NATIONAL ASSOCIATION OF
WHOLESALER-DISTRIBUTORS

January 14, 2025

Re: Hearing on The Need to Make Permanent the Trump Tax Cuts for Working Families and Small Businesses

Dear Chairman Smith, Ranking Member Neal, and Members of the Committee:

On behalf of the National Association of Wholesaler-Distributors (NAW), I urge you to make permanent key tax policies enacted in the *Tax Cuts and Jobs Act of 2017 (TCJA)* that help wholesaler-distributors and the six million workers employed by the industry.

These provisions, which include the 199A pass-through deduction, individual tax rate reduction, and expanded death tax exemption, help millions of main street businesses and working families across the country. Making these provisions permanent and fully repealing the death tax must be a priority for lawmakers in 2025.

In addition, lawmakers must preserve key tax policies that are already in law such as the 21% corporate rate and the Last-In, First-Out (LIFO) tax provision.

Wholesaler-distributors are already facing significant challenges including rising costs and shortages which have destabilized supply chains in recent years. Lawmakers must provide certainty to these businesses so that they can confidently invest and grow in the economy, their workforce, and local communities across the country.

About NAW & The Wholesale Distribution Industry

NAW is one of America's leading trade associations, representing the $8 trillion wholesale distribution industry. Founded in 1946, NAW comprises national, regional, and state employers of all sizes, industry trade associations, partners, and stakeholders spanning all distribution sectors.

There are more than 250,000 wholesale distribution companies that operate across North America, including all 50 states. These businesses collectively employ over 6.1 million workers, ranging in size from small, closely held family businesses to Fortune 500 companies. The majority are small or medium sized businesses and 81% of companies in the industry have less than 20 employees.

Wholesale distribution is a business-to-business industry: wholesaler-distributors purchase inventory, generally from manufacturers, and sell it to their customers, which include retailers, consumers, contractors, and small businesses.

Wholesaler-distributors are typically high tax, low margin businesses. The industry pays one of the highest effective income tax rates of all industries, with many businesses paying an average effective rate of 30% in combined federal and state taxes. Although the data varies among distributors of different product lines, a significant number of companies report after-tax profit margins of less than 1%, with the average margin of about 2%.

Wholesaler-distributors also offer well-paying, skilled jobs with a culture of living in and giving back to the communities they serve. Employee costs including wages, benefits, and taxes make up half to three-fourths of total expenses for wholesaler-distributors. As of November 2024, the average hourly wage for production and nonsupervisory workers in the industry is $31.69 per hour, higher than the typical private sector non-supervisory wage.[1] In addition, 89% of wholesaler-distributors offer healthcare, 89% offer paid sick leave and 84% offer retirement benefit plans.[2]

Make Small Business Tax Cuts Permanent

NAW members invest heavily in their workforce by providing extensive benefits and career development programs including health & retirement benefits, formal profit-sharing, quarterly cash bonuses and personal benefits such as financial workshops and volunteer paid time off.

The majority of wholesaler-distributors, and over 95% of businesses across the country, are organized as pass-through businesses (S-corporations, LLCs, sole proprietorships, or partnerships) and pay taxes through the individual income section of the tax code.

These businesses benefit from the 20% Section 199A small business deduction, created by the TCJA. Thanks to 199A, wholesaler-distributors were able to reinvest in their workforce as they had more resources to hire, raise wages, and provide benefits while also allowing them to devote more resources toward expanding their business and contributing to their local communities.

However, if these provisions expire, small businesses will have to slow hiring, delay or forgo new expansions and reinvestment in businesses, and reduce or eliminate employee benefits.

The expiration of 199A will harm businesses across the country. According to IRS Statistics of Income (SOI) data, almost 25.7 million taxpayers claimed the 199A deduction in tax year 2021.[3] The deduction currently supports 2.6 million jobs, $161 billion in annual employee compensation, and $325 billion in GDP when accounting for direct, supplier, and consumer economic activity, according to EY.[4]

In addition to the 199A provision, the TCJA also contained important tax reduction for individuals including reducing marginal tax rates, raised thresholds at which the higher brackets phased in, and doubled the standard deduction.

Not only did this provide tax reduction for S-corporations, LLCs, and other pass-through entities, but it also reduced taxes for workers at every income level. These tax cuts provided especially strong tax reduction for lower income taxpayers. According to IRS SOI data, Americans with adjusted gross income

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[1] U.S. Bureau of Labor Statistics. (2024, September 6). *Table B-8. average hourly and weekly earnings of production and nonsupervisory employees on private nonfarm payrolls by industry sector, seasonally adjusted(1) - 2024 M08 results*. U.S. Bureau of Labor Statistics. https://www.bls.gov/news.release/empsit.t24.htm

[2] U.S. Bureau of Labor Statistics. (n.d.). *Industries at a glance: Wholesale trade: NAICS 42*. U.S. Bureau of Labor Statistics. https://www.bls.gov/iag/tgs/iag42.htm

