[4] https://nam.org/wp-content/uploads/2024/12/Manufacturers-Regulatory-Letter-to-President-Elect-Trump_12.5.24.pdf.

analyze the enormous amount of data the rule will produce. Not only are small businesses suffering under this paperwork burden, but useful data that could inform science-based regulatory approaches is being drowned out.

I would urge the members of this Committee to use your oversight powers to more closely examine the burden this rule and others like it have placed on small businesses that are integral to supply chains in the national security and energy spaces.

B. Imbalanced Environmental Regulations

As I mentioned earlier, manufacturers are committed to improving the sustainability of our operations, protecting the environment and ensuring clean air and water. The commercial airliner industry has sustainability "built in": as a general rule, each successive aircraft model must reduce fuel burn and improve other efficiency factors by at least 20 percent in order to justify the airlines' economic investment in the new equipment. Additionally, the industry has set the voluntary goal of net-zero emissions by 2050. Click Bond must deliver its own contributions to sustainability in the products and production processes that we use if we are to earn our way onto future aircraft; our customers in the United States and globally are demanding it. This work and the meaningful related investment are undertaken without any mandate from the federal government. Despite this, unworkable and overreaching environmental rules – like those recently generated during the Biden administration – continued to pour forth, imposing unworkable standards on small and medium-sized manufacturers while also dramatically expanding the EPA's authority.

One specific, concerning regulatory effort from the past four years was an attempt by the EPA to revise regulations covering the Clean Air Act's New Source Review preconstruction permitting program. Specifically, the EPA proposed revising the definition of "project," mandating that decreases in emissions included in the first step of a project's accounting process be "enforceable." The proposed rule would also broaden monitoring, recordkeeping and reporting requirements.

If this regulation were to go into effect, it would expand the EPA's powers over all air pollution control agencies at the state, local and tribal levels responsible for issuing preconstruction permits pursuant to the major NSR programs. Many of these pre-construction permits are non-controversial, and the states have proven to be capable of reviewing and processing them in a timely manner so as to not disrupt business planning and operations. Involving the EPA in these permitting decisions would slow the process considerably, delaying job-creating investments across our industry.

Thankfully, the Trump administration has the opportunity to right-size the EPA's regulatory approach to small businesses and streamline the environmental permitting process, rather than add more roadblocks that limit manufacturing growth, innovation and job creation.

C. Energy Costs and Permitting Reform

Like all manufacturers, Click Bond's business depends on access to affordable and reliable energy. While Click Bond's direct power consumption is modest, it must be stable and reliable. The metallic, thermoplastic and composite input materials integral to our manufacturing processes are energy intensive and not substitutable. Unfortunately, the Biden administration's EPA issued a final rule that would cause the early retirement of certain power plants that are essential to keeping manufacturing lines running. The EPA's Clean Power Plan 2.0 is based on deploying new emissions-capturing technologies at scale within a timeframe that is simply unachievable in the near term, especially given the lengthy permitting process that is typical for investments of the size needed. If the power plants identified under the rule are not able to achieve the emissions standards set by EPA using carbon capture technologies, they would be forced to shut down.

Shutting down critical sources of energy for manufacturers would be devastating for our industry. Manufacturers are and have been investing in new technologies and strategies to bring down emissions—but the EPA's infeasible energy regulations threaten our ability to continue to grow and power the American economy. If these rules limit energy production and thus manufacturing output, both manufacturers and customers will shoulder the burden of increased costs.

In addition to rolling back EPA regulations that are increasing energy costs, Congress and the Trump administration can and should empower growth throughout the manufacturing industry by enacting comprehensive permitting reform. Making it easier to produce all forms of energy and getting new energy projects on-line would have substantial, positive impacts on costs and reliability. Unfortunately, our permitting processes are significantly hampered by bureaucratic red tape, frivolous lawsuits and resource inadequacies that cause delays. These delays are making it more difficult to modernize our infrastructure and to compete on the global stage. For smaller manufacturers like ourselves the effects of this challenge predominantly appears in the cost of input materials like metals and plastics, sourced from larger suppliers who pass along the elevated costs of both extracting raw materials (ore and petroleum, respectively) and the energy-intensive processes of refining and converting them into the compounds and alloys needed for manufacturing. The elevated cost of these inputs, in turn, erodes the margins of manufacturers employing these essential materials.

