



October 5, 2021

The Honorable Michael Peifer  
218 Ryan Office Building  
P.O. Box 202139  
Harrisburg, PA 17120-2139  
*via electronic submission*

The Honorable Patty Kim  
38A East Wing  
P.O. Box 202103  
Harrisburg, PA 17120-2103

RE: Pennsylvania's Business Tax Climate

Chairman Peifer, Chairwoman Kim, and Members of the House Finance Committee:

My name is Greg Moreland, and I am the Pennsylvania 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. Our mission is to promote and protect the right of 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 come from virtually every sector of Pennsylvania's economy and reside in all corners 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. Warren also serves on the board of the Pennsylvania Society of Enrolled Agents (PSEA) and on the Business Advisory Council of the Council on State Taxation (COST). We would like to thank you for inviting us to appear before you today.

Also, here today is Douglass Henry, who is the second-generation owner of Henry Molded Products in Lebanon, which employs nearly 100 workers. For over 50 years Henry Molded Products has manufactured high-quality molded fiber protective packaging from recycled paper. The company has facilities in Lebanon PA, Piedmont, South Carolina and Europe. Mr. Henry is also a member of the NFIB National Board of Directors and the NFIB PA Leadership Council.

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

The Commonwealth's burdensome system of taxation continues to hinder the competitiveness of businesses located here. 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. Though, if misapplied, tax policies can be hostile to

entrepreneurship, hinder job creation, and drive productive taxpayers out of business—or out of the state altogether.

Tax policy has always been a top priority for NFIB and these businesses and for two reasons:

First, a lower tax burden means more resources are available for a business owner to invest in, and grow the business, hire employees, and in turn boost the surrounding economies. The growth and investment in the U.S. economy after the passage of the Tax Cuts and Jobs Act of 2017 should serve as a valuable lesson on the importance of tax policy to economic activity.

The second reason tax policy is critical to small businesses is because of the complexity of the federal and state tax codes. Tax compliance is one of the most costly government-imposed burdens on small-business owners ([67% higher than for larger companies](#)) in large part because small businesses typically do not have in-house accountants or tax compliance staff available to manage onerous tax reporting and filing requirements. To add context to how time consuming this can be, 34% of small businesses spend [more than 40 hours](#) per year preparing federal taxes. For these small business owners, this is a significant chunk of time that could be used to operate and grow their business.

The last time NFIB was before the House Finance Committee in 2018, testimony was provided by the organization that showed the NFIB Small Business Optimism Index had set an all-time record for the number of small business owners reporting “Now is a Good Time to Expand,” registering at 32%, the highest level in the history of the survey.

In just three short years since that time the optimism expressed in 2018 has faded, and many owners feel uncertain about what the future will bring.

NFIB recently released its [August 2021 Small Business Economic Trends \(SBET\) report](#), and I would like to provide some key statistics regarding the current state of small business:

- Fifty (50%) percent of all small business owners reported job openings they could not fill, a record high reading. The number of unfilled job openings has remained far above the 48-year historical average of 22%.
- Owners expecting better business conditions over the next six months decreased to a net negative 28%. This indicator has declined over the past two months to its lowest reading since January 2013.
- Over 37% of owners report supply chain disruptions have had a significant impact on their business. Another 29% report a moderate impact and 21% report a mild impact. Only 13% reported no impact from recent supply chain disruptions.
- Seasonally adjusted, 41% reported raising compensation, a 48-year record high reading.
- Among owners reporting lower profits, 34% blamed the rise in the cost of materials, 27% blamed weaker sales, 9% cited labor costs, 9% cited the usual seasonal change, 8% cited lower prices, and 3% cited higher taxes or regulatory costs.

To sum these statistics up: **Businesses are raising compensation to the highest levels in 48 years, while also experiencing a record high inability to fill vacant positions within their companies, as recovery optimism fades, and prices soar.**

So, what can be done? There's no use talking about the problem unless you talk about the solution.

NFIB continues to advocate for the 'Small Business Tax Fairness' Package currently in this committee. Historically, the grim fiscal state of the Commonwealth has created a roadblock to accomplishing this goal. Now is the time to make a historic investment in the economic future of the Commonwealth by rethinking how we tax our small and independent businesses.

The General Assembly recently [saved over \\$7 billion](#) of the federal American Rescue Plan dollars, and NFIB [supported this effort](#). Instead of allocating these dollars for one-time expenditures, NFIB is asking you to make a long-term investment that will positively impact future generations. The members of this committee are in a position to make Pennsylvania a business-friendly state, rather than the status quo, where we search for creative ways to balance the budget every year and debate devastating tax increases on our hardworking business owners, employees, and fellow Pennsylvanians.

For these reasons, NFIB is excited to testify before you today and to call for several pieces of legislation to be moved out of this committee.

### **HB 105 (Cox): Like-Kind Exchanges**

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. By passing HB 105 (Cox), Pennsylvania can begin to offer a level playing field for businesses looking to expand their investment or to relocate to the Commonwealth.

Solving these tax issues will increase opportunities for growth and investment in small businesses. When employers have more resources, they invest more in their companies by taking on new risks, hiring more employees, increasing wages, increasing benefits, and more.

### **HB 333 (Nelson): Section 179 Expense Deductions**

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, approximately 75% of NFIB's membership is subjected to the Personal Income Tax because they are structured as a pass-through organization. This means that 75% of NFIB's membership 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 HB 333 (Nelson) would do. HB 333 (Nelson) permits pass-through businesses to utilize the same tax strategies as a corporation.

### **HB 395 (Grove): NOL for Pass-Through Businesses**

While taxpayers who pay Corporate Net Income Tax have the ability to utilize a net operating loss, those 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.

### **Conclusion**

There are many small business champions on this Committee, and you may have recently seen that NFIB recognized Pennsylvania legislators with the Guardian of Small Business Award. To those members who consistently support the rights of small and independent business owners to own, operate, and grow their business, thank you.

A constant theme of political campaigns, the phrase 'I support small business' is not just a buzzword, or a catchy slogan. These are actual people, with actual bills to pay, employees to take care of, and products and services to provide to their customers. Instead of developing policies that only benefit the large multinational corporations, who were not forced to shut down throughout the pandemic, this committee should take this once in a lifetime opportunity to restructure our tax code to make Pennsylvania more attractive to current and prospective business. After all, these business operators are our family, our friends, and our neighbors who make up the lifeblood of our communities. The Commonwealth was prepared to roll out the red-carpet to a large online marketplace when they were exploring Pennsylvania, but where is the tax relief for the mom & pop store owner on Main Street?

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.

NFIB believes a more effective, pro-growth tax strategy would put an end to taxpayer-funded economic development programs that support a select few. 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 black ink, appearing to read 'Gregory B. Moreland', with a stylized initial 'G' and a long horizontal flourish.

Gregory B. Moreland  
NFIB PA State Director