



PENNSYLVANIA

Main Street Businesses Need Tax & Regulatory Relief to Grow and Create Jobs

The National Federation of Independent Business is Pennsylvania's leading small business organization representing nearly 14,000 small- and independent businesses in the Commonwealth and roughly 350,000 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 or 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 in the tax code.

The cost of compliance for small firms is much higher for these firms than 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 -- as much as \$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 thirteen cents in bookkeeping and compliance.

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

-- **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.

-- **Make state tax rules consistent with federal law.** The Corbett administration recently adopted federal bonus depreciation guidelines. This ruling already is benefitting thousands of corporate tax filers who made investments in equipment last tax year or plan to do so in the current tax year. We also encourage the General Assembly to adopt federal rules to raise Section 179 expensing limits that would spur small business investments and jumpstart economic activity. We also recommend that Pennsylvania move to adopt federal rules governing like-kind exchanges, tax collections on installment sales of a business, carry-forwards and offsets from different income categories.

-- **Institute regulatory flexibility for small business.** Most small employers do not find out about new regulations until after they take effect. Regulatory Flexibility legislation, like HB 1349 sponsored by Rep. Tina Pickett, would give small-business owners a seat at the table when state agencies, such as the state Revenue Department, develop proposed regulations. The measure adds "small business" to the existing list of stakeholders on economic impact statements and requires state agencies to seek small business input on proposed regulations.

-- **Eliminate the Capitol Stock and Franchise Tax (CSFT).** The CSFT essentially is a property tax that is assessed whether or not a company is profitable.

-- **Eliminate the Inheritance Tax.** One of the largest impediments to building a lasting economic recovery is the death tax. The death tax is unfair to all Pennsylvanians, but it can deal a lethal blow to small businesses -- especially after the loss of an owner. For years, the death tax has forced thousands of Pennsylvania families to sell their farms and shut their doors -- just to pay the taxes. For countless Pennsylvanians who have worked a lifetime to grow the family business -- the death tax represents the end of the line. Every day scores of Pennsylvania seniors are forced to pay tens of thousands of dollars in estate planning to protect their farms and small businesses from being lost to the death tax.

-- **Reduce the corporate and personal tax rates to spur economic activity and generate tax revenue.**