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**Government Relations Phone Conference**  
**Working Group on Tax**  
*Brief notes embedded in blue*  
**Tuesday, December 13, 2016**  
**2:00 - 3:00 p.m.**

**I. Welcome and introductions**

Don Johnston, CPA, Partner, Grossman, Yanak and Ford, LLP, Tax Advisor to the Committee

*Attending: David Ross, Doug Smalis, Don Johnston, Vic Conrad, Marilyn Landis, Eileen Anderson*

**II. Goal of the meeting**

Eileen Anderson, Director, Government Relations - *The PA Independent Fiscal Office has reported that revenues are behind and a \$500 million shortfall is projected for this year. The expected deficit next year is \$1.5-\$2 billion. Deficits are growing because revenue sources are not growing fast enough to meet spending. Rising costs are concentrated in pension, debt, corrections and human services payments. PA has an aging population and a slowing revenue stream. The only choices are to cut programs or raise taxes. Governor Wolf will give his budget address on February 7th and it is a certainty that he will launch an aggressive push for broad-based tax increases, which may include the personal income tax, sales tax and expansion of the sales tax base, all affecting small businesses.*

**III. Potential Tax Issues – State**

**SUPPORTED in 2016**

- State and municipal pension reform - *focus is on state pensions*

**OPPOSED in 2016**

- Increase in the Personal Income Tax(PIT) - *agree*
- Sales tax increase - *agree*
- Expansion of sales tax base- *agree*

**WHAT CAN WE SUPPORT?**

- Continue - Identify and rectify problems with PA Department of Revenue - *Ongoing - Johnston recommendation: Keep high on agenda and continue raising awareness. Improvements are small and slow in coming.*
- Small business tax fairness
  - Net Operating Loss (NOL) - *Anderson will research further - group did not see as important*
  - Bonus depreciation - *Anderson will research further - group did not see as important*
- Property tax reform - *Oppose - no need for a position*

**OTHER?**

**Smalis** - PA keeps raising taxes to pay off pensions - that must be solved. Taxes must be lowered to encourage businesses.

**Ross** - To get something done we need to have a big target and get lawmakers to go along.

**Landis** - Give real world examples of the cumulative effect of taxes on small business - need to reduce the overall tax burden

**Ross** - What can we do to make an impact? Take the states that are in the top 10 for growth and compare to PA. Show lawmakers what the top 10 are doing to create economic growth. For instance, Texas is growing. Quantify - add up all taxes.

**Johnston** - Overriding issue is pensions. PA has \$70 billion in unfunded liabilities.

#### IV. Potential Tax Issues – Federal

**Landis** - Everything is going to change with the new administration. The regulatory burden is a hidden tax. There is a chance to do comprehensive tax reform. The Fair Tax is being considered. Some within SMC support a VAT.

#### SUPPORTED in 2016

- Comprehensive tax reform

**Anderson** - SMC position RE: tax reform. Smaller businesses and pass-throughs must be treated fairly under tax reform. Small business can't be overlooked.

- Reduce complexity and cost of compliance - agree
- Corporate /Business Tax Reform – Ensure fair treatment of small businesses under business tax reform. - agree. **Better way** would decrease corporate rate to 20%, pass-through to 25%, and top individual rate to 33%. There would be a distinction between wage and business income. Trump would decrease corporate and pass-through rates to 15%.
- Repeal the Health Insurance Tax (HIT) - moot until action taken on ACA

#### WHAT CAN WE SUPPORT?

- Identify and rectify problems with IRS - see below
- Repeal the self-employment tax on health insurance - moot until action taken on ACA
- Expiration of tax extenders - moot until new administration takes office

#### OTHER?

Where does SMC tax policy intersect with the Working Group on Trade's policy?

*This generated discussion about consumption taxes, border-adjusted taxes, and **betterway** tax policies supported by the House GOP.*

#### V. Conclusion and Next Action Steps

**Landis** - Have a forum to discuss different types of taxes and tax reform.

**Johnston** - Problems with the IRS are very similar to those with PA DOR. Complexity is ridiculous. Help is undereducated. It is not a fixable problem. Johnston would like to concentrate on the Pittsburgh Taxpayer Advocate. Calls placed to that office are consistently unanswered.

**Conrad** - We should ensure fair treatment of small businesses under federal tax reform. The corporate rate may be lowered to 25%.

**Anderson** – We have a 1-person department so we have to act on member's most important issues - health care first, and then taxes

