



# ***Where Pennsylvania Businesses Go To Grow***

## **I. Small Businesses' and Manufacturers' Key Issues**

For the past 70 years SMC Business Councils (SMC) has been at the forefront of small business advocacy at the state and federal levels. SMC serves more than a thousand employers in southwestern and central Pennsylvania who have in excess of 20,000 employees. Membership is comprised of businesses in service, commercial and manufacturing enterprises. They range in size from sole proprietors to manufacturers with several hundred employees.

### **Small businesses are an important part of the economy.**

- In 2011 there were 28.2 million small businesses and 17,700 firms with 500 employees or more.
  - Small businesses make up 99.7% of U.S. employer firms and 48.5% of private sector employment.
  - Since the start of the recovery, small businesses have generated 4.2 million or 63% of the net 6.7 million private sector jobs.
- U.S. Small Business Office of Advocacy, March 2014*

### **Our nation needs jobs.**

There are more than 9.7 million unemployed Americans. Even though the April 2014 unemployment rate was 6.3%, down from a high of 9.9% in 2010, it is still not back to the 2008 pre-recession rate of 5.0%.

*U.S. Bureau of Labor Statistics, U.S. Department of Labor May 2, 2014*

### **Small businesses and small manufacturers need your help.**

If lawmakers and the administration work together to solve problems, they can create a more competitive business environment. Small businesses and small manufacturers, pushed by demand for products, services and innovative solutions to customer problems, will grow the economy and create jobs.

### **Top concerns of SMC members.**

- Relief from high health care costs and high health insurance premiums.
- Predictability in Section 179, the direct expensing allowance.
- Fair treatment of small businesses who file as individuals (pass-throughs) under corporate tax reform.
- Creation of a level playing field where free trade can flourish and small American manufacturers can grow.

### **Small businesses seek improvements to the Affordable Care Act.**

Health care costs are among the largest costs that small businesses incur. The number one problem small businesses have with health insurance is that it simply costs too much. The Affordable Care Act (ACA) must be modified so it better controls costs and is less harmful to the businesses that create the most jobs.

- I. Modify the ACA's definition of a "full-time employee" from an employee who averages 30 hours of work per week to one who averages 40 hours of work per week.
  - This is a commonsense fix that will help smooth the transition and make the employer mandate less disruptive to the traditional labor system.
- II. Create options for the states to establish more restrictive or less restrictive age-rating bands.
  - The 3:1 allowable age-rating band is a primary factor in driving up health insurance premiums.
  - The age-rating bands should be changed from 3:1 to the 5:1 rate band that has been used by the insurance industry.

- III. Repeal the medical device tax.
  - This tax is detrimental to medical innovation.
  - Higher costs for the manufacturers of medical devices will ultimately be passed on to consumers.
  - Device manufacturers will cut jobs.
- IV. Repeal the onerous health insurance tax (HIT).
  - The HIT increases insurance costs for already struggling small business owners and employees.
  - The HIT is not levied on unions and self-insured companies so it disproportionately falls on those small companies and individuals who already pay among the highest premiums for coverage.

## **Permanently increase Section 179, the direct expensing allowance.**

Congress has temporarily extended Section 179 multiple times. SMC tracked ten changes to Section 179 since 2003. The annual termination, change in limits and delay in extensions makes it difficult for businesses to plan, interferes with business efficiency improvements, and harms the economy both for buyers and sellers of goods.

Without action in 2014, the amounts in Section 179 revert to pre-2001 levels of a \$25,000 write-off with a \$200,000 purchase amount cap.

A permanent solution should be put in place that allows a \$1.0 million write-off, phasing out for property exceeding \$2.0 million with both thresholds indexed for inflation. This helps manufacturers and small businesses that purchase expensive equipment to remain competitive. It aids cash flow, reduces the cost of capital for small firms, and is a simplification measure.

## **Treatment of businesses who file as individuals (pass-throughs) under corporate tax reform.**

Reform of the tax code is necessary, not just for corporate entities; there must be parity for small businesses. Tax reform should do as much to help a small family business create jobs and compete as it does for a large company. Most small businesses are sole proprietorships, subchapter "S" corporations, limited liability companies, or partnerships. For the overwhelming majority of small businesses, individual marginal tax rates are much more important than corporate marginal tax rates.

- Pass-throughs should not have to pay at a higher rate than large corporations. If the business tax base is broadened and corporate tax rates substantially lowered while individual tax rates are only slightly reduced or not at all, the result will be a large tax increase on small businesses that are pass-through entities.
- Taxing pass-throughs at a higher rate than large corporations will negatively impact job creation.
- Corporate tax rate reduction may be funded by removing provisions that benefit pass-throughs without those businesses receiving a compensating tax cut. The unintended consequence would be a substantial increase in the tax burden.

## **The trade balance must be corrected.**

U.S. companies face unfair conditions when it comes to global trade. A national strategy is required to create a level playing field where free trade can flourish and small American manufacturers can grow.

- Manufacturing is key to bolstering a thriving economy that will generate wealth and create high-paying jobs. The 21st Century Trade Agreement Principles can guide future efforts to expand global trade. The goal is to improve trade in a manner that will promote domestic manufacturing while creating decent jobs.

### **For more information contact:**

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*Please consider SMC Business Councils as a resource when you need facts, figures, information, and testimony from small employers. Visit [www.smc.org](http://www.smc.org) to view SMC Business Councils 2014 Federal Position Papers.*