



PENNSYLVANIA

May 27, 2015

Chairman Benninghoff and members of the committee, thank you for the opportunity to testify today. My name is Neal Leshar 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 15,000 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 and uncertainty 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 – 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 thirteen 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.

-- **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. The tax was originally scheduled to be phased out by 2009 because lawmakers recognized the tax as an impediment to growth.

-- **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.** 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.

- **Increased expense deductions.** 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. 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.

- **Net operating loss.** 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.

-- **Privatize liquor sales.** Eighty percent of NFIB members support the transfer of both the wholesale distribution and retail sale of wine and spirits to private enterprise. We look forward to working with lawmakers to finally pass a proposal that enables small-business ownership, promotes lower prices, and provides for greater selection for consumers.

-- **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 from 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.

-- **Repeal union bullying exemptions.** Union members involved in labor disputes are not subject to the law on stalking, harassment, and threatening the use of weapons of mass destruction. Having a free pass can lead to an escalation of lawlessness when what starts out as harassment, stalking, or threats too often ends up in violence and destruction of property. Lawmakers should eliminate the exemptions in the criminal code.

-- **Preempt local paid leave ordinances.** There is an effort in Philadelphia to enact a local paid leave mandate which would apply to business with as few as five employees. Allowing local governments to enact such mandates will create an uneven playing field for businesses, create complexities for businesses with more than one location, and make it more difficult to hire new workers. Ultimately, NFIB believes that small-business owners are best suited to make these decisions for their business.

-- **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.

-- **Enact procurement reform.** Promote procurement reform that creates a level playing field so small businesses can compete with large corporations for state business.

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

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.