Manufacturers need certainty in the permitting process to inform investment decisions. President Trump has taken several early executive actions to ease permitting restrictions, a promising first step toward unlocking manufacturing's full growth potential. Manufacturers need Congress and the administration to build on these early steps by enacting permanent reforms that require enforceable deadlines, expedited judicial review, increased use of categorical exclusions under the National Environmental Policy Act and reforms to the Clean Water Act and the Endangered Species Act. As we execute the construction and commissioning of a new production facility, there is a parallel and complex transfer of work process that must be executed in lockstep to ensure continuity of supply to our customers and rapid realization of benefit from our investment, through increased productivity and output. A surprise delay of long or indefinite duration resulting from the application of these regulatory processes would generate massive costs and cause a failure to perform that would impact businesses across our entire supply chain. Having clarity on the interpretation of the relevant regulations and confidence in the timelines will make investment decisions around such major projects far easier to approve, stimulating growth in the manufacturing sector.

By enacting comprehensive, permanent permitting reform, Congress can ensure that manufacturers, especially small and medium-sized companies like ours, have the certainty we need to make job-creating business decisions without fear of costly bureaucratic delays or dramatic policy changes that impede investment and growth.

D. Overreaching Labor Regulations

Labor policy is another area where the pendulum has swung against small and medium-sized manufacturers. Recent federal labor regulations and changes to long-standing collective bargaining precedents impose significant burdens on employers and, in some cases, infringe on their constitutional rights.

Over the past four years, the Department of Labor has issued several final or proposed rules that increase costs and create red tape for small businesses. For instance, DOL's overtime rule significantly raises the salary threshold for overtime pay eligibility and cuts small businesses out of the rulemaking process in the future by imposing automatic increases. Meanwhile, the Occupational Safety and Health Administration's proposed rule establishing a heat standard will require employers with as few as 10 employees to write detailed prevention plans, as well as monitor and record their employees' movements down to the minute.

Recent agency actions also threaten employers' rights and their relationships with employees. Click Bond is currently a non-union facility, and we invest strongly and intentionally to earn a healthy relationship between our employees and the company. Unfortunately, a number of recent regulatory actions are impeding this healthy relationship and dialogue. For example, the walkaround rule promulgated by OSHA would allow self-serving and potentially antagonistic third parties to access an employer's workplace under the pretense of safety inspections, based on tangential qualifications not rooted in statute. Furthermore, the National Labor Relations Board, through several decisions, has upended long-standing collective bargaining precedents, curtailing employers' ability to speak with their employees about the implications of organizing in the workplace and undermining the secret-ballot election.

Much like a family, Click Bond engages its employees with a healthy, nurturing mindset. These labor regulations undermine the trust bonds we work to develop with our teams—trust that increases retention, develops employees and delivers productivity. Congress and the Trump administration have the opportunity to review, revise or rescind these unprecedented and damaging standards, and manufacturers are counting on you to put a stop to overreaching labor requirements.

III. <u>Powering Manufacturing Growth in America</u>

Manufacturing holds tremendous promise for the American economy and Americans' way of life. Our industry is at the forefront of innovation and every next-generation technological advancement means more well-paying jobs right here in the U.S. What's more, small and medium-sized manufacturers are the backbone of this success, with more than 98% of manufacturers employing fewer than 500 people.

At Click Bond, we take great pride in the role we play in America's industrial base. Our adhesive-bonded fasteners as well as a new generation of advanced assembly technologies continue to improve the performance and extend the life of aircraft, ships, wheeled vehicles, weapons systems and more. And, most importantly, we are strengthening our communities by providing stable, family supporting careers to our team members.

You have an opportunity in the 119th Congress to be part of this story by enacting commonsense policies that support manufacturing growth. Extending pro-manufacturing tax reforms will save nearly 6 million American jobs. Reducing our regulatory burden can free up some of the $3 trillion in capital currently devoted to regulatory compliance. Minimizing permitting delays means more shovels in the ground and larger investments in local communities across the country.

I encourage you to seize this opportunity to empower manufacturing and strengthen America—when manufacturing wins, America wins.