

Testimony of J.D. Ewing, Chairman & CEO of COE Distributing  
House Small Business Committee  
Main Street Realities: Examining the Current Economic Landscape in America  
Wednesday, July 10, 2024

Chairman Williams, Ranking Member Velasquez, and Members of the Committee:

Thank you for the opportunity to testify at today's hearing on the state of the Small Business Economy. My name is J.D. Ewing, Chairman & CEO of COE Distributing, a national office furnishings wholesale distributor and contract manufacturer based in Fayette County, Pennsylvania.

COE Distributing is a family-owned business that has operated since 1947, when my grandmother started the business in the basement of a tavern. I am the third-generation owner of COE Distributing after taking over the business in 1989 at age 19. At that time, I was COE's sole employee and had to handle multiple roles including tackling sales, driving trucks, loading products, collecting money, paying bills and learning each position inside and out. From these humble beginnings and through an enormous amount of hard work and dedication from a number of dedicated and talented team members, COE has grown to become the largest office furniture only distributor in the United States.

I am also an active member of the National Association of Wholesaler-Distributors (NAW) and I am chairman of NAW's Institute for Distribution Excellence. NAW represents the \$8 trillion wholesale-distribution industry and represents national, regional, and state employers of all sizes, industry trade associations, partners, and stakeholders spanning all distribution sectors.

Today, COE has grown to over 120 employees with distribution centers in North Carolina and Texas in addition to our distribution center and headquarters in Southwest Pennsylvania. While we have seen significant growth, we see many challenges in the economy including rising costs and supply chain disruptions, looming tax increases on small businesses, and compliance costs with new regulations.

I appreciate the opportunity to share my perspective on these challenges and talk more about my business.

At COE, we have cultivated and continuously strive to grow a robust culture, which is fundamental to the success of any small business. We take immense pride in fostering an inclusive environment where input from team members at every level of the organization is not only encouraged but actively sought. This collaborative approach empowers our team to bring forth innovative ideas that drive the improvement of our products and processes, ensuring we remain agile, competitive, and forward-thinking.

In addition to generous pay & benefits, we are proud to provide our team members career development programs like Rising Stars training, employee recognition including Core Value champion of the month, employee of the quarter and employee of the year. Benefits include health care, dental and vision insurance, disability and life insurance, a formal profit-sharing and 401k program, a traditional pension plan and quarterly cash bonus profit sharing, as well as personal benefits such as financial workshops, volunteer paid time off and virtual book clubs. COE also sets daily goals for sales and shipments and when eclipsed all team members enjoy a free lunch!

As the official employee engagement partner of the Pittsburgh Penguins, COE also holds a monthly peer-to-peer recognition program awarding a game-worn Penguins helmet to an employee embodying COE's Core Values of Customer Service, Respect, Teamwork, Quality, Safety, Innovation and Transparency. This and other employee engagement focused efforts allow our unique workplace culture to grow stronger every day.

While we take pride in our strong culture, like all businesses and families, we are seeing significant challenges in today's economy including rising costs and supply chain breakdowns. The COVID-19 pandemic exposed how supply chains disruptions, including congested ports, can negatively impact the American economy by raising prices and creating shortages in the most basic commodities.

While the country has recovered from the pandemic, many of the same supply chain challenges we faced then are beginning to reemerge. Today, major ports are again beginning to see severe backlogs due to congestion and delays. The disruption in the Red Sea and the Suez Canal has had a material impact on shipping costs and delivery time, adding up to four weeks to some shipping lanes.

This has led to a substantial increase in the costs of shipping with the average cost of shipping a container increasing over 3X in the past 90 days. In April, a container from Asia to the U.S. West Coast cost just \$2,500 but by July the cost is now over \$8,000 and could exceed \$10,000 in the coming months as we are about to enter the peak season for shipping. Many home furnishings retailers have already implemented freight related surcharges to their goods, reminiscent of the COVID supply chain consequences.

Shipping and trade impact small businesses even more than big businesses because we don't have the liquidity or scale to absorb or pass along dramatic increases in shipping costs or tariffs that larger companies might have.

While small businesses like mine are already seeing the impact of this supply chain disruption, it will soon impact the entire economy. Manufacturers will see higher inputs leading to an increase in the cost of new products. Higher prices will be passed on to distributors, retailers, and consumers, which will be exacerbated by inflation seen in other areas of the economy including rising energy, food, and labor costs.

One of the lessons I hope policymakers might learn from the COVID pandemic, is to look at the supply chain holistically. The supply chain is more than just raw materials and manufacturing, they are transportation, distribution and retail working together.

In addition to rising costs, small businesses are also seeing the near-term challenge of potential tax increases. COE Distributing is organized as an S-Corporation and is one of the 30 million small businesses organized as pass-through businesses that pay taxes through the individual side of the tax code.

The 2017 tax reform reduced taxes for small businesses through the reduction in individual tax rates and the creation of the 199A small business deduction. This tax cut helped us reinvest in our workers by giving us more resources to hire, raise wages, and provide benefits as well as devoting more resources toward expanding the business and contributing to our local communities.

It also ensured we have tax parity with large, publicly traded C-corporations, whom we compete with every day, and they saw their rate permanently reduced to 21 percent. However, unlike large corporations, small business tax cuts are scheduled to expire at the end of 2025, which could see the top tax rate on pass-through businesses rise 33 percent.

This would see small businesses face a top rate of 39.6 percent, almost double the corporate tax rate. Not only does this threaten our ability to continue re-investing in workers and communities, but it also makes it more challenging to compete with big business, especially in attracting and retaining talent given today's tight labor market.

A longer-term tax challenge for family-owned businesses like mine is planning for the death tax. The death tax saddles family-owned businesses with a 40 percent tax every time the next generation takes over the business. This is another competitive disadvantage that family-owned businesses face compared to publicly traded corporations, which never die and never face the death tax. It makes these businesses vulnerable to acquisition by large corporations or foreign entities and often forces family-owned businesses to liquidate a portion of the business to pay for the tax.

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. In addition, 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.

Small businesses are also disproportionately hit by regulatory requirements. As a small business owner, the time and cost of keeping current on these issues is overly burdensome from a time and resource standpoint.

When we are forced to comply with new regulatory requirements it takes away from other needs of the business. Added costs in one place may take away from employee development opportunities or new equipment to make the business safer and more efficient.

For instance, one of my distribution centers recently had to deal with an overly aggressive and unreasonable OSHA officer. We take compliance with regulations seriously and are proud of our safety record, however the individual's unreasonable demands forced our facility manager to jumping through hoops over a six-month period.

Ultimately, we were forced to file a complaint, an investigation was initiated, and the OSHA officer was terminated due to the unreasonable and unnecessary requests. This matter was extremely costly to my business as we spent over 100 hours and more than \$50,000 unnecessarily dealing with this issue. While regulations are inevitably a cost of doing business, we must ensure that small businesses are not unduly impacted by red tape.

Thank you again for the opportunity to testify at today's Small Business Committee hearing. I hope my insights on the economy are helpful and I look forward to your questions.