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January 26, 2022

RE: Small Business Assistance & Economic Recovery

Chairman Yudichak, Chairwoman Capelletti, and Members of the Senate Community, Economic, and Recreational Development Committee:

My name is Melissa Wilbur Morgan, and I am the Pennsylvania Assistant State Director for the National Federation of Independent Business (NFIB PA). NFIB is the nation's leading small business association, representing members in Washington, D.C., and all 50 state capitals. Founded in 1943 as a nonprofit, nonpartisan organization, **NFIB's mission is to promote and protect the right of its members to own, operate, and grow their businesses.**

NFIB represents nearly 13,000 small and independent business owners in Pennsylvania, and around 300,000 nationally. Members of our organization represent virtually every sector in Pennsylvania's economy and reside in every corner of the Commonwealth.

Joining me today is Warren Hudak, chairman of NFIB's State Leadership Council and 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. We would like to thank you for inviting us to appear before you today.

Small businesses continue to face truly unprecedented challenges with no end in sight. During the height of the COVID-19 pandemic, tens of thousands of small businesses were deemed non-essential and forced to close for months to protect public health. This led to depressed consumer demand, non-existent or stagnant sales, increased costs, and significant debt. Nearly two years later, many small businesses never made up the losses incurred while now facing severe labor shortages, supply chain disruptions, inflation, increased labor costs, and higher Unemployment Insurance tax bills.

These challenges have led to a continued pessimism about future economic conditions. In NFIB's latest COVID-19 Small Business Survey, 73 percent of small businesses have not seen their sales volume return to pre-COVID levels and 59 percent anticipate that their local community will not return to pre-crisis level of economic activity until sometime in the second half of 2022 or later.

NFIB's Small Business Economic Trends data indicates that 22 percent of small businesses reported inflation was their single most important problem, a 20-point increase from the

beginning of 2021 and the highest level since 1981. Additionally, 49 percent of owners reported job openings that could not be filled, and 48 percent of owners reported raising compensation, a 48-year record high reading. The labor shortage has led to 51 percent of small businesses suffering a moderate to significant loss of sales opportunities, 79 percent offering higher wages, 39 percent adjusting operation hours, and 91 percent of owners working more hours. Nearly half (48 percent) of small businesses report that supply chain shortages are having a significant impact on their business and 90 percent anticipate that the disruptions will continue for 5 months or more. Ultimately, 69 percent of small business owners have increased the price of their goods or services due to these factors.

The current environment is unsustainable for the state's economy, local communities, and our Main Streets which bring life and vibrancy to our communities.

The above statistics indicate that small and independent businesses are still experiencing significant difficulties related to the COVID-19 pandemic. When businesses were forced to shut down, manufacturing and production ceased, too. When workers were laid off and provided sizeable checks from the state and federal government, some never came back. The current supply chain disruption was predictable, but the magnitude has far surpassed expectations.

If nothing else, the supply chain disruptions have shed light on the importance of manufacturing products domestically, when possible, rather than a reliance on other countries. An example of this is the recent federal government program sending at home COVID-19 tests to every American household. We urge the members of this committee to go home and look at these tests to determine where they were made. We will give you a hint, they were not made in the United States.

Unfortunately, Pennsylvania has not fared well in comparison to other states when it comes to attracting and retaining businesses. Despite being the 6th largest economy in the nation, Pennsylvania ranks 43rd in creating new jobs and is the 8th worst state to start a business. Additionally, Pennsylvania is currently ranked 36th in the United States for its economic outlook and 40th in the country for its recent economic performance.

While NFIB is generally supportive of the concepts contained in SB 983 & SB 984, we believe there are better options than a one-time cash infusion. While, in theory, these programs would help struggling small businesses, any proposal must avoid the pitfalls that the Paycheck Protection Program (PPP) experienced.

With the PPP, many small businesses were shutout of the program due to larger companies soaking up the majority of the funds. According to [The New York Times](#), about 600 businesses, including dozens of national chains, got \$10 million loans, the maximum amount available under the \$525 billion program. Only 1% of borrowers received more than a quarter of the total funds given out.

