

**Testimony of
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**Before the
House Finance Committee
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The National Federation of Independent Business is Pennsylvania's leading small business organization representing 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.

Joining me today 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. Warren chairs the NFIB's tax advisory council and also serves on the business advisory council of the Council on State Taxation (COST).

Small employers make up an enormous segment of Pennsylvania's business community, employing about half of all private sector employees. About 80 percent of businesses in Pennsylvania 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.

In the past, our organization has come before this committee with recommendations to simplify the tax code and compliance process; make state tax rules consistent with federal law; and reduce the corporate and personal tax rates to spur economic activity and generate additional state tax revenue.

Tax policy continues to be a top priority for small businesses because of the complexity of the system between the federal and state tax codes.

The cost of tax paperwork, for example, is the most expensive burden that government imposes on small-business owners -- as much as \$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 13 cents in bookkeeping and compliance.

This is mainly because many larger companies employ the staff necessary to navigate through tax laws, a luxury that most small businesses do not have. Small businesses want to innovate, hire, and thrive. To do this, they need a climate of certainty about the rules within which they operate.

Tax policy should also be competitive with other states, conform to Federal standards when possible, and remove barriers to growth and investment. That is why NFIB members have

worked with members of the House and Senate to develop the Small Business Tax Fairness package. These bills would remove unfair tax obstacles facing small businesses, and allow them to compete and grow. This package includes:

HB 701 – Like-kind exchanges. This legislation, introduced by Rep. Bloom, 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.

HB 702 – Net operating loss. This legislation, introduced by Rep. Grove, 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.

HB 703 – 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 are limited to \$25,000. This legislation, introduced by Rep. Dunbar, 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.

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

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