



**Hudak & Company**

**House Majority Policy Committee**

Hearing on:

**Driving Investment and Creating Growth:  
The Long-Term Solution to Rising Costs.**

Testimony presented by:

**Warren S. Hudak  
President**

**June 21, 2022**

Chairman Causer and members of the House Majority Policy Committee:

My name is Warren Hudak, president of Hudak and Company, a Central Pennsylvania-based small-business accounting firm specializing in payroll services, bookkeeping, sales tax services, and advanced tax transaction analysis. I also serve as the immediate past chair of NFIB's Leadership Council. I would like to thank you for inviting me to appear before you today.

State tax policy is a critical tool that can be used to attract growth, inspire innovation, and encourage businesses to invest in a future with more economic opportunities across the state.

Unfortunately, the Commonwealth's onerous system of taxation continues to impede the competitiveness of businesses located here. Let me be clear, small businesses are not asking for and do not want a handout, they want a level playing field and the ability to operate and grow their business with minimal governmental interference.

The following legislation would assist businesses that were most severely affected by the COVID shutdowns:

**Section 179 Expense Deductions: HB 333 (E. Nelson)** passed the House in January and is before the Senate. *A Senate companion bill, SB 349 (Hutchinson) passed the Senate in November and is now before the House Appropriations Committee.*

Section 179 allows taxpayers to deduct the cost of certain property as an expense when the property is placed in service. For tax years beginning after 2017, the Tax Cut & Jobs Act (TCJA) increased the maximum Section 179 expense deduction from \$500,000 to \$1 million. The maximum amount of the deduction was indexed and now stands at \$1,050,000. For Personal Income Tax purposes, Pennsylvania allows any generally accepted depreciation method, including Section 179. The maximum deduction is \$25,000.

For reference, small businesses structured as a pass-through organization are subject to the personal income tax. This means that those entities cannot utilize section 179 expense deductions of more than \$25,000, while larger corporations can utilize the full \$1,050,000 that is currently in place for 2021. Small employers are at a significant disadvantage when compared to large corporations. This hampers new business from coming to Pennsylvania and discourages existing businesses from expanding. There is a need for parity when looking to address this issue, and that is what both bills would do, permit pass-through businesses to utilize the same tax benefits as a corporation.

**Like-Kind Exchanges: HB 385 (Dunbar)** has passed the House and is before the Senate Finance Committee, **HB 105 (Cox)** is before the House, and **SB 347 (DiSanto)** passed the Senate in November and was recently reported from the House Finance Committee.

Pennsylvania is the only state in the nation that does not allow for personal income tax deferral when property is exchanged for similar property, referred to as a "like kind"

exchange. This legislation would level the playing field for businesses looking to expand their investment or to relocate to the Commonwealth.

Results in a deferral of capital gains tax when rolling those gains into a second property. The Biden Administration has proposed limiting the amount of this deferral to a maximum of \$500,000 for a single taxpayer and \$1,000,000 for a married couple, to defray the costs of federal relief during the pandemic. Regardless of what happens at the federal level, Pennsylvanians cannot utilize this tax strategy unless authorized by the General Assembly.

**Net Operating Losses for Small Business: HB 395 (Grove)** is before the House Finance Committee and **SB 348 (J. Ward)** is before the Senate Finance Committee. Taxpayers who pay Corporate Net Income Tax can utilize a net operating loss, pass-through entities that pay personal income tax, don't have the same ability. This discourages business owners from taking risks to grow their company, or entrepreneurs from starting their own business. Since small businesses don't have access to the capital larger companies have, their ability to use such net operating loss tax strategies helps them have greater control over their financial position

**Repeal of Accelerated Tax Prepayments: HB 2277 (Topper)** has passed the House and is before the Senate Finance Committee. Businesses should be paying taxes based off liabilities, not estimates. Conceived as a cash-grab by the government to fill its coffers during down economic times, it is time to return to paying actual obligations, rather than estimates.

**Corporate Net Income Tax Reduction: HB 1960 (Kail) and SB 771 (Aument)** while reducing the CNIT will make our business climate in Pennsylvania slightly better, it will not directly provide relief to those pass-through entities who were deemed non-essential during the pandemic.

**Taxpayer Protection Act: HB 71 (Warner) and SB 286 (Bartolotta)** amends the Pennsylvania Constitution to establish spending limits the Commonwealth must abide by each year. Government spending has increased at a shocking level that will eventually result in 'needed' tax increases. Limit the size of the government and its associated spending so that businesses and individuals can keep the money they earned.

Lowering taxes will provide more earned money back to small business owners which will allow them to invest in their business enabling it to thrive, grow, and operate for years to come.

As they have in the past, small businesses can be the engine of economic growth, creating two out of every three new jobs. The success of our small business community is key to Pennsylvania's economic recovery.

How do we combat inflation, regrow Pennsylvania's economy, and make us an attract state for entrepreneurs, families, corporations? Simple. We cut government spending, give more money back to job creators and wage earners, and get out of our own way. When the government spends more of the people's hard-earned money it creates a vicious cycle of always needing more money and never having the ability to lower taxes. Government functions should be limited to allow more money to be returned to the people earning it so they can make their own capital improvements.

Taking these steps would encourage people to come—or to come back— to Pennsylvania as a growing center of economic opportunity.

I encourage each of you to make a commitment to restructure how Pennsylvania taxes small and independent businesses to set our state up for success for years and generations to come.

Thank you for allowing me to appear before this committee. I would be happy to answer questions.