Additionally, around 1.8 million of the program's 11.8 million loans — more than 15 percent — totaling \$76 billion had at least one indication of potential [fraud](#).

If the intent of the PPP was to assist small business owners, it may have missed the mark.

Small business owners are not looking for a handout, or a bailout. NFIB members and small business owners want tax reform that will have a much longer and greater impact on ALL small businesses, not just a select few. The General Assembly has a once in a lifetime opportunity to improve the tax climate of the state.

Real tax reform is what is needed in Pennsylvania if the General Assembly is going to get serious about helping our small businesses on Main Street. While 'C' Corps can utilize Net Operating Losses (NOLs) of up to 40% on their federal tax filings, pass through entities, which make up 75% of NFIB's membership, cannot utilize NOLs at all. This puts our struggling small businesses at a major disadvantage when compared with corporations.

This policy discourages risk and growth and is unattractive to prospective businesses looking to relocate to the Commonwealth. Historically, proposals to allow pass-through entities to utilize NOLs has been dismissed due to the price tag associated with enactment. Now is the time to make that investment utilizing the available funds.

Legislative Review

The first bill we would like to discuss today is SB 983 which would create a temporary low-interest small business loan program funded through a long-term bond program and would be capped at \$500 million.

SB 983, while well intended, could perpetuate the same issues, listed above and seen with the PPP. Additionally, this legislation proposes obtaining an aggregate sum of \$500 million in the form of a five-year bond but makes no mention of using a portion of the \$5 billion of the American Rescue Plan Act dollars that the Pennsylvania General Assembly saved during 2021. The Commonwealth does not need to incur more debt to assist small and independent businesses.

Again, NFIB is supportive of the concept within SB 983 to assist small businesses, but the help needs to actually get to those that need it. As currently written, this program would be open to any business with 500 or less employees that was not considered life sustaining during the Governor's 2020 business closure orders. This program should be needs based and must contain fraud protections, so we do not find ourselves with the same issues as the PPP. Additionally, we ask these details to be added into the bill instead of promulgated through bureaucratic regulations.

The second, SB 984 would create a temporary grant program for small businesses which would be funded by a business improvement tax credit, modeled after the Educational

Improvement Tax Credit Program (EITC). Under this new program, businesses who have done well during the pandemic could enter the tax credit program by making a donation that would go to struggling small businesses in exchange for a tax credit worth 50% of their donation from their state taxes.

The constitutional obligation of the state to provide education and how the EITC program works is much different than the state's obligation to assist business. How will the state differentiate between a poorly run business and one truly struggling due to unforeseen pandemic impacts?

History has demonstrated that governments have not been particularly successful at picking winners in the market. Subsidies of capital costs cannot compensate for a hostile tax environment. If the Commonwealth is prepared to commit hundreds of millions of dollars for economic development programs, it should be willing to reduce business taxes by hundreds of millions of dollars and allow entrepreneurs to make the capital allocation decisions.

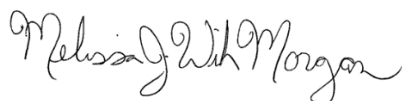
We understand that both of these bills are a work in progress, and we are committed to working with the committee on the best path forward to provide real tangible relief to the small business community.

In conclusion, NFIB believes now is the time to simplify the tax code to position Pennsylvania as a taxpayer-friendly state for entrepreneurs to create and businesses to build and invest; and reduce the state's tax burden on job creators. Taking these steps would encourage people to come—or to come back—to Pennsylvania as a growing center of economic opportunity.

Let's not miss this once in a lifetime opportunity to restructure how we tax small and independent businesses in Pennsylvania. You have the ability to make a generational impact.

On behalf of the small-business men and women of the NFIB, thank you for allowing us to appear before this committee. We would be happy to answer questions.

Sincerely,

A handwritten signature in cursive script that reads "Melissa Wilbur Morgan".

Melissa Wilbur Morgan
NFIB PA Assistant State Director