NFIB
The Voice of Small Business®

April 11, 2016

Chairman Argall, Chairwoman Boscola and members of the committees, thank you for the opportunity to testify today. My name is Neal Lesher and I am the Legislative Director for the National Federation of Independent Business (NFIB) in Pennsylvania.

The NFIB is Pennsylvania's leading small business organization representing nearly 14,000 small- and independent businesses in the Commonwealth and roughly 325,000 nationwide.

NFIB members represent virtually every sector in Pennsylvania's economy. A typical NFIB member employs five or fewer workers and generates gross sales of $400,000 per year.

Small employers make up an enormous segment of Pennsylvania's business community. Nearly 98 percent of businesses employ 100 of fewer workers. Just like NFIB's membership, most small employers are organized as sole proprietors, partnerships, sub-chapter-S corporations or Limited Liability Companies (LLCs). Businesses organized in this fashion report their business income and pay business taxes through their personal returns.

Despite their importance to the economy, small businesses are heavily burdened by the costs of government regulation and excessive paperwork. Because of their size, small businesses are particularly sensitive to changes and uncertainty in the tax code.

The cost of compliance for small firms is much higher for these firms then their larger counterparts in the business community. The cost of tax paperwork is the most expensive paperwork burden that government imposes on small business owners – on average $74 per hour in tax preparation and compliance costs. For every dollar in state sales tax that a small business owner collects and remits -- it costs the 13 cents in bookkeeping and compliance.

As this committee examines options to make Pennsylvania more business friendly, the NFIB respectfully offers the following recommendations:

-- **Control state spending**. Nearly all Pennsylvania small business owners report their business taxes on their personal returns. That's why personal income tax rate increases are so devastating to small business. NFIB members support legislation and Constitutional amendments to limit spending and make it harder to raise taxes.

-- **Reform pension systems**. Pennsylvania's public pension deficit is the single-greatest financial threat facing the commonwealth, school districts and ultimately taxpayers. Meaningful pension reform must significantly reduce the risk taxpayers have been exposed to and produce savings.

-- **Simplify the tax code and compliance process**. There are countless instances where employers, tax preparers and payroll service providers must make multiple filings of the same information. These inefficiencies raise administrative costs – especially for small business.

-- **Enact small business tax reform**. A package of bills has been proposed to remove unfair tax obstacles facing small business to allow them to compete and grow their businesses. This package includes:

> - **Like-kind exchanges (SB601).** This legislation would allow for tax-deferral when property is exchanged for similar property. This rule is currently allowed under Federal tax law and in all 49 other states.
> - **Net operating loss (SB602).** This legislation would allow small businesses to take a net loss from other sources of income. For example: If an owner sells some personal items to help the business make payroll, the owner could take the business loss against the tax bill created by selling personal items.
> - **Increased expense deductions (SB603)**. Section 179 of the IRS tax code allows businesses to deduct the full price of qualifying equipment purchased during the tax year. For the last four years, the deduction limit has been $500,000. This level was made permanent last year. Under Pennsylvania law, while the allowable deduction for C-corporations is tied to the federal limit, businesses filing under the Personal Income Tax (PIT) are limited to $25,000. This legislation would increase the limit under the PIT to $100,000 per taxable year and increase the phase-out of this deduction from the current $200,000 to the federal amount of $2,000,000.

-- **Curb frivolous lawsuits.** The cost for a business owner to defend a lawsuit can run as much as $100,000. The cost to defend even one lawsuit can force a typical small business owner into bankruptcy. A common sense lawsuit abuse reform package should prohibit venue shopping; make legal proceedings transparent to prevent personal injury lawyers form collecting double recoveries from a small business for the same injury; include reasonable protections for manufacturers and innocent sellers of products; provide improvements to Pennsylvania's medical liability climate; and place fair limitations on non-economic damages, to name a few.

-- **Improve government permitting times and reduce regulatory burdens.** Government should move at the speed of business. When it doesn't, delays can be costly particularly for small businesses who cannot afford to have workers not producing or capital tied up in delayed projects.   Similarly, unnecessary regulatory hurdles tend to put small businesses at a disadvantage. We would support any proposal that seeks to either cap or limit the regulatory burden for small business, or to sunset regulations every 5 to 10 years, forcing regulators to justify their regulatory requirements.

-- **Enact consistent, competitive labor laws.** NFIB members support reforms that help keep Pennsylvanians working, reduce costs, curtail fraud and are consistent and competitive with other states.

-- **Stop government mandates.** Stop mandates on small businesses, such as mandatory paid leave and a higher minimum wage.

-- **Focus on workforce development.** When we discuss ways to improve the jobs climate in Pennsylvania, we should not lose focus on those jobs that already exist, but go unfiled. In the most recent Small Business Economic Trends Survey[1] conducted by NFIB, 49 percent of employers reported hiring or trying to hire, but 42 percent reported few or no qualified applicants for the positions they were trying to fill. Workforce development programs should align to the needs of employers who are hiring.

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[1] February 2016 Small Business Economic Trends http://www.nfib.com/surveys/small-business-economic-trends/

-- Review economic development programs. We believe a thorough review should be performed of all Pennsylvania economic development programs for effectiveness. Those programs that are not producing the intended results should be eliminated. For example, while the Film Tax Credit is a very popular program with many, the Independent Fiscal Office concluded that the Commonwealth only recoups 14 cents for every dollar in tax credits awarded. A December 2014 report by the Auditor General, which evaluated over 600 individual business grants through the Department of Community and Economic Development (DCED) concluded that 56 percent of the businesses did not meet their job projections.

Not only should meaningful performance metrics be put in place, but the Legislature should consider reducing individual hand-outs in favor of "investing" in a more competitive tax code. Consider also, for example, that while tens of millions of dollars were distributed to private companies to expand their businesses, Pennsylvania is the only state in the country that taxes small businesses for selling a smaller property and investing in a larger one. (See SB601 above)

Consider also that while the Commonwealth has created programs such as the Machinery and Equipment Loan Fund and other programs to assist businesses with investing in new equipment, we remain out of alignment with the majority of states when it comes to allowing small businesses to accelerate a larger amount of depreciation for new equipment purchases. This tax code change would greatly improve small businesses ability to purchase new equipment. (See SB603 above)

On behalf of the small business men and women of the NFIB, I thank you for allowing me the chance to appear before the committee to offer a few recommendations to improve the state jobs climate and the environment for small business.