



PENNSYLVANIA

September 19, 2012

The Honorable Kerry Benninghoff
Chairman
House Finance Committee
Room 41-B, East Wing
Harrisburg, PA 17120

Dear Rep. Benninghoff:

Thank you for the opportunity to comment on proposed legislation, House bills 2181, 2182, 2183 and 2184.

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.

For small businesses, the biggest problems affecting job growth today are poor sales and high cost of federal and state regulatory compliance. NFIB research shows that small-business sales, earnings and capital spending are near record lows, and small-business optimism remains flat.

Unfortunately, the aforementioned house bills merely force the state to pick economic winners and losers and there is very little evidence to support tax credits as job creation tools. Tax credits only help businesses in targeted industries to receive the relief and typically only help those companies that already are in a position to make investments anyway. In effect, these programs take hard-earned tax dollars away from struggling companies that are not in a position to grow and give them to companies with the financial wherewithal to make investments in the first place.

As this committee examines options to make Pennsylvania more business friendly, the NFIB respectfully offers the following recommendations to improve the environment for new business formation and small business growth:

The advocacy office in the US Small Business Administration has reported that the most important thing state governments can do to influence economic growth is to increase the number of small business establishments. The report's authors concluded the most fruitful policy option for states seeking economic growth is to establish and maintain a fertile environment for new business formation.

The SBA reported that incentives to lure large businesses can be expensive and unrealistic. Instead, they suggest resources are better spent on existing and nascent businesses located in one's own community.

Despite their importance to the economy, small businesses are heavily burdened by the costs of government regulation and particularly sensitive to changes in tax policy.

Instead of tax credits that target only businesses in selected industries, or only businesses that are in the financial position to make investments, NFIB members recommend that Pennsylvania lawmakers work to simplify the tax code, make tax policies consistent with federal law, eliminate tax burdens that have become barriers to business start-ups and growth and adopt changes that create a better environment for businesses in all sectors.

-- **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.** We 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 eliminate the tax on loans made by employers to support their business operations, make payroll, etc.; 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.

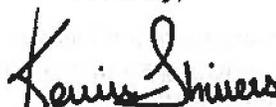
-- **Eliminate the Capitol Stock and Franchise Tax (CSFT).** The CSFT essentially is a property tax that is assessed whether or not a company is profitable.

-- **Eliminate the Inheritance Tax.** One 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. The recent elimination of the tax for farm families was an important step. Let's eliminate the tax for all Pennsylvanians

-- **Reduce the Corporate and Personal Tax rates to spur economic activity and generate tax revenue.**

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

Sincerely,



Kevin Shivers
State Director