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June 14, 2022

RE: SB 1140: Veteran-Owned Small Businesses

Chairman Argall, Chairman Street, and Members of the Senate State Government Committee:

These comments are submitted on behalf of the National Federation of Independent Business in Pennsylvania (NFIB PA). NFIB is the nation's leading small business advocacy organization, representing nearly 13,000 members in Pennsylvania and about 300,000 members throughout the United States. 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.

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. Two years later, many small businesses never made up the losses incurred while now facing severe labor shortages, supply chain disruptions, record-high inflation, increased labor costs, and higher unemployment insurance tax bills.

[NFIB's Small Business Economic Trends data](#) shows that as of March inflation has overtaken labor quality as the top business problem for small businesses. Specifically, 32 percent of owners have reported that inflation was the single most important problem in their business, up five points from February and the highest reading since the first quarter of 1981.

Additionally, small businesses continue to raise wages to keep employees and fill historically high levels of open positions. Twenty-three percent said that labor quality was their top business problem, up 1 point from March and remaining in second place behind inflation and forty-seven percent of owners reported job openings that could not be filled, unchanged from March.

The NFIB Small Business Optimism Index was unchanged in April, remaining at 93.2 and the fourth consecutive month below the 48-year average of 98. Small business owners expecting better business conditions over the next six months decreased one point to a net negative 50%, the lowest level recorded in the 48-year-old survey.

*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.

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.

*Legislative Review*

While NFIB is supportive of the concepts contained in SB 1140, we do have concerns with policies that attempt to prop up one group over another. Are these really the best ways to provide equal chances of success to small businesses in Pennsylvania?

Since procurement disparities were identified, in this instance for veteran owned businesses as well as minority owned businesses, how many other disparities are contained in the current procurement process? If we dug a little bit deeper, would we find additional disparities? Should we instead be looking at overhauling the entire procurement process instead of creating a carve out? Anytime we create a carve out for one group we are pointing to an example of a flawed policy. These policies should be changed.

In a much broader sense, anytime government interferes with the free market they are picking winners and losers. Typically, this has come in the form of tax credits for certain industries or excluding certain products from state sales tax, for example.

We agree with the provisions in the bill to provide education and assistance with complying with the current procurement process. However, we would also suggest steps to simplify the process for the small business community. Small businesses often lack the same resources as large companies, and all duties typically fall on the owner. Simplicity is paramount.

Under the bill, the Department of General Service would also be required to complete a disparity study every five years, which would be used by the secretary of DGS to set 'aspirational targets' of small diverse and veteran-owned business participation. Will this study merely become another costly piece of paper that sits on the shelf? In theory, these programs could help some additional small businesses partake in the state procurement process, but historically the state has not done a good job at picking winners and losers. Any proposal must avoid the pitfalls and fraud that we have seen in other programs, for example those recently experienced by the Paycheck Protection Program (PPP).

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.

We must also look at potential impacts on other small businesses. If you are propping one classification of business up, is there any harm caused to the other non-included businesses? More often than not these policies create unintended consequences requiring additional carve outs.

We share a common interest of needing, and wanting, to attract new entrepreneurs to the Commonwealth, and to assist the existing small businesses already located here.

NFIB members and small business owners want tax reform that will have a much longer and greater impact. We haven't heard any of our membership complain about this issue in the past two years, and we are not saying this isn't an issue, but we have heard from many who don't need to worry about procurement because they don't know if they will be in business much longer. 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. What better tax policy than to direct the tax breaks to those business entities that actually suffered a loss?

Not allowing small businesses to utilize some of the same tax strategies at large corporations 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.

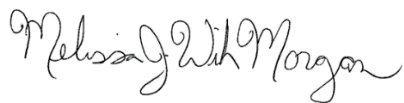
Carve outs as well as subsidies of capital costs cannot compensate for a hostile tax environment. Pennsylvania is the only state in the nation that doesn't recognize like-kind exchanges for businesses. Additionally, 'C' Corps can write off over \$1 million per year using section 179 expense deductions, but pass-through entities can only utilize \$25,000 per year. 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.

In conclusion, NFIB has concerns any time the government interferes with the free market and puts its 'thumb on the scale'. Far too often we see legislation addressing tax credits for large multinational corporations, but little relief for Main Street. The organization does not have an official position on the legislation at this time and would love to be involved in the conversations moving forward.

Additionally, 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.

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