[3] *SOI Tax Stats - Historic table 2*. Internal Revenue Service. (n.d.). https://www.irs.gov/statistics/soi-tax-stats-historic-table-2

[4] EY Prepared on behalf of the S Corporation Association. (2024, August). Economic activity supported by the Section 199A deduction. S Corporation Association. https://s-corp.org/wp-content/uploads/2024/09/EY-SCA-Economic-activity-supported-by-Section-199A-deduction-August-2024-FINAL.pdf

(AGI) of $50,000 to $100,000 saw a reduction in average tax liabilities of over 13% between 2017 and 2018, while Americans with AGI of $1 million or above saw a 5.8% reduction.[5]

Finally, lawmakers should repeal of the estate tax, also known as the death tax. The death tax imposes a 40% tax on family-owned businesses every time the next generation takes over the business. Family-owned businesses employ over 60% of the U.S. workforce and contribute over 60% of GDP, which has a significant economic impact.[6]

Wholesaler-distributors impacted by the death tax have to take out loans, liquidate existing assets or defer new investments in technology or equipment, hiring new workers or upskilling existing workers, and expanding their business.

While there is currently a $13 million exemption on the death tax, this figure is on total assets, not on income and is scheduled to be cut in half at the end of 2025. At the very least, this exemption should be extended, but ideally the death tax should be fully repealed.

Many family businesses below this threshold must devote time and resources to estate planning in the event they may one day have to pay the tax. While this cost may or may not be significant by itself, this is yet another expense faced by wholesaler-distributors on top of complying with existing and new regulations, mitigating supply chain disruptions, and rising costs including energy, health care, and labor costs.

Preserving Pro-Growth Policies that Maintain the Supply Chain

In addition to making tax cuts permanent for working families and main street businesses, lawmakers should also ensure they preserve key tax cuts that are already in law.

Lawmakers should preserve the current tax treatment of LIFO, a provision which helps businesses maintain inventory levels, U.S. supply chains, and mitigate inflation. The provision is a longstanding and widely accepted inventory valuation method utilized by businesses across a diverse range of industries.

Repealing LIFO would impose unprecedented retroactive taxation that would punish businesses based on decisions they made decades ago and force them to take out loans, defer new investment, or downsize to pay the tax. This would disproportionately harm small businesses, cause businesses to reduce employee benefits, destabilize supply chains leading to shortages and greater inflation, and cause businesses to forgo new investment, downsize, or even go out of business.

Congress must also preserve the 21% corporate tax rate, which was enacted in the 2017 Trump Tax Cuts. While the majority of wholesaler-distributors are pass-throughs, many others are organized as C-corps, the majority of which are smaller, privately owned businesses.

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[5] *ICYMI: IRS Data: Middle class Americans saw biggest tax reduction from Trump Tax Cuts: U.S. senator Chuck Grassley of Iowa.* Home. (2020, September 23). https://www.grassley.senate.gov/news/news-releases/icymi-irs-data-middle-class-americans-saw-biggest-tax-reduction-trump-tax-cuts

[6] Van Der Vliet, D. (2021, June 2). *Measuring the Financial Impact of Family Businesses on the US Economy*. Family Business. https://familybusiness.org/content/measuring-the-financial-impact-of-family-businesses-on-the-US-ec

Recent economic studies have found that consumers and workers bear an estimated 70%[7] to 80%[8]of the cost of the corporate tax rate, so this tax reduction directly benefits working families as well as wholesaler-distributors. If the corporate tax rate is raised, it will threaten the ability of these businesses to continue investing in workers and the economy, which will be passed on to consumers through fewer job opportunities and higher prices. Raising the corporate tax rate to 28%, as some have proposed, would reduce GDP by $1.84 for every $1 of higher revenue.[9]

Conclusion

Lawmakers must prioritize making permanent key tax cuts for small businesses and working families enacted in the Trump tax cuts such as the 199A deduction and individual tax rate reduction. These provisions help businesses grow and provide higher take home pay and increased benefits for working families. In addition, Congress must preserve key policies that help uphold the supply chain such as the tax treatment of LIFO and competitive corporate tax rates.

If you or your staff have any questions, please reach out directly to me or to Alex Hendrie, Associate Vice President, Government Relations at 202-872-0885.

Sincerely,

Brian Wild
Chief Government Relations Officer
National Association of Wholesaler-Distributors

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[7] Entin, S. J. (2017, October 24*). Labor Bears Much of the Cost of the Corporate Tax*. Tax Foundation. https://taxfoundation.org/research/all/federal/labor-bears-corporate-tax/

[8] Bradley, N., & McLeish, W. M. (2024, August 26). *How Pro-Growth Tax Policy Raises Wages, Improves the Economy*. U.S. Chamber of Commerce. https://www.uschamber.com/taxes/how-pro-growth-tax-policy-raises-wages-improves-the-economy

[9] York, E. (2024, August 26). *The Corporate Tax Rate Tug-of-War*. Tax Foundation. https://taxfoundation.org/blog/trump-harris-corporate-tax-proposals/